

## **INVESTORS' PERCEPTION TOWARDS SMALL MEDIUM ENTERPRISES INVESTMENT IN AFRICA**

**Joshua Aboah** 

Business Economics Group, Wageningen University, The Netherlands

[joshua.aboah@outlook.com](mailto:joshua.aboah@outlook.com)

**Ben White**

Venture Capital for Africa, Amsterdam, The Netherlands

[ben@vc4africa.biz](mailto:ben@vc4africa.biz)

**Miranda P. M. Meuwissen**

Business Economics Group, Wageningen University, The Netherlands

[miranda.meuwissen@wur.nl](mailto:miranda.meuwissen@wur.nl)

### **Abstract**

*This study seeks to examine investor perceptions towards investing in SMEs in Africa. Data was collected via an online survey sent to investors on the Venture Capital for Africa (VC4Africa) platform. The Kendall's coefficient of concordance was used to determine the degree of agreement among investor perception towards the importance of venture and country characteristics in their investment decisions. A logistic regression model was used to determine the factors that influence investor decisions to invest in African SMEs. The results reveal that investors' working experience in Africa and their perceived importance of the financial performance of a venture and availability of exit strategies are the factors which influence investment decision in African SMEs. Results stimulate further discussion in the services provided by venture capital and angel investor networks, which is beneficial to key stakeholders in the venture capital and private equity ecosystem.*

*Keywords: angel investor; venture capital; African SMEs; small medium enterprises; investment decision*

## INTRODUCTION

Africa has gained attention as an attractive destination for investment compared to other developing regions in the world. The United Nations Conference on Trade and Development (UNCTAD) reports that although both developed and developing regions have experienced a decline in the flow of foreign direct investments (FDI), there has been an increase flow of FDI into Africa. These investments have mostly been targeted at traditional sectors such as agriculture and the extractive industries (UNCTAD, 2013). However, in recent years, attention is shifting to other sectors of investments such as telecommunication, financial services, real estate etc. Companies in these new attractive sectors range from multinational to small medium enterprises (SMEs) (Ernst & Young, 2013). Over 90% of firms in Africa are SMEs. For instance SMEs account for 92% of businesses in Ghana, 91% of formalized businesses in South Africa and 70% of manufacturing sector in Nigeria (Mamman et al., 2007; (Abor & Quartey, 2010). However, the SMEs are considered as risky due to the information asymmetry associated with them. Hence, these SMEs receive limited attention in terms of financing from formal sources like the banks (Mason & Harrison, 2002).

Alternatively, other sources of financing SMEs like angel investors and venture capitalists which operate in a semi-formal nature have been identified (Mason & Stark, 2004). The risky nature of investment in SMEs calls for constant monitoring and gathering of requisite information to avoid bad investment. Thus venture capital platforms and angel investor networks exist to provide investors the requisite information and advice for their investment decisions. The uncertainty associated with investing in SMEs and start-ups becomes murkier when the ventures are located far away from the investors. However, there are little studies focused on the activities of investors who invest in ventures away from their countries of residence. Hence, this study aims to examine investor perception towards investing in SMEs in Africa to provide more information to stakeholders in the venture capital and private equity ecosystem.

The specific objectives include:

- i. To examine investor perception towards the importance of country characteristics in their decision to invest in African SMEs.
- ii. To identify and rank investor perception towards the importance of venture characteristics in their decision to invest in African SMEs.
- iii. To find out the factors which influence investors' decision to invest in African SMEs.

The results from this study are beneficial to the key stakeholders in the venture capital/ private equity ecosystem. For new investors interested in investing in Africa, the results highlight some potential factors that they have to look out for before investing. This information is beneficial to

entrepreneurs who are seeking to attract investors in their ventures. The outcome of this study also provides venture capital and angel investor networks the requisite information in their advisory services to the entrepreneurs.

The remainder of this paper is organized into sections 2, 3, 4 and 5. In section 2, the literature review on studies conducted about venture capital investment is presented. Section 3 covers the methodology. The results of the study will be presented in Section 4. Finally, section 5 covers the discussion, conclusions and recommendations.

## **LITERATURE REVIEW**

This section looks at the trend of foreign investment in Africa, the role played by investors in startup financing and the risk mitigation strategies adopted by investors through three investment stages (i.e. pre-investment, contract and post investment stages). The gaps in theoretical knowledge are identified and discussed. Topics on work done and what can be done are the central foci. Published literature on the issues are the bases for discussion.

