



# **Funds and Fund Management Services in Africa**

## **Part 1**

MARCH 2023

**Research  
Partner**



**The African Private  
Capital Association**



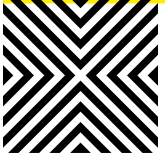
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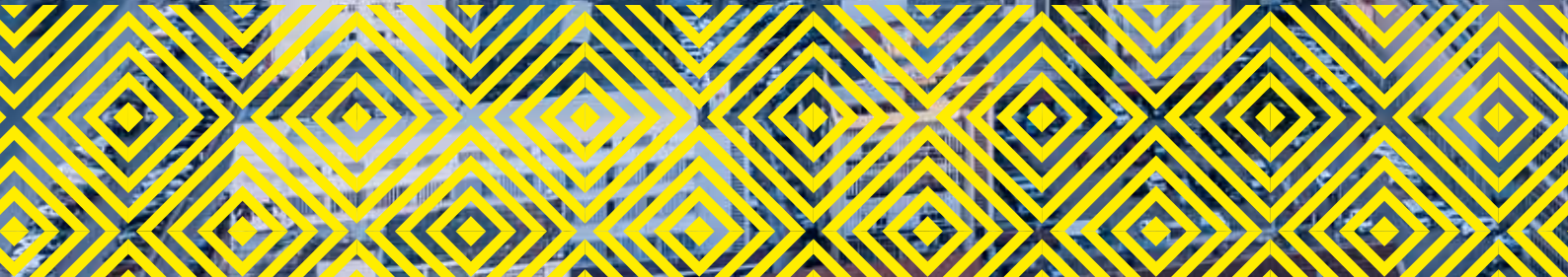
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# Executive Summary



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Africa's private capital industry has shown significant development in the last two decades. Investment funds constitute one of the main drivers of local and international capital flow into African economies and have led to the emergence of key service providers such as asset managers, fund managers and trust and corporate service providers.

The *Funds and Funds Management Services in Africa* report examines the deal intermediary and (financial) service provider ecosystem servicing Africa's private capital industry. Driven by proprietary data, complimentary research and in-depth interviews with representatives from relevant stakeholders, this examines the past, present and future of the service providers, jurisdictions, business and legislative landscape underpinning private capital in Africa. It finds the industry on the cusp of a transition to sophistication and depth in every regard: the number of capital allocators actors raising private funds, a widening ecosystem of service providers offering ancillary support services, and a broadening array of asset classes coming to the fore, accompanied by innovative fund structures.

## Background to the Paper

The purpose of this report is firstly to map the continental ecosystem, showcasing the fund managers, fund administrators and fund types active therein, as well as the breadth of investment opportunities. More specially,

this report gives a regional breakdown of the investment opportunities available to local and international capital allocators, with a focus on fund domicile and asset consolidation. Secondly, this report sheds light on the range of International Financial Centres (IFCs) available on the continent, providing a comparative analysis of the activities and support services on offer by African financial centres in relation to their international counterparts.

This explicitly Africa-focused lens is a unique feature of the *Funds and Funds Management Services in Africa* report, comparing key financial centres servicing the region from the perspective of their value and benefit to local and international investors alike. The report is both an exposition and celebration of over 20 years of private capital in Africa. Our hope is it serves to illuminate the ever-expanding investment opportunities available in Africa; serves as a guide for fund services available to industry practitioners enabling the accessibility of these opportunities; and finally serves as a useful tool to help inform domiciliation decision making.

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# Evolution of the Private Capital Ecosystem in Africa

The report opens with an exploration of the evolution of Africa's private capital ecosystem, charting the development of private capital in Africa. It adopts a historical lens to understand the current configuration of Africa's private capital landscape, looking at the individuals, institutions and macroeconomic trends responsible for its birth. Key findings from this historical deep dive include:

