African Private Equity and Venture Capital Association

Industry Quarterly Review

Q3, 2022

Table of Contents

Foreword

We are delighted to present the Q3 2022 *Industry Quarterly Review*, the second edition in a new data-driven publication series highlighting the key trends defining Africa's private capital landscape. Drawing on AVCA's latest Research, the *Industry Quarterly Review* demonstrates the breadth and impact of our industry with a regular roundup of the preceding quarter's industry news, market activity and regulatory reform.

A Look at the Big 4

South Africa, Nigeria, Egypt and Kenya remain the giants of Africa's silicon savannah, continually attracting the lion's share of both the volume and value of private capital deal activity. The first edition of the *Industry Quarterly Review* looked "Beyond the Big 4" - analysing the emerging markets outside of Africa's leading quartet showing steady year-on-year growth.

This edition of the Review does the opposite, going back to the Big 4 in a series of country deep dives. It charts the contextual drivers fuelling their consistent dominance, paying particular attention to the underlying macroeconomic tailwinds of their elevated investment activity across sectors and assets in 2022 H1.

A Spotlight on Sustainable Investing

The history and evolution of sustainable investing in Africa tells a unique story of patient capital serving as a cornerstone for economic growth and sustainable development on the continent. While sustainability has only recently become mainstreamed in contemporary investment practice, Africa has long been at the forefront of sustainable investing globally. From a capital allocator perspective, investors are adopting a sustainable lens in their capital allocation to address Africa's sustainable development priorities. From an entrepreneurial perspective, founders are delivering innovative and effective solutions to pressing environmental and social challenges across the continent, creating a new wave of for-profit but sustainable enterprises.

The theme for this edition of the *Industry Quarterly Review* is Sustainable Investing, with three highlights of recent AVCA research related to the same. In this issue we explore the role of private capital in Africa's pathway to a net zero future; celebrate strides made by the industry to meet this goal through investments in companies providing access to affordable and clean energy; and finally highlight practical suggestions from AVCA's recent *Sustainable Investing in Africa Summit* on how sustainability-minded investors can embark on the journey of quantifying the social and environmental impact of their investments.

AVCA's mission remains to support and enable sustainable private capital on the continent. This publication series exemplifies our commitment to providing topical, independent, and thoughtful research to the industry, and would not be possible without the thoughtful contributions of so many. On behalf of the AVCA team, I would like to thank our members and all participants who supported this important research by giving their time and sharing their perspectives and data.

Abi Mustapha-Maduakor
Chief Executive Officer, AVCA

South Africa COUNTRY PROFILE

Key Macroeconomic Indicators (2021)[1]

Population	**60 million**
GDP	**US$420 billion**
GDP Per Capita	**US$6,994**
GDP Growth	**4.9%**
Labour Force with Advanced Education	**81%**
Foreign Direct Investment, Net Inflows (2020)	**US$3.2 billion**

Key Economic Activities[2]

Mining	Agriculture	Manufacturing
(11.8%)	**(8.3%)**	**(6.6%)**

Venture Ecosystem (2021 – 2022 H1)

#2 (168 Deals) Ranking in Africa

VC Volume & Value
US$1.1 billion raised by **148** unique companies

Top Investment Stage
Seed (56%)

Female Founders
19% of deals were in startups with at least one female founder

Impact
32% of deals were backed by at least one impact investor

Private Capital Landscape

Figure 1: Total Volume of Private Capital Deals Reported in South Africa, 2016 – 2022 H1

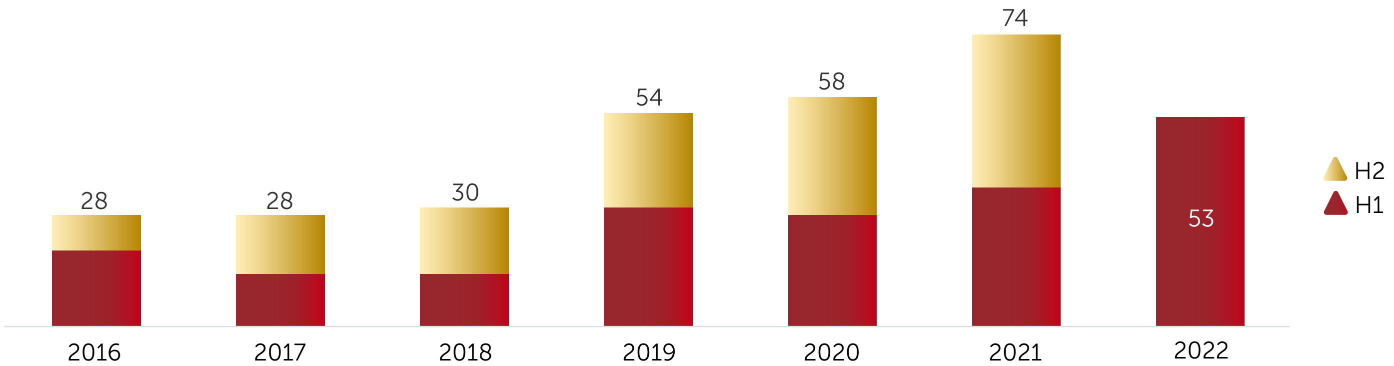
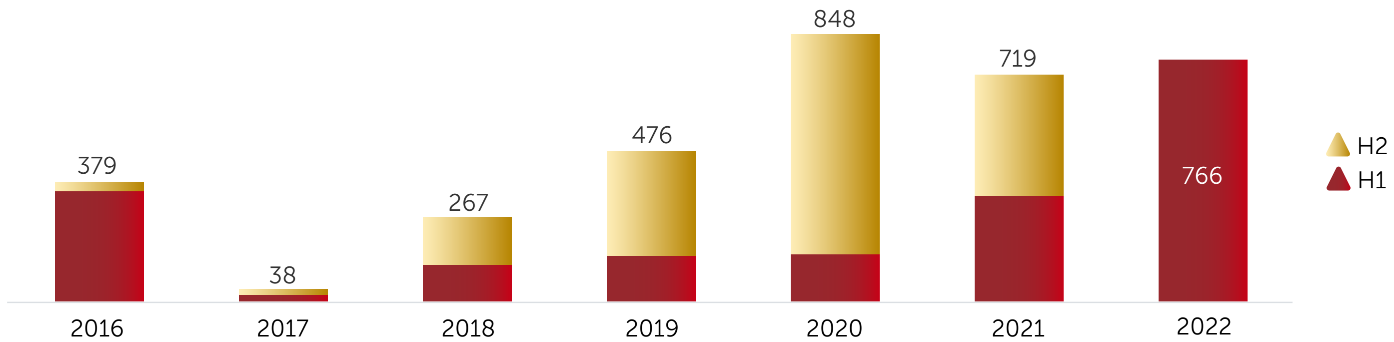


Figure 2: Total Value of Private Capital Deals Reported in South Africa (US$ mn), 2016 – 2022 H1



1. World Bank Open Data Database
2. Statistics South Africa, 2022. *Gross Domestic Product, 4th Quarter 2021*

South Africa COUNTRY PROFILE

Private Capital Growth Drivers

KEY FINDING: 325 private capital deals took place in South Africa between 2016 and 2022 H1, with a total reported value of US$3.5 billion

South Africa's economy bears the scar tissue of a series of hard knocks in the last few years. Unemployment stands at 35%, GDP per capita in 2021 is lower than it stood a decade prior, loadshedding and inconsistent power supplies are markedly dragging economic activity in construction, mining and manufacturing, while surging inflation caused by the rising cost of food and fuel are denting consumer spending[3]. Signs of wear and tear are also becoming increasingly evident in the country's private capital industry, which dropped to second place amongst Africa's "Big 4" by deal volume in 2022 H1. Nevertheless, South Africa continues to harbour strong investment activity overall, receiving the largest proportion of the total volume of private capital deals in Africa between 2016 and 2022 H1. While tenuous, South Africa owes its ability to hold onto its longstanding position as an industry titan to the following:

Digital Infrastructure: Home to 17 data centres, South Africa secured pole position as the continent's data centre capital in 2021[4]. The republic already houses the Vantage Data Centre, Africa's largest data centre whose investment totalled more than US$1 billion. Additionally, two years after South Africa was named the final landing point of Google's *Equiano* undersea cable, the tech giant announced its intention to establish a *Google Cloud* region in South Africa, its first in the continent. The project stands to bring over US$2.1 billion and create a substantial 40,000 jobs by the start of the new decade[5]. High profile investments of this nature, spanning hard and soft digital infrastructure as well as digital payments, are significant for two reasons. Not only do they enable the development of South Africa's digital economy, they also signal investor confidence in potential dividends from South Africa's digital transformation. Information Technology has benefitted from this growing international recognition of the productive capacity of South Africa's technology ecosystem, assuming the second largest share of private capital deal volume and value in the country since 2019.