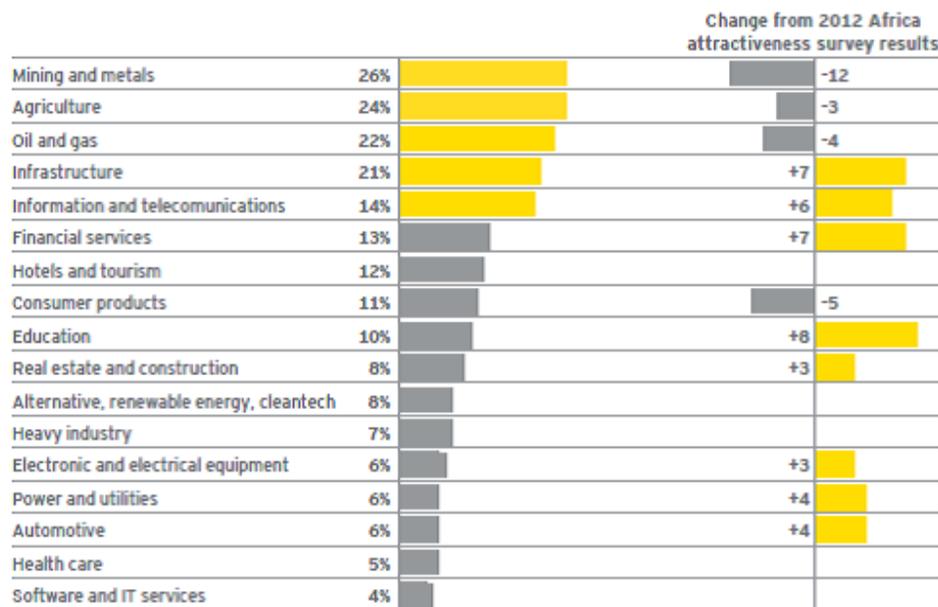
### **Foreign direct investment in Africa**

In most developing countries, globalization of capital in the form of foreign direct investment (FDI) has been on a rise (Global Development Finance, 2005). Although the flow of FDI has declined in other regions, there is still enormous interest in Africa as a destination for investment. These investments have traditionally been in sectors like mining, quarrying and petroleum (Luiz & Charalambous, 2009; Ernst & Young, 2013). The United Nations Conference on Trade and Development (UNCTAD) world investment report points out an increase of FDI inflow in Africa despite the decline in the flow to other developing regions. The report also acknowledges the contribution of the extractive industries as the main attraction for FDI, but mentions the growing interest in manufacturing and service industries. According to Luiz & Charalambous (2009), there are increasing attempts to attract FDI in the tertiary and service sectors in Africa. In their study, they concluded that factors such as country governance and political risk, market size and demand conditions, infrastructure considerations, economic environment/ macro-economic performance will play important roles to attract more FDI in sub-Saharan Africa. Although, the conclusion is a close attempt to find out the determinants of investment decisions in Africa, the study is restrictive to financial services involving multinational companies in sub-Saharan Africa (SSA).

The assertion by Luiz & Charalambous (2009) on the growing attractiveness of other sectors in addition to the traditional extractive sectors is buttressed in the Africa attractiveness survey by Ernst & Young (2013). This survey revealed that there is a shift in the sectors where

these investments were traditionally targeted, specifically a shift from the mining and agricultural sectors to the financial and service sectors in Africa. Hence, while mining, agriculture, oil and gas remain the sectors with the highest growth potential of 26%, 24% and 22% respectively, there have been negative changes in their attractiveness since 2012. The mining, agriculture and oil and gas sectors had -12%, -3% and -4% growth of attractiveness. However, sectors like education, information and telecommunications, financial services, power and utilities, real estate and construction have gained positive percentage growth in their attractiveness (see figure 1). The traditional sectors usually attract multinational companies which are bigger than the companies in the other sectors. Thus the gradual shift of focus in investment to the other sectors calls for a closer attention to a more diversified sector investment in smaller businesses in Africa.

Figure 1 Sector growth potential in Africa in the next two years.



Source: Ernst and Young (2013)

### Start-up financing

In literature, two types of business start-ups are identified. The first is the initial stage when an entrepreneur thinks and acts to convert an idea into commercial opportunities and creates value. The second type is the start-up company that is already carrying out operations (Leach & Melicher, 2012). According to Robb & Robinson (2012), these two types of start-ups require different financial investments. In the first type, a first round financing is needed. This determines the direction of the start-up. For the second type, a second round financing will

determine the growth and expansion of the business venture. Robb & Robinson (2012) argue that in the initial stage of the startup, financing is usually seen as owner's capital or seed financing. They referred to this as insider finance because it comprises of funds from the start-up team, friends and relatives. Although the insider financing is usually an initial source of financing start-up firms, they are often prone to financial misappropriation. Another source of financing often referred to as a traditional source is the bank. Traditional source of financing like the banks which remedies the situation of financial monitoring and control also requires collaterals, which are not easily available for companies at such an early stage (Mason & Stark, 2004).