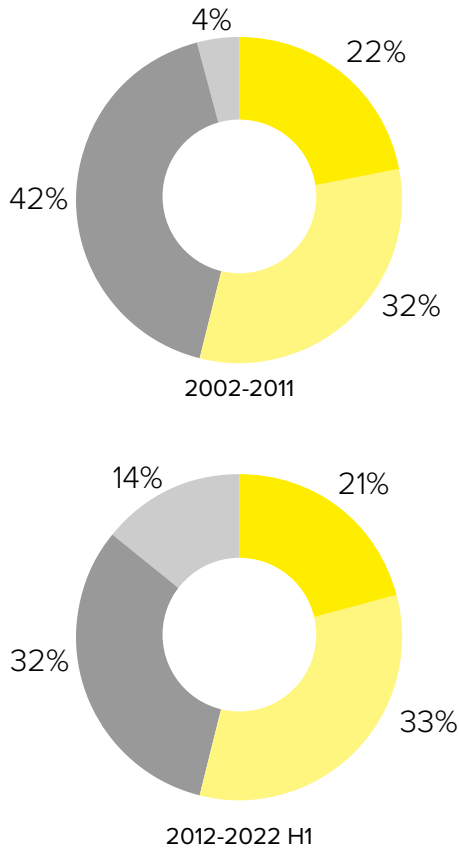
- **Development Finance Institutions (DFIs) played an instrumental role in the creation and development of Africa's private equity industry** by providing capital for private projects and adopting a capacity building, advocational role.
- **The first wave of Africa-focused private equity firms emerged in South Africa** in the early 1990s, given the country's relatively strong legal structure and stable economy.

- **By 1997**, a total of **12 private equity funds** which have cumulatively raised over US\$1 billion were active in Africa.
- A combination of the **rise of alternatives, regulatory liberalization, improved structure and the potential for relatively high returns** saw the preponderance of the DFI model giving way to some degree in favour of more commercial and institutional capital flows from a range of global investors.

Having contextualised the emergence of private capital in Africa, this section of the report then adopts a contemporary view. It profiles the changes in geographic, strategic, sector and asset foci of the industry's founding fathers and earliest adopters, concluding with the profile of investment vehicles available in Africa's private capital industry.

# Profile of Fund Managers

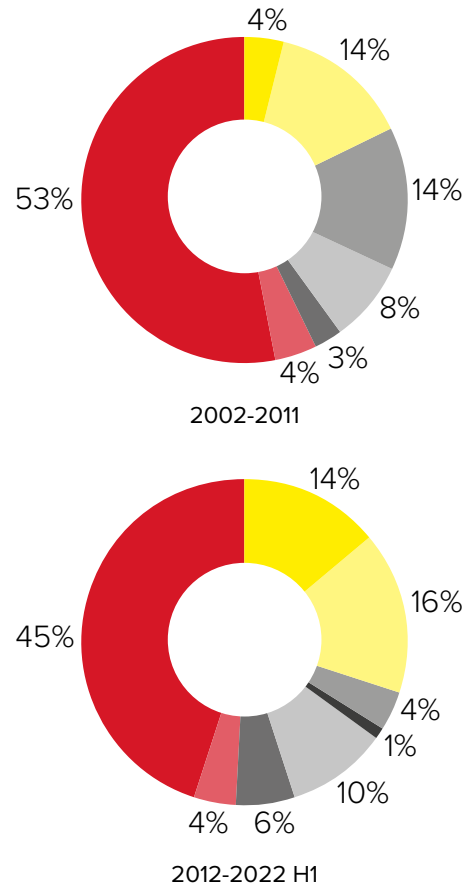
**Geographic Focus of Private Capital Funds in Africa, 2002-2022 H1**