Asset Plurality: The South African private capital ecosystem is the most mature the continent has to offer, evidenced in part by its increased diversification by asset class compared to the other countries in Africa's leading quartet. Illustratively, 21% of South African private equity fund managers also offer private credit to clients, while another 5% each also offer real estate and fund-of-fund services[6]. While the venture capital asset class has commanded a larger subset of deal volume in South Africa since 2020, Private Equity (30%) and Infrastructure (6%) investments also contributed to the final tally of private capital deals that took place in 2022 H1. South Africa continues to harbour strong investment activity on the back of its longstanding position as a titan in the industry, where the breadth of opportunity on offer to investors, regardless of their investment strategy, is only possible given relative maturity of South Africa's ecosystem.

Figure 3: Total Volume of Private Capital Deals Reported in South Africa, By Asset Class, 2016 – 2022 H1

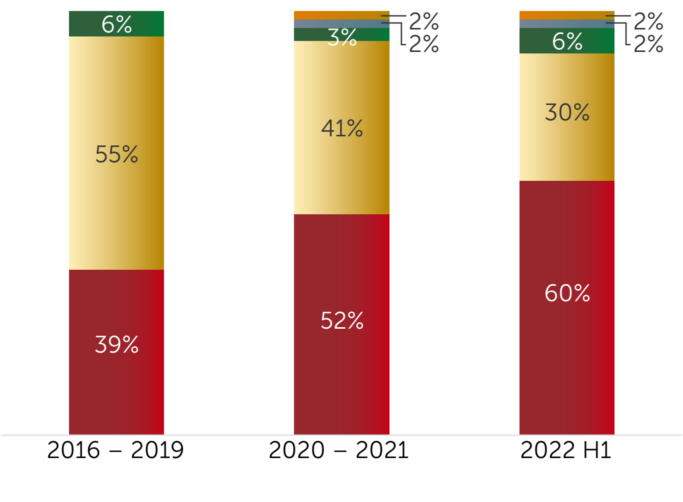
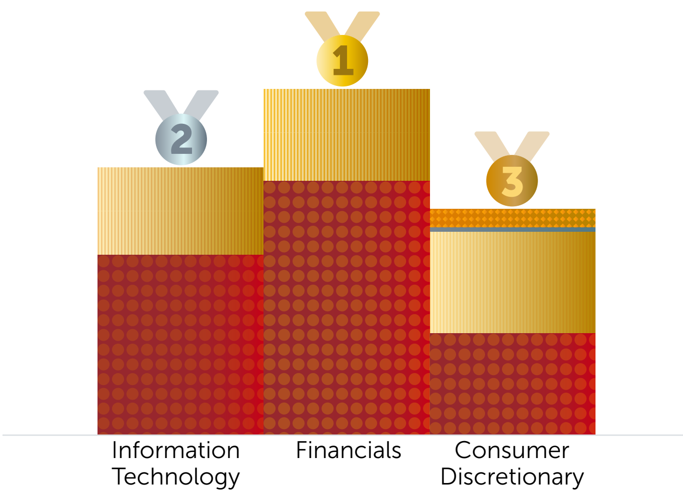


Figure 4: Top 3 Sectors in South Africa by Asset Class, 2016 – 2022 H1



3. OECD, 2022. 2022 OECD Economic Survey of South Africa
4. Knight Frank, 2022. The Digital Race to Connect Africa
5. Bloomberg, 2022. Google to Build South African Cloud in $1 Billion Africa Plan
6. SAVCA, 2022. SAVCA 2022 Private Equity Industry Survey

Nigeria COUNTRY PROFILE

Key Macroeconomic Indicators (2021)[7]

Population	**211 million**
GDP	**US$441 billion**
GDP Per Capita	**US$2,085**
GDP Growth	**3.6%**
Labour Force with Advanced Education	**74%**
Foreign Direct Investment, Net Inflows (2020)	**US$2.4 billion**

Key Economic Activities[8]

Agriculture	Information & Communication	Trade
(25.9%)	**(15.7%)**	**(15.7%)**

Venture Ecosystem (2021 – 2022 H1)

#1 (256 Deals) Ranking in Africa

VC Volume & Value
US$1.6 billion raised by **217** unique companies

Top Investment Stage
Seed (73%)

Female Founders
24% of deals were in startups with at least one female founder

Impact
28% of deals were backed by at least one impact investor

Private Capital Landscape

Figure 5: Total Volume of Private Capital Deals Reported in Nigeria, 2016 – 2022 H1

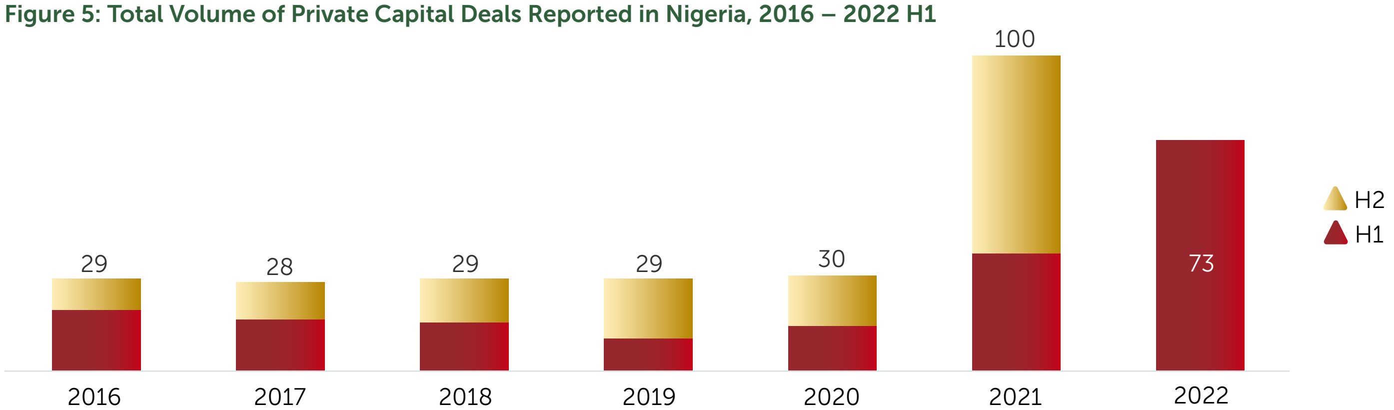
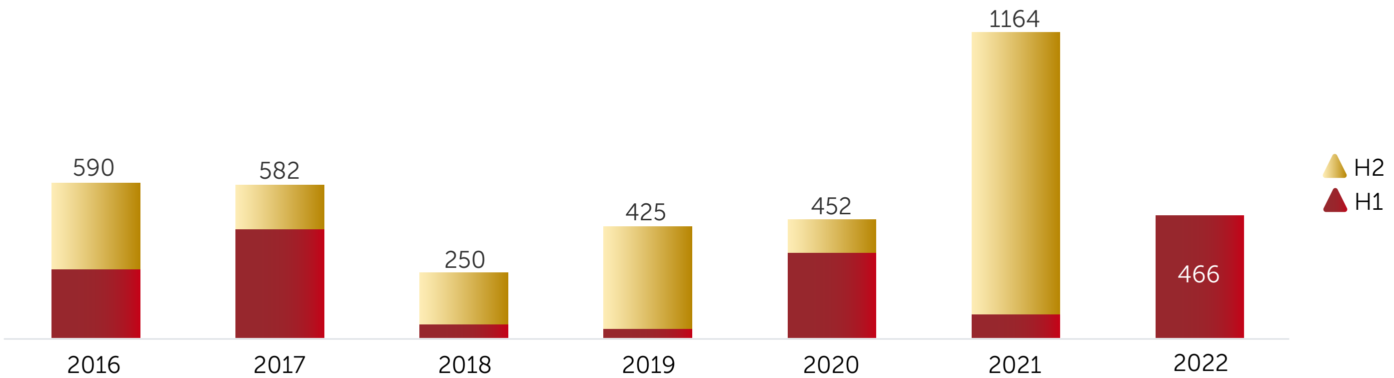