According to Leach & Melicher (2012), two different sources of financing businesses aside, the traditional source and insider financing are the venture capitalist and angel investors. Angel investors are wealthy individuals who operate as informal or private investors that provide venture financing. These angel investors and entrepreneurs reach contractual agreements that specify the obligations of each party. In addition to the financial assistance, the angel investors also offer managerial support to the ventures they invest in, due to their rich entrepreneurial experience. Fiet (1995) argues that angel investors adopt ex-post investment as a risk reducing strategy. This assertion is confirmed by Mason & Stark (2004), who mentioned in their comparative study on angel investors and venture capitalist, that angel investors are more drawn to invest in start-ups which are in their growth stage rather than the birth stage.

Venture capitalists have the luxury of a larger pool of funds that enable them to diversify investments to reduce risks. Unlike the angel investors who are not under any pressure to invest, venture capitalists are obliged to do so, which sometimes lead to bad investment decisions. One drawback of venture capitalists is their approach to take economic considerations in their investment decision-making (Mason & Harrison, 2002). A study by Tamoor et al. (2013) on start-up financing in five different countries (two European and Asian and one African) concluded that owners' capital was the main source of funding for initial start-up stage, followed by banks and then angel investors. In spite of the focus on already existing ventures, angel investors still provide financial support for startup in their initial stage (Freear, et al., 1994). In addition to the skewed preference for existing ventures, angel investors investing are critiqued to have a drawback of the uncertainty to maintain continuous financing, which creates a danger for startup operations. This is not applicable to venture capitalists that have a larger pool of funds (Leach & Melicher, 2012). Table 1 presents a summary of the types of financing available to start-ups and their limitations.

Table 1 Types of financing for start-up and their limitations.

Type of Financing	Limitations	References
(A) Owner's capital/ Seed financing from entrepreneurs, relatives and friends. Often referred to as Insider financing	Easily prone to financial misappropriation Drawback of maintaining continuous financing	(Robb & Robinson, 2012)
(B) Traditional source like the Bank remedies the limitation of insider financing via financial monitoring	Requires collaterals which are not readily available	(Mason & Stark, 2004)
(C) Angel investors are individual/private investors which operate in less formal manner compared to the banks	Preference for already existing ventures Drawback of maintaining continuous financing	(Leach & Melicher, 2012)
(D) Venture Capitalists invest in semi-formal manner out of a large pool of funds. They have more investment experience than angel investors	Principally focus on economic considerations in investment decisions	(Mason & Stark, 2004)

### The role of venture capital and angel investor networks

Angel investors and venture capital investment process reveal a strong preference to invest close to home (Stuart et al., 2007). Hence, most studies on angel investor and venture capital investments focus on deals and agreement between investors and entrepreneurs in the same country or region (Sorheim, 2003; Stuart et al., 2007; Knyphausen-Aufseb & Westphal, 2008). These deals and agreements are not strictly formal compared to those reached by traditional sources of financing businesses. According to Knyphausen-Aufseb & Westphal (2008), the semi-formal nature of angel investors' transaction creates a gap in identifying potential entrepreneurs. Consequently, entrepreneurs also have difficulty in finding the right investors to deal with (Amparo et al., 2005).

Venture capital platforms and angel investor networks are regarded as a first step to increase efficiency of the market deal flows. This match making void is occupied by these networks that serve as the financial intermediary between the entrepreneurs and investors. Aside the core activity of matching the two parties, the platforms and networks also provide consulting services to enable young entrepreneurs become 'investment-ready'. According to Stuart et al. (2007), the functions of these networks span from matching, mobilizing and selection of ventures to networking and consultation services for both entrepreneurs and investors.

A study on investment process by Amatucci & Sohl (2004) grouped the process into three stages. These are the pre-investment stage, contract negotiation stage and post

investment stage. Venture capital and angel investor networks' core activities are fundamentally in the pre-investment stage. Although the widely acclaimed role of these network is to help reduce information asymmetry by matching investors to potential entrepreneurs, Knyphausen-Aufseb & Westphal (2008) critique that this role has not been widely attained. To reduce or curb the information asymmetry rolled over from the pre-investment stage to the contract negotiation stage, investors especially angel investors do a lot of monitoring to ensure safety of their investments. The active involvement and monitoring do not completely eradicate the uncertainty attached with these investments. Hence, they concentrate on avoiding bad investments, which put more emphasis on the pre-investment stage where venture capital and angel investor networks actively operate (Leslie and Philippe, 2000; Mason & Harrison, 2002). The murky situation which arise when investors' investments are not within their domicile draws more attention to the factors which influence investors' investment decisions. Table 2 gives a summary of the role of venture capital and angel investor network through the three stage of investment.