- ◆ Pan-Africa
- ◆ Regional
- ◆ Country Specific
- ◆ Sub-Saharan Africa

Source: AVCA

**Investment Stage Focus of Private Capital Funds in Africa, 2002-2022 H1**

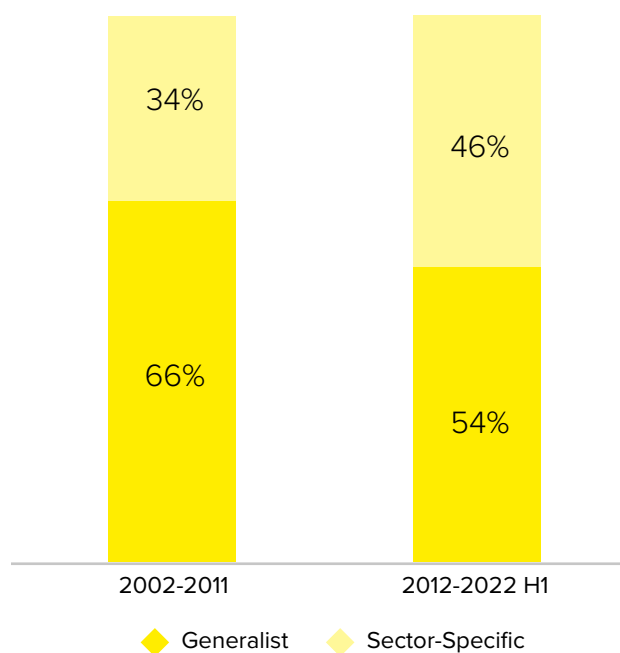


- ◆ Venture Capital
- ◆ Growth Capital
- ◆ Buyout
- ◆ Replacement
- ◆ Infrastructure
- ◆ Private Debt
- ◆ Real Estate
- ◆ Generalist

Source: AVCA

Only final closed funds that focus solely on Africa or have an allocation to Africa alongside a broader emerging markets investment mandate are included in this analysis. Funds with a global investment remit that invest in Africa are excluded.

FIGURE 5: **Sector Focus of Private Capital Funds in Africa, 2002-2022 H1**



Source: AVCA

## Profile of Fund Structures in Africa

### Traditional Fund Structures

- General Partnership
- Limited Partnership
- Limited Liability Partnership
- Bewind or Vested Trust (South Africa)
- Master-Feeder Fund

### Emerging Fund Structures

- Permanent Capital Vehicles (PCVs)
- Special Purpose Vehicles (SPVs)
- Special Purpose Acquisition Companies (SPACs)
- Protected Cell Companies (PCCs).

# Overview of Private Capital Activity in Africa

The metamorphosis of Africa's private capital landscape since the emergence of the industry in the early 1990s is the focus of this chapter of the report. It provides an overview of the evolution of private capital activity in Africa by exploring the factors that have historically contributed to the impressive growth of the industry within the region. Some of the growth drivers of private capital in Africa include:

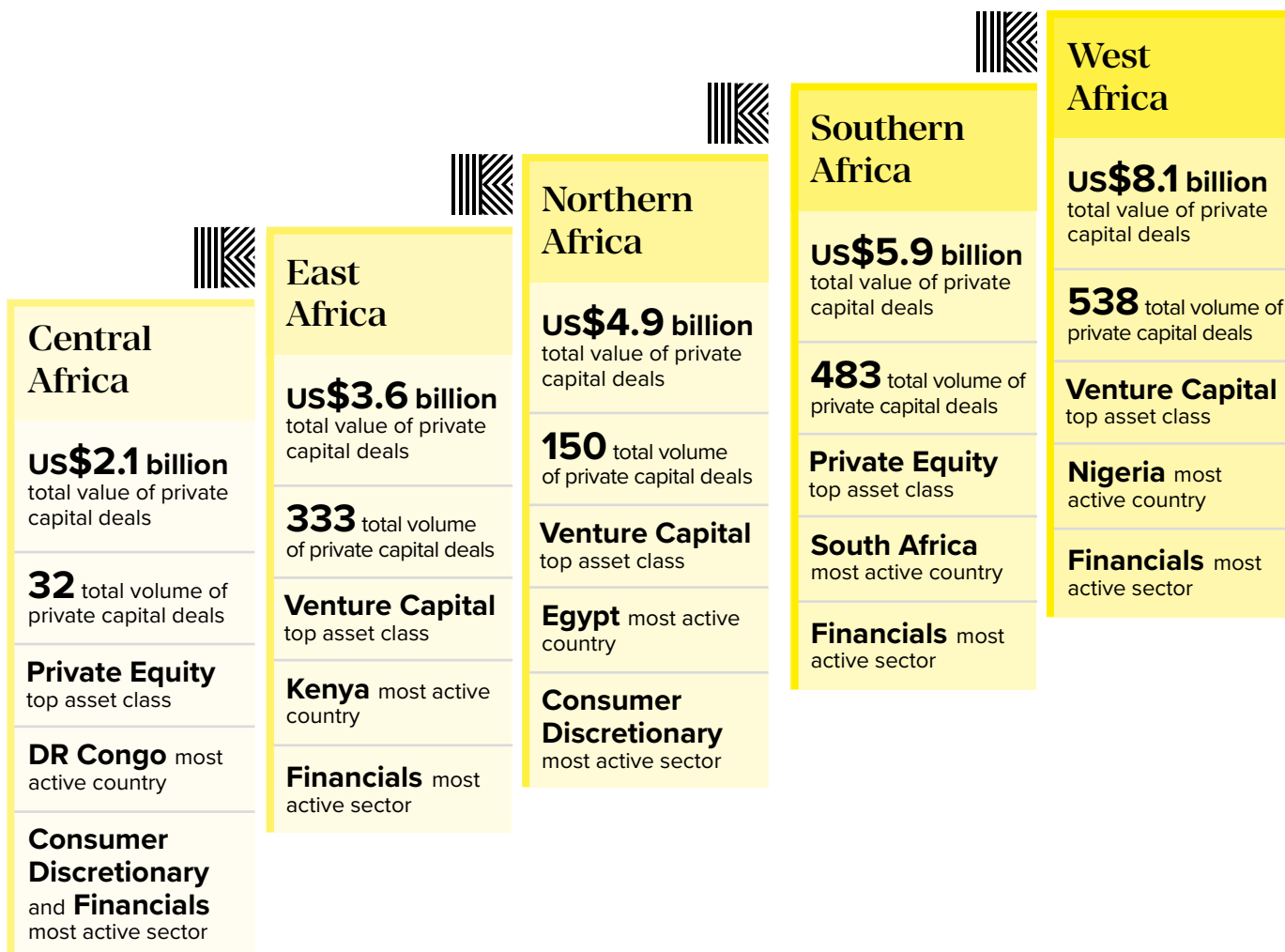
- 1. Liberalisation and Market-Oriented Reform:** targeted efforts by several African governments in the early 2000s to restore political stability, improve macroeconomic conditions, and undertake microeconomic reforms.
- 2. Economic Performance & Resilience:** the continent's relatively strong economic performance in the early 2010s, coupled with its resilience to global economic headwinds including the 2008 global financial crisis and more recently the Covid-19 pandemic.
- 3. Demographic Dividend:** Africa's population has more than doubled since the turn of the century,