Figure 6: Total Value of Private Capital Deals Reported in Nigeria (US$ mn), 2016 – 2022 H1



7. World Bank Open Data Database
8. National Bureau of Statistics, 2022. *Nigerian Gross Domestic Product Report (Q2 2022)*

Private Capital Growth Drivers

KEY FINDING: 318 private capital deals took place in Nigeria between 2016 and 2022 H1, with a total reported value of US$3.9 billion

Nigeria maintained its dominating presence in the African private capital landscape this year, eclipsing South Africa to claim the top spot amongst the continent's "Big 4" by deal volume in 2022 H1. Nigeria's ascent and strong performance in the industry is somewhat of a tale of contradictions, considering the wider macroeconomic turmoil the country has experienced to date this year. A surge in inflation; foreign exchange shortages exacerbated by a weak Naira; and simmering concern over the potential political and socio-economic fallout from the upcoming presidential election have triggered below potential GDP growth in Nigeria, averaging 4.3%[9] in 2022. Nigeria's growing share of private capital deal activity in 2022, despite a decidedly complex macroeconomic environment, can be attributed in part to the following:

Venture Capital in Financial Technology: The engine for Nigeria's strong performance largely lies in the rise of FinTech[10]. Nigeria recorded 3.7 billion real-time digital payment transactions in 2021, ranking sixth globally in the league table of the world's most developed real-time payments markets[11]. Nigeria has emerged as the undisputed leader of digital payments in Africa, with this surge of new digital and real-time payment services unlocking US$3.2 billion of additional economic output in 2021[12]. Venture Capital in particular has been instrumental in this growth of Nigeria's Financials sector. A colossal 34 of the 35 deals that took place in the Financials sector in 2022 H1 were Venture Capital investments. This is in line with the wider configuration of Nigeria's private capital ecosystem, where Venture Capital has assumed the majority of deal activity since 2020. The growing number of FinTech startups emerging in the country has birthed a robust financial services ecosystem, with early pioneers such as *Interswitch* and *Flutterwave* (which both received US$100 million+ funding rounds in 2022 H1) laying the ground for future startups to ride on.

Technology Outperforming Oil Revenue: Dividends from *Nigeria's National Digital Economy Policy and Strategy* emerged in 2022, where the Information Technology sector contributed an average 14% to Nigeria's GDP in 2022 H1[13]. Not only is this the highest contribution from Information Technology in the history of the Nigerian economy, but revenue from this sector also compensates for the declining contribution of the oil sector to the country's GDP, which has fallen from 7.42% in Q2 2021 to 6.63% in Q1 2022 and 6.33% in Q2. Leveraging efforts by the national government to create an enabling environment and improve hard and soft digital infrastructure in Nigeria, Information Technology received the second largest proportion of private capital dealmaking in 2022 H1, in joint second with Consumer Discretionary.

Figure 7: Total Volume of Private Capital Deals Reported in Nigeria, By Asset Class, 2016 – 2022 H1

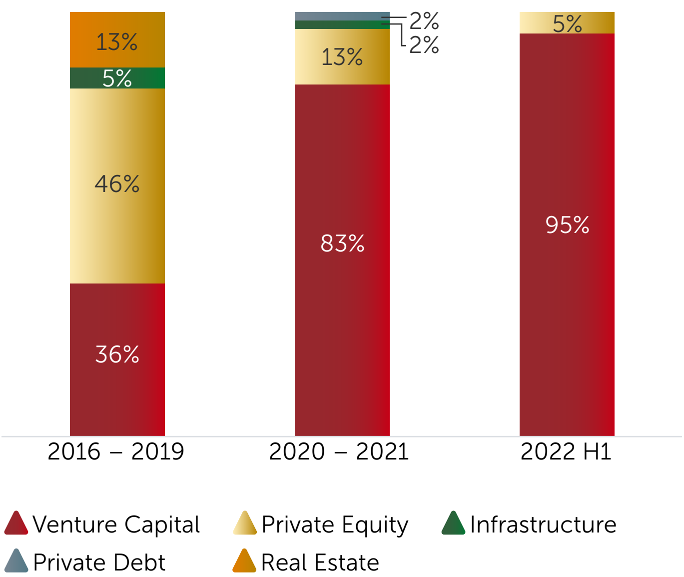
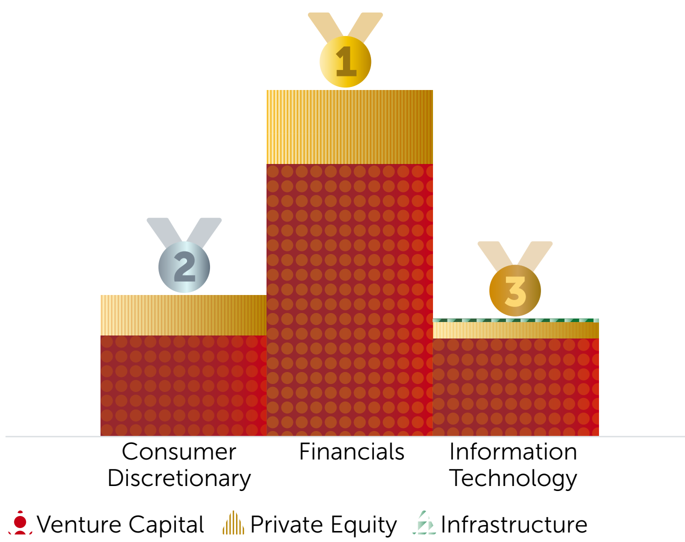


Figure 8: Top 3 Sectors in Nigeria by Asset Class, 2016 – 2022 H1



9. National Bureau of Statistics, 2022. *Nigerian Gross Domestic Product Report (Q2 2022)*
10. 94% of the Financials deals that took place in Nigeria in 2022 H1 were in technology or technology-enabled (i.e. FinTech) companies.
11. ACI Worldwide, 2022. Prime *Time for Real-Time*
12. BusinessWire, 2022. *Nigeria's Economy Reaps Benefits of Real-Time and Digital Banking Transformation*
13. National Bureau of Statistics, 2022. *Nigerian Gross Domestic Product Report (Q2 2022)*

Egypt COUNTRY PROFILE

Key Macroeconomic Indicators (2021)[14]

Population	**104 million**
GDP	**US$404 billion**
GDP Per Capita	**US$3,876**
GDP Growth	**3.3%**
Labour Force with Advanced Education	**63%**
Foreign Direct Investment, Net Inflows (2020)	**US$5.85 billion**

Key Economic Activities[15]

Agriculture, Forests & Fishing	Wholesale & Retail Trade	Manufacturing
(15.1%)	**(14.7%)**	**(14.5%)**

Venture Ecosystem (2021 – 2022 H1)

#3 (162 Deals) Ranking in Africa

VC Volume & Value
US$0.9 billion raised by **135** unique companies

Top Investment Stage
Seed (69%)