Table 2 Role of venture capital and angel investor networks through the investment stages

Stage	Role of venture capital and angel investor network	References
Pre-investment and Contract stage	Undertake due diligence to curb or reduce information asymmetry Match entrepreneurs with appropriate investor after assisting entrepreneurs to build their venture profiles	(Knyphausen-Aufseb & Westphal, 2008)
Post investment	Connecting investors with similar interests and investment for networking and sharing of ideas	(Stuart et al., 2007)

### Investors' risk mitigation strategies

Investing in SMEs has been described as an increasingly complex business environment that presents opportunities which come along with some uncertainties (Amparo et al., 2005). These uncertainties vary in the three stages of investment described by Amatucci & Sohl (2004). According to Mason & Harrison (2002), there is complexity in the relationship between the stage of investment and the level of risk. At the pre-investment stage, information asymmetry is highlighted as the principal uncertainty that exist. Due to information asymmetry, investors join networks to enable them gain more information to avoid bad investments at the pre-investment stage (Knyphausen-Aufseb & Westphal, 2008).

According to Van Osnabrugge (2000), angel investors do not take much due diligence prior to investment and spend less time negotiating compared to venture capitalists. Hence, they are likely to consult other people about the investment. This iterates their involvement in

venture capital platforms and angel investor networks. After the contract is signed or agreement is reached with the entrepreneurs, investors adopt close monitoring and evaluation to reduce uncertainties associated with the investment. Additionally, angel investors in particular have good entrepreneurial experience that enables them to reduce their exposure to market risk (Fiet, 1995). Kelly & Hay (2010) report that investors do the following to manage risks: (i) adjust expected rate of return (ii) provide funding for established milestone (iii) specify rights and obligations in contracts and (iv) monitor progress through working with the venture.

In addition to monitoring and managing investment, the post investment stage also involves harvesting of investments. Most literature on exit strategies have focused on developed countries and within-same-country transactions with limited studies on developing countries (InfoDev, 2014). From some studies conducted in developing countries, three exit strategies have been identified. These are initial public offer (IPO), trade sales and buyout (Mason & Stark, 2004; Cochrane, 2005; InfoDev, 2014). According to Mason and Harrison (2000), the high fixed cost involved in organizing IPO makes it only possible for larger companies with enough funds for easy capitalization. They argue that trade sales have an advantage of a 100% exit in cases where the investor sells all their shares. Understanding the importance of exit in investment decisions especially when these investments are in developing economies will be an addition to literature.

## **METHODOLOGY**

### **Data collection**

The respondents for this study are investors on the vc4africa platform. VC4Africa is a matchmaking platform which brings entrepreneurs (who have registered ventures) and investors together. On this platform, entrepreneurs who are looking for financial support are connected with large number of investors. The platform has over one thousand ventures in over forty African countries (VC4Africa, 2014). A structured questionnaire was administered online to respondents. Purposive sampling method was used to select 69 investors (made up of 56 male and 13 female) on the platform who completed the online survey for this study. Most of respondents involved in this study reside outside Africa. They are from the US, UK, Canada, Netherlands, Germany, Sweden and Russia. Thirty seven out of the total male investors reside in countries outside Africa, while 19 are from different countries in Africa. From the female respondents, 5 are residents in African countries while 8 reside outside Africa. Most of the investors (i.e. 42 out of 69) were interested in ventures in the information and communication sector. 27 investors were interested in agriculture and finance each. The least sector of interest was the waste and sanitation sector (i.e. 4 out of 69). Majority of investors who participated in

this study (i.e. 29 out of 69) have from 5 to 10 years working experience in Africa. Twenty two investors have less than 5 years of working in Africa. Moreover, five investors have no working experience in Africa. Nine investors have from 11 to 25 years working experience in Africa. Only four investors have greater than 25 years working experience in Africa. The different types of investors who participated in the study presented in tables 1.

Primary data on venture characteristics such as gender of entrepreneur, market size, exit opportunities, quality of management team, prior entrepreneurial experience and investors' affinity with the business sector were included in the questionnaire for respondents to rank based on their level of importance. Country characteristics (such as laws for investment protection, affinity for country, taxation policy, political stability and economic growth) were developed into in a 5- Likert scale in the questionnaire. Small medium enterprise are defined in this study as ventures with less than 250 employees.