creating an infrastructure gap that presents a unique prospect for investors.

- 4. Consumer Oriented Market:** Africa's exponential population growth has concurrently led to the emergence of a consumer middle class which is projected to reach 1.7 billion consumers by 2030.
- 5. The African Continental Free Trade Area (AfCFTA):** the successful implementation of this agreements sees the consolidation of a US\$1.3 billion market with a combined GDP of US\$3.4 trillion and serves as a strong signal to investors wishing to make the most of an integrated Africa open for domestic and foreign investment.

By investigating the evolution and drivers of private capital activity, this section of the report illuminates the influences behind how current investment trends have been shaped through the years. Some of these investment trends are summarised below, in a regional analysis of private capital activity in Africa:

## Regional Spotlights of Private Capital Deal Activity in Africa: 2016 – 2022 H1








# Doing Business for Funds and Fund Management in Africa

The growth of Africa's private capital industry obviously bodes well for the jurisdictions which host their funds. As the industry expands and matures, private capital firms are tasked with several strategic and operational decisions critical to their success: not just choosing partners, but identifying a suitable fund domicile. Section

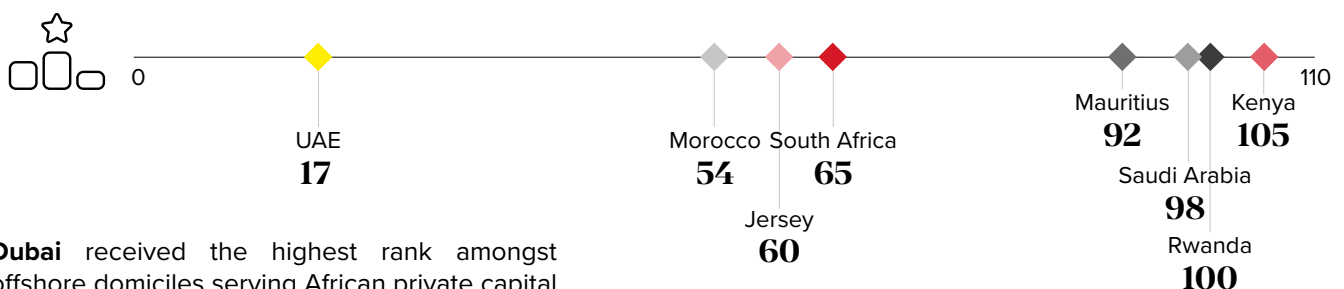
3 of the report compares the competitiveness of 8 financial centres servicing Africa, providing an analysis of their activities and the support services offered in comparison with their international counterparts. Key findings from this exercise include:

## Regulatory, Legal & Tax Framework

 <b>All Financial Centres</b>	 <b>Multiple Financial Centres</b>	 <b>Individual Financial Centres</b>
<ul style="list-style-type: none"> <li>- Have a <b>single regulatory body</b> for investment funds, companies, investment advisors, fund administrators and investors.</li> <li>- Have a <b>license requirement</b> for all financial market operators.</li> <li>- Provide access to the host country's network of <b>double taxation agreements</b></li> <li>- Provide <b>tax incentives</b> (although these differ in nature).</li> </ul>	<ul style="list-style-type: none"> <li>- Have <b>time bracketed tax-related incentives</b>.</li> <li>- Have no <b>currency exchange controls</b>.</li> <li>- <b>Do not discriminate</b> between foreign and domestic investors.</li> <li>- Have no restrictions on <b>foreign employment</b>.</li> <li>- Offer <b>data protection</b> for stakeholders.</li> <li>- Offer <b>intellectual property</b> protection for stakeholders.</li> <li>- Enshrine investor rights to <b>compensation and access to courts</b>.</li> </ul>	<ul style="list-style-type: none"> <li>- Have <b>independent and dedicated courts</b> for dispute resolution (Casablanca, Dubai).</li> <li>- Guarantee or have legal safeguards against <b>expropriation</b> (Mauritius, Nairobi, Riyadh and Kigali).</li> <li>- Have incentives for carbon market investors (Nairobi).</li> </ul>

In addition to their regulatory, legal and tax framework, these financial centres are further evaluated from the following indicators:

### IFC PROFILE: GFCI Rank

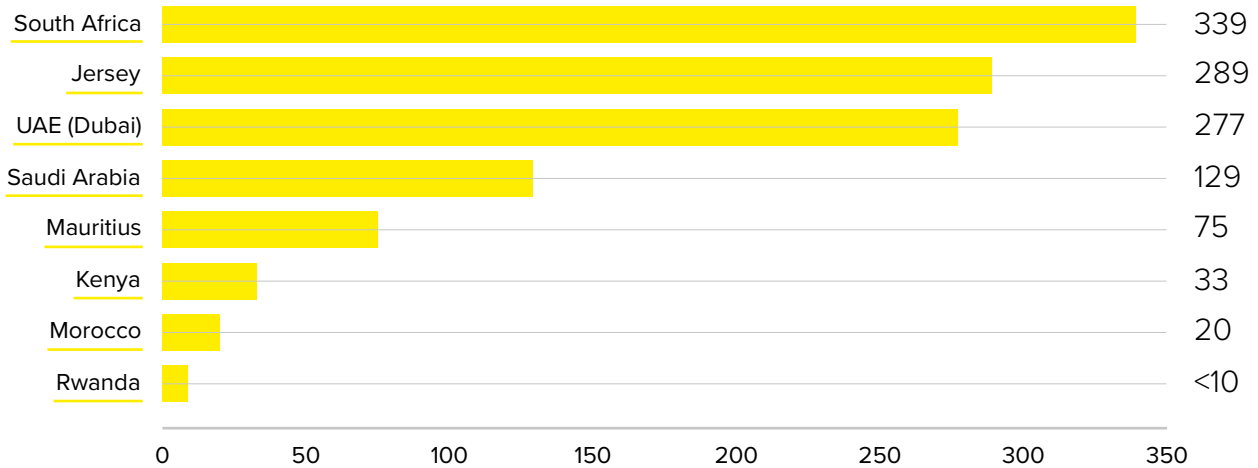


**Dubai** received the highest rank amongst offshore domiciles serving African private capital firms on the Global Financial Centres Index.