Female Founders
18% of deals were in startups with at least one female founder

Impact
25% of deals were backed by at least one impact investor

Private Capital Landscape

Figure 9: Total Volume of Private Capital Deals Reported in Egypt, 2016 – 2022 H1

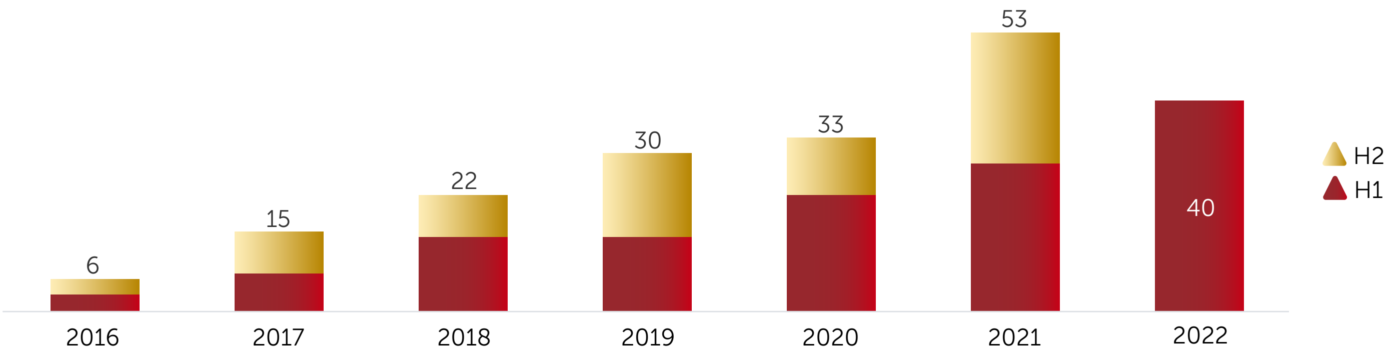
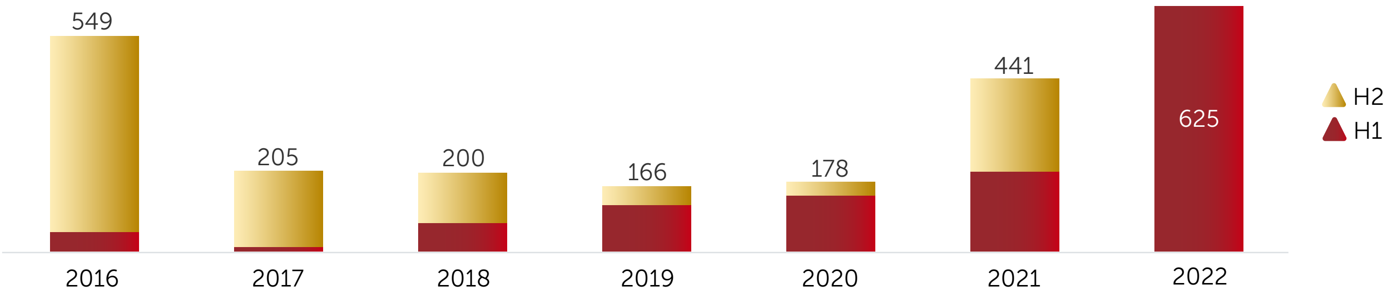


Figure 10: Total Value of Private Capital Deals Reported in Egypt (US$ mn), 2016 – 2022 H1



14. World Bank Open Data Database
15. Central Bank of Egypt, 2022. *2020/2021 Economic Review*

Egypt COUNTRY PROFILE

Private Capital Growth Drivers

KEY FINDING: 199 private capital deals took place in Egypt between 2016 and 2022 H1, with a total reported value of US$2.4 billion

Egypt enjoys a uniquely advantageous economic location, sitting at the confluence of three continents (Africa, Asia and Europe). It comes as no surprise therefore that Egypt continually attracts the largest share of private capital deal activity in North Africa, comprising close to three-quarters (73%) of North Africa's regional total in 2022 H1. More recently, however, Egypt has been making a name for itself on the continental stage, rising in rank from the margins of the Big 4 and rivalling South Africa in terms of the number of venture capital deals concluded between 2021 and 2022 H1. Evidencing Egypt's growing attraction as an investment destination on the continent, Egypt recorded net foreign direct investment inflows to the tune of US$5.85 billion in 2020[16] – significantly more than values Nigeria, South Africa and Kenya commanded that year. Catalysts for Egypt's slow and steady rise to the top include:

A Diversified and Enabling Environment: April 2021 marked the launch of the National Structural Reform Programme (NSRP) by the Egyptian government, a co-created development framework with the private sector and relevant ministries[17]. The program aims to diversify the production of the Egyptian economy by focusing on three pillars: Manufacturing, Agriculture, and Information Communication Technology. For the first time, in 2022 H1 entrepreneurial activity in Egypt (which has historically been extremely consumer oriented) saw the Financials sector claim the top spot, accounting for 12 of the 40 deals that took place in the country. While the consumer theme remains strong in Egypt, the rise of Financials likely owes its providence to new legislation introduced in September 2021, passed under the NSRP banner, making banking regulations more favourable towards FinTech[18].

Influence of Venture Capital: The top three sectors drawing private capital investment in Egypt between 2016 and 2022 H1 were Consumer Discretionary, Financials and Industrials. Venture Capital accounted for the lion's share of each sector's deal activity in that timeframe, at 93%, 84% and 83% respectively. In 2022 H1 specifically, Venture Capital was responsible for four of every five private capital deals reported in Egypt. Accordingly, the star of North Africa owes its ascension to the emergence of a robust VC hub which is propelling the country's investment activity. Notably, there are also several VC funds servicing the Egyptian market which made investments in 2022 H1. These include the US$69 million *Sawari Ventures North Africa Fund* which reached final close in April 2021, the EGP207 million *FAC Egypt Fund* by Flat6Labs which reached second close in May 2021, and the US$85 million FinTech fund *Nclude* established in March 2022 by Global Ventures alongside three of Egypt's state-owned banks. More recently, Algebra Ventures reached a US$100 million close of its second Egypt-dedicated fund, with plans already underway to invest US$15 million in Egyptian startups by the end of 2022.

Figure 11: Total Volume of Private Capital Deals Reported in Egypt, By Asset Class, 2016 – 2022 H1

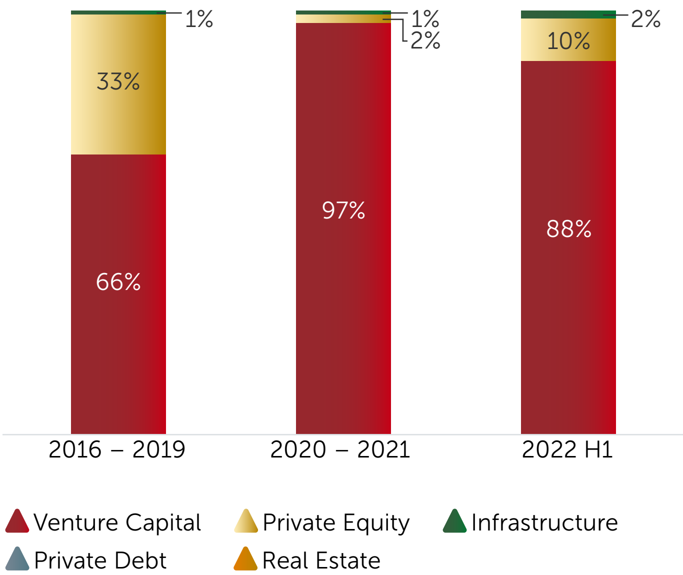
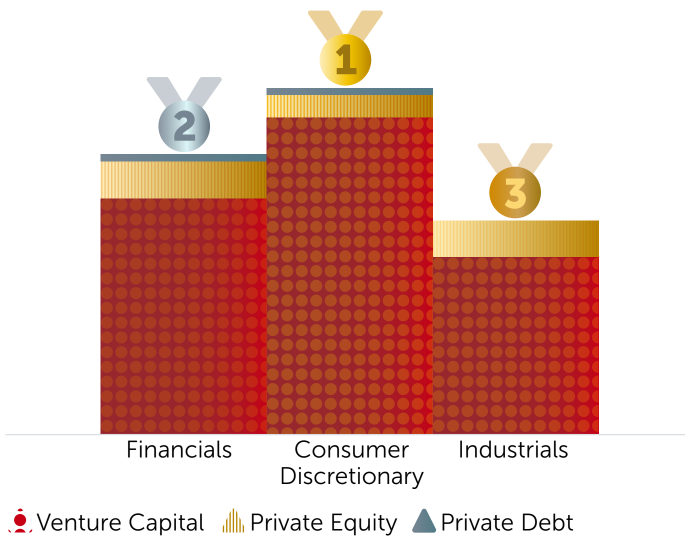


