The Gender Funding Gap in Venture Capital
A Focus on the Democratic Republic of the Congo, Kenya, & Nigeria

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This report explores the key factors contributing to the gender funding gap in venture capital (VC) in Sub-Saharan Africa, focusing specifically on the Democratic Republic of the Congo, Kenya, and Nigeria. In addition, it provides recommendations to actors in this space – technical assistance organisations, donors, DFIs and VC firms – to facilitate closing this gap. The summary is based on a more extensive research report that brings together findings from 19 key informant interviews and an extensive literature review. It was produced in collaboration of Adam Smith International and a team of graduate students at the department of International Development at LSE.

Venture Capital in Africa

The VC space in Africa has been expanding over the past years as the total VC equity volume increased by almost seven-fold from US$ 277 million in 2015 to $US 2.02 billion in 2019 (Partech, 2021). Only the past year saw a decrease in the total volume of investments to $US 1.43 billion due to the onset of the global pandemic, yet the number of deals has been steadily increasing. The market is dominated by the four countries South Africa, Nigeria, Kenya and Egypt, which together attract over 80% of the VC investments on the continent.

Gender and Venture Capital – A Global Disparity

The gender gap – at the investee and investor level – in the VC space is experienced globally. In the US, around 15% of VC capital was raised by female- and gender-mixed founding teams and only 2.7% have a female CEO (Brush et al., 2018). In 2019, on average 13% of the VC equity in Africa was invested in start-ups with at least one female co-founder and 4% of the capital was raised by start-ups with a female CEO (Briter Bridges, 2019). Despite this disparity, a large body of evidence points towards improved performance and management practices of gender-diverse founding teams. A 2019 study by the IFC finds that among VC and PE portfolio firms in emerging markets, gender-balanced management teams receive higher valuations and are also characterized by improved decision making and governance, better risk management, better employee retention and a wider customer base.

What then drives this disparity? We found the causes to be numerous and complex, comprising factors pertaining to financial, cultural, and social barriers.
Key Factors Driving the Gender Gap in Venture Capital in the DRC, Kenya & Nigeria

1) Social and Cultural Norms

Almost all the interviewees acknowledged the impact of social and cultural norms in the selected countries. Due to political and economic instability in the DRC, a premium is placed on stable careers in established companies or government organisations instead of entrepreneurial ventures. Disproportionate levels of care responsibilities of women as wives or mothers reduce the chance for women to be able to network and to engage in economic activities (Ngeleza et al., 2018). One interviewee commenting on Nigeria highlighted a powerful “glass ceiling” restricting the success of many female entrepreneurs. Social networks, which are key to receive funding, are more limited for married women whereas single women have more freedom to operate more like men within business (Kyalo and Kiganane, 2014). As such, marital gendered roles can be potential constraints on economic activity because of gender-based expectations, while remaining unmarried can also generate stigma and negative stereotypes. Furthermore, within Nigeria and Kenya women aren’t equally represented within the tech space which is seen as more innovative, from which most VC investments are drawn. One interviewee highlighted that women being raised and living within less traditional and conventional environments are more likely to create tech-startups which are perceived as more VC backable.

2) Financial and Government Institutions

In all three countries, our key informants and literature showed that commercial banks required home or land as collateral which many entrepreneurs could not provide (Goyal & Yadav, 2014; Zuidberg, 2019). This can be a challenge for women, for example in Kenya, women own only 1% of land of land outright, leading to challenges putting up collateral against a loan from a bank and limited access to both formal and informal sources of credit (IFC, 2006). Additionally, in Nigeria and Kenya, we found interest rates for business loans very high; 15% in Nigeria and 13% in Kenya. Lastly, in the DRC, a key informant mentioned concerns over issues of corruption and nepotism which were some reasons why there has been little to no updates on a $100 Million World Bank Grant for SMEs in DRC. This example portrays a missed opportunity for SME female founders to apply for beneficial grants from bilateral institutions.

3) Industry, Education and Skills

Educational attainment can act as a gatekeeper to entrepreneurial activities, as tertiary education is a key factor in determining entrepreneurial success in formal markets (Van der Sluis, 2005). In all three target markets, however, women have a lower gross attendance ratio for tertiary education than men (UIS, 2018). Key informants working across all three target markets indicated that women are more likely to pursue tertiary studies in fields like human resources and marketing, which are generally seen as leading towards stable career paths more conducive to a family-work balance. Women are highly underrepresented in the STEM fields across all three markets — 25.1% of STEM graduates in the DRC are women, 30.7% in Kenya, and 22% in Nigeria (World Bank Gender Indicators, 2018; W.TEC, 2021). These fields are often viewed as the breeding ground for innovation, and the high concentration of men present in these spaces reinforces the barriers to entry caused by venture capital’s network-based operations. Developing a pipeline of promising female-lead start-ups is therefore crucial for narrowing the gender funding gap in VC and expanding the portfolios of investors to include more women-lead businesses. One frequently raised barrier is a lack of critical business skills by female entrepreneurs in these markets, including financial and management planning to lack of literacy with technology (World Bank, 2018). Most VC firms provide assistance to the companies in their portfolios, but a lack of fundamental business skills can prevent women from reaching an investment-ready stage.