Table 1 Types of investors who participated in the survey

		Investment in Africa		
		No	Yes	Total
Type of investor	Venture capital	1	17	18
	Social impact fund	1	9	10
	NGO	1	1	2
	Accelerator	3	3	6
	Angel investor	5	20	25
	SME Lender	0	4	4
	Other	0	1	1
Total		11	55	66

### Empirical methods

Two empirical methods were used in this study. The Kendall's coefficient of concordance was used to analyse investor perception of venture and country characteristics. A logistic regression model was used to estimate the factors which influence investors' investment decisions.

### Ranking of country and venture characteristics

To determine the country and venture characteristics which investors perceive important in their investment decision, the descriptive statistic of the Kendall's coefficient of concordance (W) was used to rank the most important venture and country characteristics. The test statistic of the

Kendall's coefficient of concordance was then used to measure the degree of agreement among investors for the rankings of the importance of these characteristics for investment decision.

The Kendall's coefficient of concordance ( $W$ ) is estimated as:

$$W = \frac{12S}{m^2n(n^2-1)} \quad (1)$$

Where:

$S$  is the sum of squared deviation of ranks from mean

$m$  is the number of respondents

$n$  is the number of characteristics ranked.

The estimated coefficient ranges from 0 to 1, where 0 implies no agreement in the responses of the respondents and 1 implies a perfect agreement. The mean ranks are used to rearrange the rankings of the venture characteristics from most important to least important (Kraska-Miller, 2008).

### Factors influencing investment decision in African SMEs

For the specific objective of examining the factors which influence investors' decision to invest in African SMEs, the logistic regression model was used. Logistic regression evaluates the impact of a set of independent variables on a dichotomous dependent variable and in cases where the dependent variable is qualitative rather than continuous interval variables (Kleinbaum & Klein, 2010). Its popularity of usage is ascribed to the fact that the logistic function ranges from 0 to 1, hence we can never run into the risk of getting above 1 or below 0. The logistic model is given as:

$$y = \alpha + \sum_{i=1} \beta_i X_i \quad (2)$$

Where:

$y$  is the investors' decision to invest

$X_i$  stands for the independent variables of interest

$\alpha$  and  $\beta_i$  are constant terms denoting unknown parameters.

The expected signs of the coefficients of the variables were predicted (a priori) based on past studies and economic theoretical (see table 2 for variable description). The probability of the investors to invest is given as:

$$P(y) = P(y) = \frac{1}{1 + e^{-(\alpha + \sum_i \beta_i x_i)}} \quad (3)$$

Logistic regression uses the maximum likelihood estimation to compute the coefficient for the logistic regression equation. The maximum likelihood estimation is also used to calculate the

Nagelkerke R Square. The Nagelkerke R Square is a pseudo R Square which tells the proportion of variations in the dependent variable explained by the independent variables in the model. Mathematically, the log likelihood is defined as

$$L(\beta) = \ln[l(\beta)] = \sum_{i=1}^n \{y_i \ln[\pi(x_i)] + (1 - y_i) \ln[1 - \pi(x_i)]\}$$

(4)

From equation (3) the maximum likelihood estimates of  $\alpha$  and  $\beta_i$  are evaluated after  $L(\beta)$  is differentiated with respect to  $\alpha$  and  $\beta_i$ .

Prior to the specification of independent variables used for estimating the logistic regression model, the correlation between all independent variables and the dependent variable was determined. The correlation gives some indication of the independent variables likely to be related to the investment decision. The independent variables were added to the model or omitted from the model until the model which gives the highest predictive percentage and Nagelkerke R Square and a Hosmer and Lemeshow Test with p value of greater than 0.05 was attained. The empirical specification of the logistic model which was used to find out factors influencing investors' decision to invest in African SMEs is:

$$y = \alpha + \beta_1 \text{InvExp} + \beta_2 \text{FinPermDum} + \beta_3 \text{ExitDum} + \beta_4 \text{Coun} + \beta_5 \text{SecAffinDum} + \beta_6 \text{TypInv} \quad (5)$$

Table 2 Variables, description, measurement and a priori expectation

Variable	Description	Measurement	A priori Expectation
INV	Invested in Africa	1= Yes; 0 = No	
InvExp	Working experience in Africa	0= No experience 1 = <5 yrs. 2 = 5-10 yrs. 3 = 11- 25 yrs. 4 = > 25yrs	+
TypInv	Type of investor	1= Venture capital 2= Social impact fund 3= NGO 4 = Accelerator 5 = Angel investor 6= SME lender 7= Other	+/-
Coun	Country of residence of investor	1= Africa, 0 = Outside Africa	+
FinPermDum	Financial performance of the venture	1= (Ranked from 1-3) 0 = (ranked from 4 -8) based on the level of importance	+/-
ExitDum	Availability of exit opportunities	1= (Ranked from 1-3) 0 = (ranked from 4 -8) based on the level of importance	+/-
SecAffinDum	Investors' affinity for the sector of the venture	1= (Ranked from 1-3) 0 = (ranked from 4 -8) based on the level of importance	+