Figure 12: Top 3 Sectors in Egypt by Asset Class, 2016 – 2022 H1



16. World Bank Open Data Database
17. Oxford Business Group, 2022. *The Report: Egypt 2022*
18. The new banking law 194/2020 endowed the Egyptian Central Bank with provisions to allocate banking licenses to FinTech and digital commerce firms.

Kenya COUNTRY PROFILE

Key Macroeconomic Indicators (2021)[19]

Population	**55 million**
GDP	**US$110 billion**
GDP Per Capita	**US$2,007**
GDP Growth	**7.5%**
Labour Force with Advanced Education	**86%**
Foreign Direct Investment, Net Inflows (2020)	**US$0.43 billion**

Key Economic Activities[20]

Agriculture & Forestry	Transport & Storage	Real Estate
(22.4%)	**(11.4%)**	**(8.9%)**

Venture Ecosystem (2021 – 2022 H1)

#4 (146 Deals) Ranking in Africa

VC Volume & Value
US$0.8 billion raised by **124** unique companies

Top Investment Stage
Seed (74%)

Female Founders
37% of deals were in startups with at least one female founder

Impact
51% of deals were backed by at least one impact investor

Private Capital Landscape

Figure 13: Total Volume of Private Capital Deals Reported in Kenya, 2016 – 2022 H1

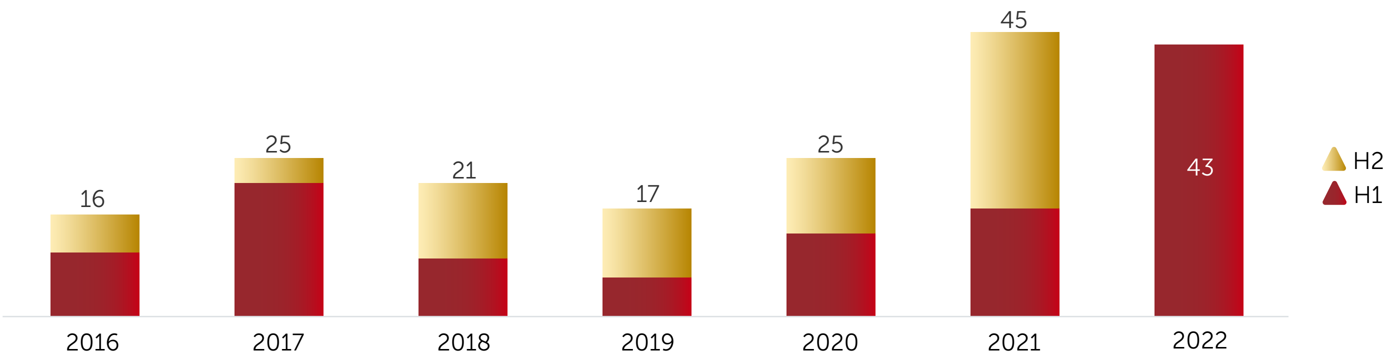
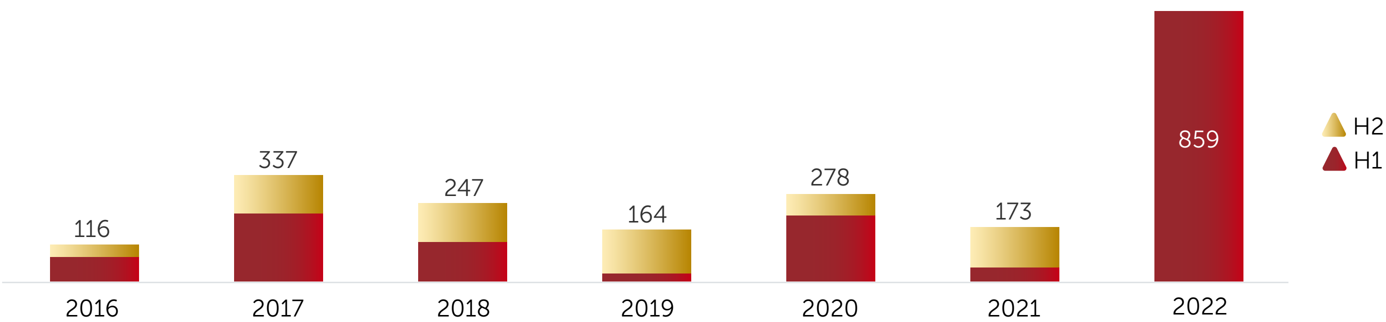


Figure 14: Total Value of Private Capital Deals Reported in Kenya (US$ mn), 2016 – 2022 H1



19. World Bank Open Data Database
20. Kenya National Bureau of Statistics, 2022. *Economic Survey 2022*

Private Capital Growth Drivers

KEY FINDING: 192 private capital deals took place in Kenya between 2016 and 2022 H1, with a total reported value of US$2.2 billion

The Kenyan economy outperformed its regional peers and the rest of the Big 4 in 2021, recording a robust GDP growth of 7.5%[21]. This was much higher than the growth rate for sub-Saharan Africa, estimated at 4%, and Kenya's strongest annual performance since 2010. While a contested election, higher inflationary pressures, a domestic drought, and tighter monetary policy tempered demand going into 2022, Kenya's GDP growth slowed to a more modest but still impressive 5.5% in 2022 H1[22]. Kenya's declining performance on the continental stage, which visibly impacted the private capital industry between 2019 and 2021, rebounded strongly in 2022 driven by the following:

Digitalisation of Commercial Retail: Kenya's growing digital ecosystem is changing the future of traditional retail in the country, enabling small retailers to offer new online solutions for payments, procurement, and last-mile delivery. A study into the adoption of digital retail services following Covid-19 found the proportion of retailers offering remote ordering in Kenya rose to 39% at the close of 2021, from 27% in early 2019[23]. Driving this change are digitally mature shop proprietors, 91% of which are equipped with smartphones (28% higher than the national average) and 97% of which accept mobile money[24]. The digital transformation of the Consumer Discretionary Sector, which was the second most active sector for private capital investment in Kenya between 2016 and 2022 H1, was a particular growth driver in 2022 H1. Early stage deals in companies offering Retailing services comprised a significant 60% of Kenya's Consumer Discretionary deals in 2022 H1. Notable deals include the US$125 million Series B round in *Wasoko*, a tech-enabled company transforming the informal retail supply chain, and the US$50 million Series C in B2C e-commerce platform *Copia Global*.

Low-Carbon, Climate Resilient Development: Kenya is a leader in clean energy development in Africa, with more than 90% of its on-grid electricity coming from renewable sources. In line with the local government's *Vision 2030 Agenda*, Kenya updated its NDC Targets in 2021 and committed to reduce its already low greenhouse gas emissions a further 32% by 2030[25]. The prioritisation of low carbon, resilient investments by the Kenyan government in recent years, which sets the East African country on track to meeting all five climate action targets set out in SDG 13 by 2030, was a driver of private capital investment activity in 2022. A unique feature of Kenya's venture capital ecosystem is its impact-orientation: over 50% of venture capital deals that took place in Kenya between 2021 and 2022 H1 saw participation from at least one impact investor. When categorised by their impact focus, close to half of these deals were in companies advancing Climate Change Adaptation and Mitigation (23%), Clean Energy (15%), and Energy Efficiency (8%).