4) Mentorship and Networks

Across all three countries, interviewees expressed that the lack of mentors, network groups and publicized examples of successful women VC recipients hampers the growth of female entrepreneurs. “Old boys’ networks” still hold great sway in VC networks, with business often being conducted informally in male-dominated spaces like sports clubs and bars (Toesland, 2018). In the DRC, we learned due to lack of respect for women and sexual violence, it is hard for women to move up social ladders and become role models. In Kenya, a 2014 study found that Kenyan women in social networks with role models were more likely to start their own enterprises (Kyalo & Kiganane, 2014). This point was echoed by one of our key informants, a female VC investor, who said that most of the women in her network were introduced to venture capital through other women and were more inclined to pursue VC funding themselves after hearing of other women having success. In Nigeria, a key informant mentioned many of the VC entrepreneurs have STEM backgrounds and tend to build networks through educational spaces. However, as noted above, women are underrepresented in STEM subjects at university and therefore may lack these networks.
5) Homophily and Investor Bias
Various studies point out that the unconscious phenomena of homophily (the notion of better connecting and trusting those that are similar to oneself) and investor bias (having a certain stereotype of an ideal entrepreneur in mind) prevail within the VC space globally, which ultimately impact investment decisions (Balanchandra et al., 2019; Brush et al., 2018; Malmström et al., 2017). It resonated strongly among our interviewees that most VC investor that are active in the three target countries remain male dominated and hold networks with fewer female entrepreneurs and thereby tend to invest in male entrepreneurs. An IFC study (2019) indeed finds that in Sub-Saharan Africa, 17% of VC and PE investment teams have gender balanced senior investment teams (at least 30% female and male team members) and in developed countries the share is only at 13% - with the majority of investor teams remaining male dominated.
Recommendations

After gathering information through key informant interviews and secondary desk research, three key, high-level sets of strategies emerged. The first recommendation is targeted at supporting female entrepreneurs to strengthen the pipeline for VC investment. The second and third recommendations address venture capital and technical assistance programs more specifically.

1. **Create More Funds and Financial Products Specifically Catered to Women in the Target Markets**  
   *Donors, DFIs, Incubators/Accelerators, Venture Capital Firms*

   A common theme from our interviews was a need to create more investment funding that specifically targets women entrepreneurs in the three countries, particularly at the seed and early stages. Investment professionals active in all three target markets stressed the lack of early-stage funding available to businesses, stating that there is a financing gap present across the board between seed capital and larger investments in the $50,000-$500,000 range.

2. **Commit to Setting Gender-related Goals and Increasing Representation**  
   *Venture Capital Firms, Incubators/Accelerators*

   Limited partners (LPs) who provide capital to VC funds can work to guide General Partners (GPs) by setting concrete goals for gender diversity. Around 65% of LPs interviewed by the IFC stated gender diversity is important, but only 25% of GPs report that their LPs ask about the gender diversity of their investment, and only 20% encourage making gender diversity an investment condition (IFC, 2019). Increasing the share of women in senior positions at VC firms also prompts more women to aspire to work or apply for funding in the VC space. VC funds should work from the ground up to increase women’s representation, beginning with more intentional recruitment of gender diversity at the entry analyst level.

3. **Refine Technical Assistance Programs**  
   *Technical Assistance Implementers, DFIs, Donors*

   Donors and implementing partners in Nigeria, Kenya, and the DRC are positioned to play critical roles in narrowing the VC gender gap through delivering market systems development programming in developing economies. After speaking with key informants and reviewing the literature, three specific strategies for improvement emerged.

   3.a. **Work with businesses and venture capital funds to develop businesses cases for pursuing gender equality in investment.**

   The primary focus of most VC funds is to invest in companies that will generate a high return on investment (though many funds do have social impact goals as well), indicating the necessity of promoting the economic case for inclusion and gender diversity. To decrease bias against female founders and female-led companies, TA providers could work with beneficiaries, partner organisations, and VC firms themselves to develop and promote business cases highlighting the value created by women as employees, clients, and customers.

   3.b. **Tap into women’s networks and organisations increase exchange between venture capital funds and female entrepreneurs.**

   TA programs should strive to identify and form active partnerships with women’s networks and organisations operating in the local project contexts. Emphasising network building amongst women and between women’s organisations and venture capital firms could work to help female entrepreneurs form these key relationships and break into new spaces, as well as introduce investors to a new pipeline of innovation. This strategy can be adapted to local needs depending on the maturity of the venture capital ecosystem and local investment context.

   3.c. **Develop knowledge hubs to help strengthen business skills for women.**

   To encourage women to pursue entrepreneurship and prepare women to develop businesses that are VC-backable, technical assistance providers should deliver programming to improve critical business skills for female entrepreneurs. Depending on the needs of women in specific contexts, this could include TA with business plan development, budget development, marketing or legal support, financial literacy training accounting training, technology skills building and/or business strategy development (World Bank, 2018).

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