## ANALYSIS & RESULTS

### Perception towards the importance of country characteristics

Respondents were asked to indicate the level of importance of five country characteristics which they take into consideration in their decision to invest in Africa. The results (in table 3) show that investors' perception of a country's economic growth is very important in their investment decision and the perception of taxation policy of a country is the least important in their decision to invest in Africa. The test statistic of the Kendall's coefficient of concordance of 0.172 (p-value = 0.000) is statistically significant at 1%, hence we reject the null hypothesis for the alternative hypothesis that there is significant agreement among investors on their perceived importance of country characteristics in their investment decision. However, the interpretation of the Kendall's coefficient of concordance, 0.172 indicates a weak degree of agreement among investors.

Table 3 Investors' perception of the importance of country characteristics in their investment decision

	Mean Rank	Level of importance a
Economic growth of a country	3.59	5
Political stability of a country	3.34	4
Law protecting investments	3.24	3
Personal affinity to a country	2.53	2
Taxation policy of a country	2.30	1
Kendall's W b	0.172	
Chi-Square	45.481	
Df	4	
Asymp. Sig.	.000	

a. 1=No importance, 2 = important, 3 = moderately important, 4 =important, 5 = very important

b. Kendall's Coefficient of Concordance

### Perception towards the importance of venture characteristics

Eight venture characteristics were presented to the respondents to rank based on the level of importance of these characteristics in their investment decision. Respondents were asked to rank from 1 to 8, where 1 means most important and 8 stands for least important. The results of the rankings and the degree of agreement among respondents are presented (in table 4).

Table 4 Investors' rankings of the importance of venture characteristics in their investment decision

	Mean Rank	Rank <sup>a</sup>
Quality of management team of venture	2.49	1
Financial performance of venture	3.60	2
Prior entrepreneurial experience of management team	4.07	3
Market size of the venture	4.15	4
Investor sector affinity	4.51	5
Social impact of venture	4.74	6
Exit opportunities availability	5.09	7
Gender of entrepreneur	7.35	8
Kendall's W b	0.326	
Chi-Square	155.392	
Df	7	
Asymp. Sig.	.000	

- a. Rank 1 = most important and 8 = least important  
b. Kendall's Coefficient of Concordance

The results reveal that investors perceive the quality of management team of a venture as the most important venture characteristics in their investment decision. This was followed by financial performance of the venture and prior entrepreneurial experience of management team. The gender of entrepreneur of venture was ranked as the least important in investors' investment decision. The test statistic of the Kendall's coefficient of concordance of 0.326 (p-value = 0.000) indicates a statistically significant degree of agreement among respondents for the rankings. Hence, we reject the null hypothesis for the alternative hypothesis that there is significant agreement among investors' rankings on the importance of venture characteristics in their investment decision. The Kendall's coefficient of concordance of 0.326 indicates a moderate or fairly strong degree of agreement among investors' rankings.

### Factors influencing investment decision in African SMEs

Three indicators that were used to determine the independent variables incorporated in the estimated model are the Hosmer and Lemeshow Test, predictive capacity and Nagelkerke R Square. For a good model, the Hosmer and Lemeshow Test which indicates the goodness of fit should have a p-value greater than 0.05 (Hosmer & Lemeshow, 2004). It is evident (in table 5) that the estimated model has a Hosmer and Lemeshow Test with a p-value of 0.573. Hence, the model is good for statistical prediction. Additionally, (as shown in table 6), 79% of the variations

in the dependent variable are explained by the independent variables. Moreover, the estimated model also has a high predictive capacity of 95.4% (table 7).

Table 5 Hosmer and Lemeshow Test

Step 1	Chi-square	df	Sig.
	4.772	6	.573

Table 6 Model summary

Step 1	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
	16.342a	.455	.790

a. Estimation terminated at iteration number 20 because maximum iterations has been reached. Final solution cannot be found.

Table 7 Classification table

Observed		Predicted		
		Investment in Africa No	Investment in Africa Yes	Percentage Correct
Step 1	Investment in Africa No	7	3	70.0
	Investment in Africa Yes	0	55	100.0
Overall Percentage				95.4

a. The cut value is .500

Results from the estimated model are presented in table 8. It is evident from the results of the estimated model that three independent variables are statistically significant. The investor working/investment experience in Africa is significant at 10%. Investor perception towards the importance of the financial performance of a venture and the availability of exit options are both significant at 5%. The parameter estimates show that the investor's working/investment experience in Africa has a positive relationship with decision to invest in African SMEs. Investor perception on the importance of financial performance of a venture and availability of exit strategies have negative relationship with the decision to invest in African SMEs. Moreover, the odd ratios indicate that with a unit increase in working/investment experience in Africa (i.e. a range of 1 to 5 years), there is six times likelihood that an investor to invest in African SMEs, when the differences in the other independent variables are controlled.