Figure 15: Total Volume of Private Capital Deals Reported in Kenya, By Asset Class, 2016 – 2022 H1

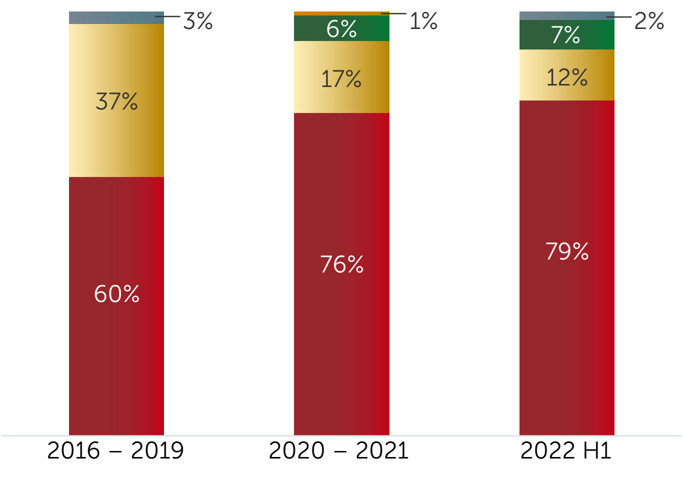
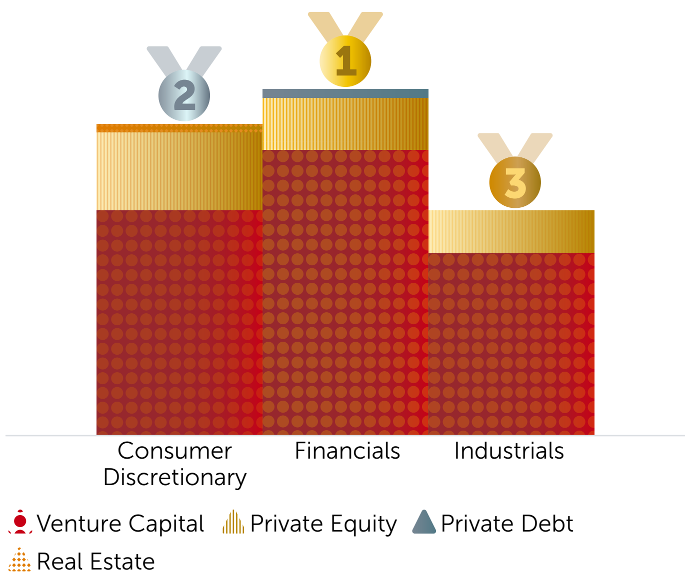


Figure 16: Top 3 Sectors in Kenya by Asset Class, 2016 – 2022 H1



21. Kenya National Bureau of Statistics, 2022. Economic Survey 2022
22. World Bank, 2022. Kenya Economic Update: Aiming High: Securing Education to Sustain the Recovery
23. Boston Consulting Group, 2022. The Future of Traditional Retail in Africa
24. Boston Consulting Group, 2022. The Future of Traditional Retail in Africa
25. African Development Bank, 2022. Kenya Economic Outlook

Highlight: Net-Zero

Sub-Saharan Africa faces a double burden in the pursuit of a net-zero transition by 2050. Beyond the general challenges that come alongside building low emission economies, the region is also expected to be disproportionately affected by the physical risks resulting from climate change. As such, the need for private capital to support the development of low-emissions energy solutions that also propel the continent's economic growth are paramount.

In recognition of this, the AVCA hosted its inaugural Net-Zero Roundtable discussion at the 2022 Annual Conference in Senegal, bringing together African and global fund managers, institutional investors, and policymakers. The roundtable touched on the opportunities and challenges that net-zero presents, the role of private capital allocators in realising the energy transition vision, and the implementation actions necessary to ensure the asset class achieves alignment with Net Zero targets. We are pleased to highlight three key takeaways from the discussion:

Addressing Africa's Climate Crisis is a Marathon, Not a Sprint

While Africa's unique and disproportionate vulnerability to the climate crisis is well documented, the full extent of its adverse effects on the continent's development trajectory, resource security and human wellbeing remain difficult to fully predict given the generational nature of climate impact. In this opaque environment, magnified by data scarcity, cataloguing the extent of Africa's vulnerability is far from a straightforward endeavour. A forward-looking approach, which necessitates long-term engagement, is pivotal for the myriad of climate risks and their tremendous socio-economic impacts in Africa to first be understood, and then addressed.

"Africa finds itself at a crossroad as the lowest contributor to carbon emissions, but the most vulnerable to the climate crisis - especially in the context of adaptation. **The reality is, how Africa is affected by climate change is not acute, it's slow.** A lot of Africa's current insecurity is actually driven by climate change, and in particular by slow moving climate impacts changing resource availability on the continent."

Tariye Gbadegesin,
Managing Director & Chief Executive Officer, ARM-Harith Infrastructure Investment

Energy Access is Key to the Net-Zero Transition

Over 640 million Africans have no access to energy. This corresponds to an electricity access rate of just over 40% - the lowest in the world[26]. Consequently, the question that should be at the centre of the conversation about the net-zero transition in Africa is how the continent can transition with energy access at such low levels. Ensuring access to modern and affordable clean energy for Africans in line with SDG 7 constitutes a critical first step in Africa's pathway to a net zero future.

"**A pathway to net zero by 2050 is not possible while there are still people who live in energy poverty.**"

Damilola Ogunbiyi,
Special Representative of the UN Secretary-General, Sustainable Energy for All

A Once in a Generation Opportunity

Africa's journey to electrification and subsequent net-zero transition also presents enormous opportunities. Emerging technologies looking to leapfrog the generation and consumption of energy have been an increasing focus of venture capital investment in Africa. This enabling technology is not only driving down the cost of renewable energy production, it arms investors and businesses with the necessary tools to capitalise on Africa's electrification needs and the once in a generation opportunity to build resilient businesses that drive economic development.

"We need to think about the planet and the need to reduce global carbon emission. However, this doesn't need to be a problem. **This could be an attractive opportunity if approached the right way.**"

Joseph Nganga,
Executive Director for Africa, the Global Energy Alliance for People and Planet

26. African Development Bank, 2019. Light Up and Power Africa – A New Deal on Energy for Africa

Highlight: SDG 7 – Affordable & Clean Energy

Without private sector participation towards the achievement of the *United Nations 2030 Sustainable Development Agenda*, the timely realisation of its 17 targets before the close of the present decade wouldn't be possible. Private capital investors are uniquely positioned to invest in and influence businesses in an impactful manner that catalyses positive change. Africa-focused fund managers and institutional investors have risen to this challenge, deploying and allocating capital to support the businesses driving Africa's long-term economic growth.

In celebration of 20 years of championing private investment on the continent, AVCA launched the *Achieving the SDGs through African Private Equity and Venture Capital* series. The seventh of the SDGs, highlighted here, is focused on ensuring access to clean and affordable energy for all. The proceeding case study illustrates the role private capital can play in supporting businesses accelerating the transition to an affordable, reliable, and sustainable energy system. It showcases how **African Infrastructure Investment Managers (AIIM),** a private equity infrastructure fund manager with US$2.4 billion in assets under management, have integrated SDG 7 in their investment in *Starsight Energy*, a commercial & industrial solar power supplier.

