



# Beyond Capital: Building startups that create long-term value for investors

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## Background

**East Africa's startup ecosystem is evolving and presents a significant growth opportunity for private capital investors. This momentum is driven by a strong entrepreneurial spirit, a large and growing market, and untapped potential. These dynamics make early-stage companies in the region highly attractive to investors seeking both strong returns and meaningful impact.**

**USD  
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In 2025, the region attracted approximately USD 1.1 billion in startup funding, representing about 34% of the continent's total inflows (according to Africa: The Big Deal Report). Notably, Kenya contributed 90% of this amount, underscoring its dominance in the region's startup landscape, particularly in sectors such as fin-tech, and energy.

This level of investment underscores the strength of the region's startup ecosystem. However, recent business closures prove that capital alone is not enough. Despite a steady influx of funding, still far from meeting the region's growing needs, sustainable outcomes have often proved elusive, with recent market trends highlighting the risks of

overlooking core business fundamentals, compounded by high failure rates and the challenge of limited exit options.

In recent times, several well-funded Kenyan startups have filed for insolvency or wound down operations. In 2024 alone, these companies collectively raised more than USD 270 million (according to statistics from Startups Graveyards Report) before ceasing operations under the strain of unsustainable burn rates, weak cash discipline, and operational inefficiencies.

For investors, the goal is not simply deploying capital but creating lasting value. That requires disciplined investee selection and a focus on levers such as operational improvements through

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institutionalising a strong cash culture, optimising capital structure, and/or aligning funding milestone with operational KPIs. Importantly, these considerations should begin at the due diligence stage, not after the funds are deployed. A proactive approach is essential to assess business fundamentals and position enterprises for sustainable growth.

### **How can investors anticipate and manage risks early?**

Historically, typical investor due diligence often emphasized the review of financial performance, tax or legal matters, frequently overlooking a detailed understanding of the operations of the business. This gap can mask inefficiencies and structural weaknesses that erode value long before they appear in financial statements.

To address these risks, investors must look beyond reported numbers and examine the underlying operational framework where inefficiencies, misalignments with the current capital structure and complexity quietly erode value long before these issues surface in the financials.

### **Converting deployed capital into sustainable return**

For East African startups, the challenge lies not only in securing capital but also in deploying it in a way that creates lasting value for stakeholders. Pursuing rapid scale without reinforcing operational foundations introduces fragility into the business model that eventually surfaces as sustained underperformance or lower returns on investment, liquidity crunches, governance gaps, and in some cases, insolvency.

To mitigate these risks, founders and investors must adopt a dual focus: drive strategic expansion while ensuring the operating model is fit for purpose. In our view, the following strategic imperatives should guide sustainable growth:

#### **1. Institutionalise a “cash culture” in the business**

Startups often fail not because they lack revenue potential but because they run out of cash. By institutionalizing a cash culture, businesses create a buffer against volatility and ensure that growth

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ambitions do not compromise financial and operational stability. For startups, where burn rates can spiral quickly, this mindset is critical to survival and scalability. It shifts the sole focus from top-line growth to the fundamentals of cash flow, ensuring that liquidity impact forms a strong consideration in decision-making. Additionally, startups must adopt robust cash flow forecasting to anticipate funding gaps and plan for contingencies, enabling proactive decision-making rather than reactive firefighting.

## **2. Optimise capital structure for greater stability**

In fast-scaling startups, the balance sheet must evolve as quickly as the business model. Optimizing capital structure means rethinking how capital is deployed, ensuring financing aligns with working capital needs; and unlocking trapped liquidity through asset rationalisation.

A practical first step to achieve this is reprofiling debt to match the Company's current cashflow profile and ensuring that the capital structure reflects an appropriate mix of equity and debt, taking into consideration funding requirements, cost of capital, debt carrying capacity, and dilution impact. Done well, these measures convert capital into a stable platform for accelerated growth.

## **3. Align funding milestones with operational KPIs**

Expansion, whether through geographic reach or product diversification, must be underpinned by adequate operational capacity and utilisation. Capital deployment must be linked to clearly defined and verifiable milestones/outcomes, anchored in operational KPIs such as throughput, yield, and productivity, rather than relying solely on financial metrics.

**Due diligence must go beyond financial performance to uncover structural and operational risks early**

These milestones must be monitored closely, especially in the period before breakeven, with decision-making processes being agile enough to support swift transitions in response to evolving circumstances. To achieve improved performance, this should also be complemented by adequate technical and strategic expertise aligned with the business's growth ambitions.

### **The way forward**

East Africa's startup ecosystem is vibrant, but recent business closures prove that capital alone does not guarantee success. For founders and investors, the message is clear: scaling without reinforcing operational

foundations erodes value. Due diligence must go beyond financial performance to uncover structural and operational risks early.

Supporting portfolio companies to embed operational discipline either through institutionalising a strong cash culture, optimising capital structure, and/or aligning funding milestones with operational KPIs will not only mitigate the above risks but also preserve and create lasting value for stakeholders.

In this dynamic market where exit options remain limited, proactive engagement is the differentiator between short-lived growth and sustainable return.

To learn how we can support you click [here](#).





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