Table 8 Variables in the estimated model

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1a	InvExp	1.872	1.036	3.268	1	.071*	6.501
	FinPermDum	-4.546	2.319	3.845	1	.050**	.011
	ExitDum	-4.639	2.254	4.236	1	.040**	.010
	SecAffinDum	4.111	2.890	2.024	1	.155	61.030
	Coun(1)	-37.066	8.680E3	.000	1	.997	.000
	TypInv			2.565	6	.861	
	TypInv(1)	-15.965	4.019E4	.000	1	1.000	.000
	TypInv(2)	-16.727	4.019E4	.000	1	1.000	.000
	TypInv(3)	.275	5.684E4	.000	1	1.000	1.316
	TypInv(4)	-41.853	4.066E4	.000	1	.999	.000
	TypInv(5)	-18.695	4.019E4	.000	1	1.000	.000
	TypInv(6)	-8.976	4.187E4	.000	1	1.000	.000
	Constant	56.924	4.112E4	.000	1	.999	5.270E24

a. Variable(s) entered on step 1: InvExp, FinPermDum, ExitDum, SecAffinDum, Coun, TypInv.

From the results of the estimated, three null hypotheses are rejected in favour of these alternative hypotheses:

- (i) Investors' decision to invest in African SMEs is associated with their working experience in Africa.
- (ii) Investors' decision to invest in African SMEs is associated with their perceived importance of financial performance of a venture.
- (iii) Investors' decision to invest in African SMEs is associated with their perceived importance of availability of exit strategies.

## DISCUSSION, CONCLUSION AND RECOMMENDATION

In this section, the results are discussed and conclusions drawn. In addition, recommendations are made based on the conclusions. Specifically, the issues discussed pertain to data collected and results of the specific objectives.

According to Van Osnabrugge (2000), three biases exist when data are sourced from venture capital platforms such as VC4Africa. The first bias is the unrepresentativeness of the sample. Van Osnabrugge (2000) opined that there are differences in investors who are members of the venture capital and angel investor network and those who are not. Hence, samples from such platforms make them unrepresentative. The other two potential sources of

bias are the response bias and the reliability of self-report data. According to Mason & Harrison (2002), there is the tendency of respondents to exaggerate the success and/or downplay their failures. However, the absence of outlier responses and the fact that some investors (i.e. 18% of respondents) have not invested in Africa increase the internal validity of results. The results on the demographics present angel investors and venture capitalists as the major investors in African SMEs. These SMEs are in various sectors, but investors are more interested in information and communication sector. Agriculture still falls within the top three sectors of interest. A higher number of investors are from different countries outside Africa. This finding reiterates the growing interest to invest in Africa. The results on investors' country of residence also reveal that a portion of investments in African countries are by African investors. This confirms the findings in the survey by Ernst & Young (2013) on the rise of inter – African investment.

Majority of the investors had working experience of between 5 to 10 years in Africa. With these working experiences in Africa, investors sufficiently gave a fair judgment on the importance of the various country characteristics in their decision to invest in African SMEs. The economic growth of a country was ranked as the most important country characteristics which investors consider in their investment decision. This is explained by the fact that angel investors and venture capitalists who are the majority type of investors seek to make economic gains from their investments. Hence, the economic growth of a country becomes an incentive to invest. However, the weak degree of agreement among investors implies that investors generally agree on the level of importance for few country characteristics. For instance, NGOs, social fund managers and accelerators focus more on social benefits unlike the angel investors and venture capitalists who focus more on economic benefits.

The results on the importance of venture characteristics for investment decision show that the quality of management team of a venture is perceived as the most important characteristic in the decision to invest in African SMEs. This is followed by the perception of the financial performance of the venture and the prior entrepreneurial experience of the management team. These results are in line with the conclusions drawn by Riquelme & Watson (2002) that the management team with enough experience in a specified business sector is the most important criterion for investors to decide whether to invest or not. The gender of an entrepreneur was ranked the least important. This buttress the point that investors' focus more on management team than sole entrepreneurs. The Kendall's coefficient of concordance of 0.326 signifies a fairly strong degree of agreement among investors.

The results from the logistic regression model highlight investors' working experience in Africa, investors' perceived importance of the financial performance of a venture and the

availability of exit strategies as the factors which significantly influence investment decision. Among these factors, the working experience in Africa stands out as the factor with most influence on investors' decision to invest in African SMEs. The odd ratio indicates that there is six times likelihood for an investor to invest in African SMEs when the working experience in Africa increases from one to five years. This conclusion reaffirms the findings by Ernst & Young (2013) that investors with working some experience in Africa have a positive perception of Africa as a destination for investment.