2018
SOURCING

Identified *Starsight Energy's* ability to contribute to SDG 7

2019
DUE DILLIGENCE

Starsight Energy's growth potential and the degree to which it would contribute to SDG 7 is dimensioned

Theory of Change approach used to identify positive impact pathways, mapping key impacts aligning to SDG 7

Identified key metrics that would be tracked throughout the lifecycle of the investment

Ongoing
ASSET MANAGEMENT

AIIM worked with Starsight Energy's management team, which was at the beginning of its ESG journey, to create formal environmental and social management systems that were fit for purpose and delivered positive impact

With SDG 7 as a key impact outcome in mind, AIIM actively engaged the Board and ESG sub-committee to produce and implement relatively cleaner power provision at Starsight Energy

Key Outcomes Since AIIM's Investment[27]:

- 71 megawatts of installed power generating capacity, 36 megawatt hours of battery storage and 18,391 horsepower in cooling capacity delivered to over 644 client sites in Nigeria, Kenya and Ghana.
- 25.2 Gigawatts of renewable energy produced, powering the equivalent average of 2,533 middle income households per year with clean energy.
- Reduced emissions by 9,225 tonnes of carbon dioxide equivalent since 2019.
- Reduced electricity consumption averaging 20-45% for Starsight Energy clients.
- Cumulative cost and energy savings for all customers reached US$2.7 million and 9,474 megawatt hours.

27. As of October 2021.

Highlight: Meaningful Impact - Strategies to Monitor and Measure Sustainable Investments

While the importance of sustainable investing and integrating ESG considerations in investment practice is now undisputed, inconsistencies abound for how to monitor and measure social and environmental impact given the alphabet soup of existing reporting frameworks. In the absence of a universal standard directly applicable for private capital investments, how should we report on impact? Amidst ever increasing concerns of 'greenwashing' in contemporary impact investment practice, we are pleased to present these actionable insights from AVCA's successful *Sustainable Investing in Africa Summit* on how the industry can establish practical, context-specific metrics and targets for sustainable investing on the continent.

Impact ought to be understood not as an outcome or end result, but as a process that should be integrated into all elements and steps of a project's lifecycle. As hands-on investors, we developed an in-house tool called the Sustainability Impact Measurement Platform (Simpl) which allows us to influence and manage how ESG issues are addressed and how we monitor the progress of assets over time. Positive impact lies in how you do things: from project design, to development, to stakeholder engagement. This is how to evolve, adapt and optimise your project to generate the most benefit and transform culture.

Ginette Borduas,
Head of ESG & Sustainability, Meridiam

There has to be accountability for every dollar invested or deployed. Gone are the days, thankfully, where we could afford to be lazy and talk about impact from the perspective of a "nice, warm story". There is a practicality needed to be able to create and implement impact. The Global Impact Investment Network has sized the global impact investment market at over US$1.1 trillion in AUM , with just 2% of that allocated by organizations headquartered in Sub-Saharan Africa. If we have any hope of scaling, formalising, and institutionalising the impact investing space in Africa, there must be accountability. The same accountability we require and demand of ourselves on the financial side must be expected on the impact measurement and monitoring side as well.

Geetha Tharmaratnam,
Chief Impact Investment Officer, WHO Foundation

Thinking about impact, and working towards it, needs to be embedded throughout the organisation. It isn't something that can be brought in on the side – an impact lens ought to integral to investment strategies and value creation processes to ensure maximum impact that is meaningful and delivers value to both consumers and investors.

Simon Whistler,
Head Real Assets, Principles for Responsible Investments (UNPRI)

The risk for asset managers looking to make themselves or their portfolio impactful is a tendency towards counting generic metrics and greenwashing. That is not the way to do it. Building a robust and consistent framework is a very important step for impact management and measurement, alongside being transparent and accountable to your stakeholders. Impact management at DEG began 15-20 years ago with a small Excel tool programmed to measure a few key metrics across our portfolio (job creation, local income, etc.) which we would aggregate and publish annually. That small Excel tool has now developed into a very sophisticated and powerful management controlling system known as the Development Effectiveness Rating, which steers organisation-wide management and investment decisions. This system establishes clear filters at the investment stage when we originate a new transaction, but also guides the impact targets and action plans we develop in partnership with a fund or company for the duration of the investment. We see our role as a transformative one, using this framework consistently to expand each investment's development potential and their contribution towards the achievement of the Sustainable Development Goals.

Carola Bose,
Director and Head of Africa Funds, DEG

Market Activity

Climate consciousness has percolated into Africa's private investment landscape with increasing depth in recent years. Awareness about both the need for and depth of opportunity the continent has to offer for private investment in climate has never been more pronounced than at the present moment, as we prepare to host the upcoming 2022 *United Nations Climate Change Conference*, given the moniker "Africa's COP".

Private capital investors across a broad cross-section of sector, asset and stage focuses are adopting a climate lens to their investment approaches. Targeting the very early stages, in September 2022 the African Business Angel Network launched the first specialised *Climate Smart Agriculture Investor Network* in Africa, a sector-focused angels network. At the opposite end of the spectrum, the *TPG Rise Climate Fund*, which reached a US$7.3 billion final close in April 2022, will target growth equity to value-added infrastructure investments in Clean Energy, Enabling Solutions, Decarbonized Transport and Greening Industrials, amongst others.

Recognising the rising tide of private sector participation in financing climate resilience on the continent, and in anticipation of AVCA's upcoming joint report with the Tony Blair Institute on climate-related investments in Africa, this edition of the IQR adopts a climate lens to the market activity in 2022.

Dealmaking

Key Findings: Q1 – Q3 2022

79 total volume of climate-related deals

US**$1.3** billion total value of climate-related deals

US**$22.7** million average deal size

US**$6.8** million median deal size

Utilities was the most active sector by deal volume (45%)

85% of climate related investments were in technology and tech-enabled companies / projects operating in the **ClimateTech and CleanTech verticals**

East Africa was the most active region by deal volume (37%)

Mirroring trends in the wider configuration of Africa's private capital ecosystem, Venture Capital comprised the largest share (73%) of climate-related investments that took place in Africa between Q1 and Q3 2022. By region, East Africa was a hub for climate-related investments, driven by Kenya's popularity amongst impact and climate-focused investors. Notably, Kenya accounted for 55% of the total volume and a significant 86% of the total value of deals within the region. By sector, deals backing renewable electricity producers in the Utilities sector were the driving force of Africa's climate-related investments in the first 9 months of 2022. Capitalising on Africa's status as a world leader in solar power potential, two thirds (67%) of the companies and projects that received financing in the Utilities sector offer solar energy solutions.

Figure 1: Total Volume of Climate-Related Investments Reported in Africa, by Asset Class, 2022

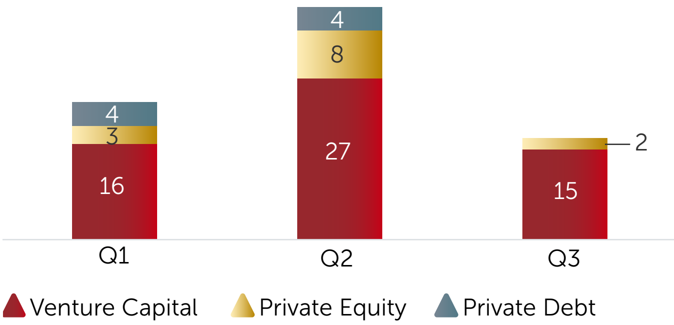
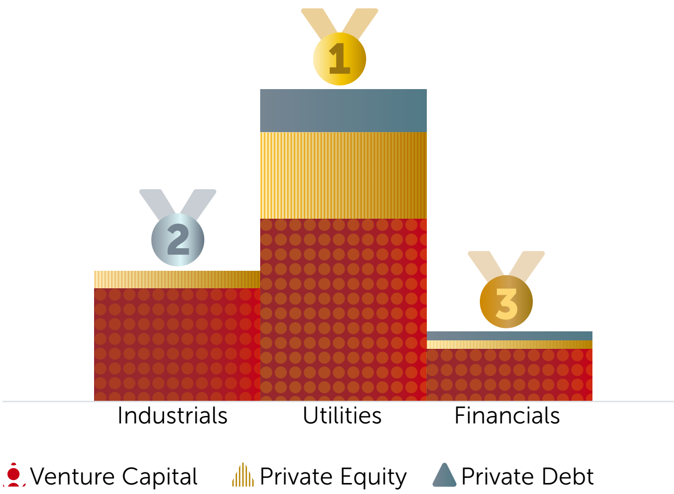


Figure 2: Top 3 Sectors for Climate-Related Investments Reported in Africa, by Asset Class, 2022



Market Activity

Dealmaking

As of September 2022, 79 climate-related investments with a cumulative value of US$1.3 billion were announced in Africa. Q2 2022 was the most active period, when close to half of the volume of climate-related investments on the continent took place. **Notable deals in climate resilient companies and projects that took place in Africa's private capital landscape from a wide range of investors this year include:**

Company Name	Climate Category	Sector	Country HQ	Deal Date	Deal Type	Deal Value (US$ mn)
Sun King	Clean Energy & Tech	Utilities	Kenya	April	Venture Capital	260
PEG Africa	Climate Solutions	Financials	Ghana	April	Buyout	200
Serengeti Energy	Clean Energy & Tech	Utilities	Kenya	June	Growth Capital	80
KarmSolar	Clean Energy & Tech	Utilities	Egypt	August	Venture Capital	80
M-Kopa	Climate Solutions	Financials	Kenya	March	Venture Capital	75
Windlab Africa	Clean Energy & Tech	Utilities	South Africa	August	Buyout	55
GridX	Clean Energy & Tech	Utilities	Kenya	April	Venture Capital	40
CrossBoundary	Clean Energy & Tech	Utilities	Kenya	June	Growth Capital	25
Yellow	Climate Solutions	Financials	Malawi	January	Private Debt	20
Sanergy	Climate Conscious	Industrials	Kenya	June	Venture Capital	19

Fundraising

The first three quarters of the year has also seen several funds in various stages of their fundraising cycle, each looking to finance and scale innovative climate solutions on the continent, successfully secure backing from institutional investors. Climate-focused private capital funds that received capital commitments in Q3 2022 include:

Green Climate Fund approves USD 145 million FMO investment in Climate Fund Manager's Climate Investor 2

InfraCo Africa invests U$43m to launch a new climate-focused infrastructure fund for Africa

Maris raises US$12 million from Proparco for climate resilience in Africa

Regulatory Updates

Kenya

In July 2022 the Finance Act came into effect, introducing amendments to various tax statutes with the purpose of enhancing revenue collection, promoting investments and bringing alignment to current tax laws. Key changes affecting the private equity industry can be summarised as follows:

- **Upward revision of capital gains tax rate from 5% to 15%.**
- **Exported services changed from VAT exempt to standard rated.** The Act reclassifies the exportation of services from VAT-exempt status to standard rate at 16%, save for the exportation of taxable services classified as business process outsourcing, which is now zero rated. However, the VAT Act does not define what constitutes “business process outsourcing”. This legislative vacuum has created uncertainty in the administration and interpretation of the VAT law, particularly for multinational companies or service entities in the country.
- **Deferral of foreign exchange losses for thinly capitalised companies.** The Act now provides for the deferral of realised foreign exchange losses for companies that rely on debt financing, where interest exceeds 30% of the company’s earnings before interest, taxes, depreciation and amortization (EBITDA).

Nigeria

In July 2022 the National Assembly passed the Nigerian Startup Bill, which was subsequently signed into law by President Muhammadu Buhari in October 2022 to become the Nigeria Startup Act (2022). The initiative aims to create an enabling environment for growth, attraction, and protection of investment in tech startups through the following :

- **Requirements For Registration, Licensing and Labelling of Startups.** The Act requires companies to obtain a startup label certificate to be formally recognised and labelled as a startup.
- **Startup Investment Seed Fund.** The Act establishes a new seed fund managed by the Nigeria Sovereign Investment Authority to provide early-stage funding for startups as well as tech relief to local accelerators and incubators.
- **Tax Relief.** The Act introduces a Pioneer Status Incentive, enabling companies issued with a startup label tax exemption of up to three years, with possibilities for extension. Startup employees will also be eligible for a 35% relief on personal income tax for two years after being employed. Tax relief has also been extended to the investor community, who will be entitled to tax credits of up to 30% of their investment in a startup.

Tanzania

Following parliamentary approval of the 2022/2023 National Budget, the Tanzanian government enacted the Finance Act 2022 with effect from 1 July 2022. Key changes introduced include :

- **A broader definition of “business”.** The Finance Act established a broader definition of the term “business” to the Income Tax Act, which now includes internet-based or digital marketplace transactions. Accordingly, transactions on any platforms that enable direct interaction between buyers and sellers of goods and services through electronic means are now subject to taxation in Tanzania.
- **Benefits for strategic investments.** The Finance Act endows the Minister of Finance with powers to grant tax exemption privileges to VAT and income accrued from special strategic investments approved by the National Investment Steering Committee. This change is expected to promote investment by eliminating current inconsistencies in granting additional fiscal incentives to special or major strategic investors.

Regulatory Updates

Ghana

In recognition of how digital technology has changed the way the Ghanaian financial service industry offers products and services to consumers; the Bank of Ghana launched a new Regulatory and Innovation Sandbox in August 2022. The Regulatory Sandbox hopes to harness the potential of technology to develop an efficient and inclusive financial service industry without risking financial stability, serving as an enabling framework for small scale live testing of innovations for FinTech startups in a controlled environment. The Regulatory Sandbox is being piloted alongside the eCedi (a general-purpose digital currency) and is in line with the government's Digital Ghana Agenda to create a conducive regulatory environment that fosters innovation, financial inclusion, and financial stability in the country.

Uganda

In September 2022 the Companies (Amendment) Act was passed into law. Its enactment reconciles previous inconsistencies in the law, enables increased flexibility in its implementation, and streamlines operations of Ugandan companies. In particular, the Amendment introduces new business registration processes that reduces the cost and time of incorporation. Responding to the need for enhanced transparency of beneficial ownership, the Amendment also amends the definition of and registration requirements for beneficial owners for companies, trusts, cooperatives and limited liability partnerships in the country.

Morocco

In October 2022, Morocco's Government Council formally adopted on the 2023 Finance Bill. A landmark feature of the budget law, which aims to stimulate socio-economic development and revive the country's economy, is the creation of MAD45 billion (EUR4.1 billion) sovereign wealth fund, raised from a range of sources including the state budget, institutional, national and international investors.

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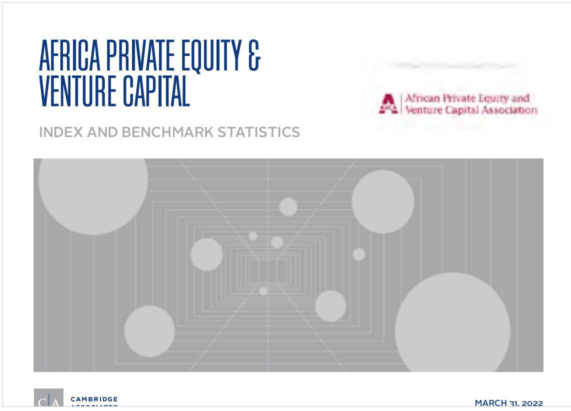

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About AVCA

CHAMPIONING PRIVATE INVESTMENT IN AFRICA

The African Private Equity and Venture Capital Association is the pan-African industry body which promotes and enables private investment in Africa. AVCA plays an important role as a champion and effective change agent for the industry, educating, equipping and connecting members and stakeholders with independent industry research, best practice training programmes and exceptional networking opportunities.

With a global and growing member base, AVCA members span private equity and venture capital firms, institutional investors, foundations and endowments, pension funds, international development finance institutions, professional service firms, academia, and other associations. This diverse membership is united by a common purpose: to be part of the Africa growth story.