From the results of the study, the following conclusions are drawn:

- (i) In general, investment in African SMEs on the VC4Africa platform attracts both Africans and non – African investors, however, majority of investors are non-Africans.
- (ii) There is a weak degree of agreement on investor perception of the level of importance of country characteristics for their investment decision.
- (iii) Investors prefer to invest in ventures been run by a management team than an individual. Hence, the gender of the entrepreneur is not an important characteristic in investors' decision to invest in African SMEs.
- (iv) Investor working experience in Africa, their perception of the importance of the financial performance of a venture and availability of exit strategies are related to their decision to invest in African SMEs.

From these conclusions, it is recommended that African entrepreneurs seeking to attract investors should form formidable management teams and keep good financial records. In addition, differentiating ventures based on their stages of operation and rating them based on their published financial performance will smoothen the investors' search for ventures. In addition, it is recommended that further studies be conducted into inter-African investment in various business sectors, especially the three topmost sectors to give more stimuli for regional integration and investment.

## REFERENCES

- Abor, J., & Quartey, P. (2010). Issues in SME development in Ghana and South Africa. *International Journal of Finance and Economics*, 1(39), 218-228.
- Amatucci, F. & Sohl, J. (2004). Women entrepreneurs securing business angel financing: tales from the field. *Venture Capital*, Volume 6, pp. 181-196.
- Amparo, S., Roure, J. & Aernoudt, R. (2005). Business angel academies: unleashing the potential for business angel investment. *Venture Capital: An International Journal of Entrepreneurial Finance*, 7(2), pp. 149-165.

- Cochrane, J. (2005). The risk and return of venture capital. *Journal of Financial Economics*, Volume 75, pp. 3- 52.
- Ernst & Young. (2013). *Ernst & Young's attractiveness survey: Africa*. Durban: Ernst & Young.
- Hosmer, D., & Lemeshow, S. (2004). *Applied logistic regression* (2nd ed.). New York: John Wiley and Sons.
- InfoDev. (2014). *Creating your own angel investor group: A guide for emerging and frontier markets*. Washington DC: World Bank.
- Kleinbaum, D., & Klein, M. (2010). *Logistic regression, A self-learning text* (3rd ed.). New York: Springer.
- Knyphausen-Aufseb, D., & Westphal, R. (2008). Do business angel networks deliver value to business angels? *Venture Capital*, 10(2), 149-169.
- Kraska-Miller, M. (2008). *Non-parametric statistic for social and behavioural sciences*. Alabama: CRC Press. Taylor and Francis Group.
- Leach, C., & Melicher, W. (2012). *Entrepreneurial Finance* (4th ed.). Boulder: University of Colorado.
- Leslie, A. & Philippe, C. (2000). The determinants of venture capital funding: evidence across countries. *Journal of Corporate Finance*, 6, pp. 241-289.
- Luiz, J. & Charalambous, H. (2009). Factors influencing foreign direct investment of South African financial services in sub- saharan Africa. *International business review*, Volume 18, pp. 305-317.
- Mamman, A., Elridge, D., & Branine, M. (2007). Skills need of SMEs and the informal sector in Africa: Problems prospects of employment creation in Nigeria. *Scientific Journal of Administrative Development*, 1(5), 145-1777.
- Mason, C., & Harrison, R. (2002). Is it worth it? The rates of return from informal venture capital investments. *Journal of Business Venturing*, 17(3), 211-236.
- Mason, C., & Stark, M. (2004). What do investors look for in a business plan? A comparison of the investment criteria of bankers, venture capitalists and business angels. *International small business journal*, 22(3), 227-248.
- OECD. (2006). The SME financing gap. Theory and evidence. *Financial Market Trends*, 11(2), 89-97.
- Riquelme, H., & Watson, J. (2002). Do venture capitalists' implicit theories on new business success/ failure have empirical validity? *Internal small business journal*, 20(4), 395-420.
- Robb, M., & Robinson, T. (2012). *The capital structure decisions of new firms, the society for financial studies*. Oxford: Oxford university press.
- United Nations Conference on trade and development. (2013). *World investment report. Global value chains: Investment and trade for development*. Geneva: United Nations.
- Van Osnabrugge, M. (2000). A comparison of business angel and venture capitalist investment procedures: an agency theory- based analysis. *Venture Capital*, 2(2), 91-109.
- VC4Africa. (2014, March 23). *About us*. Retrieved April 11, 2014, from VC4Africa: <https://vc4africa.biz/investors/?upage=4>