Casablanca Finance City, first established in 2010, gives **Morocco** the highest ranking amongst onshore financial centres.



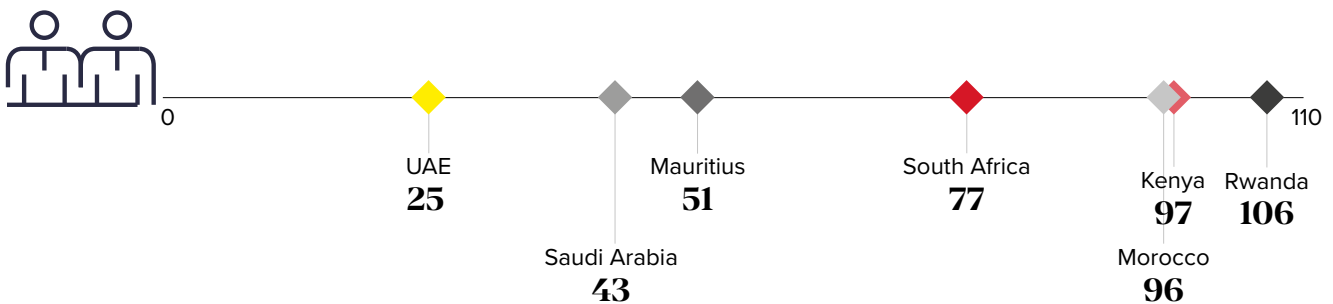
## PROFESSIONAL LANDSCAPE: Fund Managers



**South Africa** gives investors access to the largest number of fund managers (339) and is the only onshore financial centre rivalling the offshores in terms of high availability of fund managers.

**Jersey** (289) and **UAE** (277) complete the top 3 in terms of number of fund managers. Jersey has remained a top destination for investment funds while Dubai financial centres has provided attractive incentives since its establishment in 2004 to attract financial services firms.

## TALENT COMPETITIVENESS: GTCI Rank



**Dubai, Riyadh** and **Mauritius** are the top ranked countries according to the Global Talent Competitiveness Index, 2021.

- **Dubai** owes its talent competitiveness to its **ability to attract talent**, reflecting its internal and external openness, conducive work environment and zero personal income tax. Dubai also performs well in **enabling talent** as it offers a strong regulatory, market, business and labour landscapes.

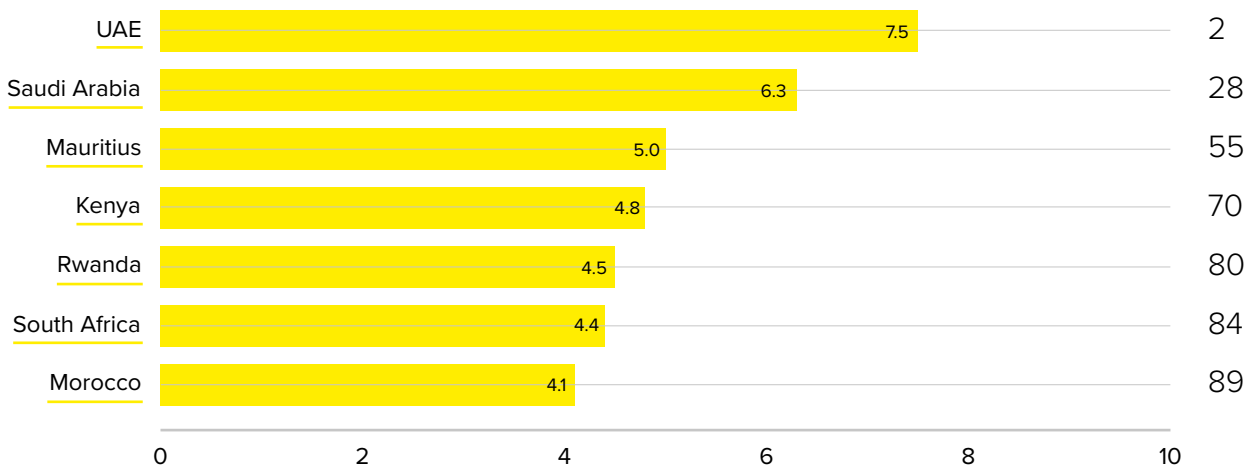
- **Riyadh** owes its talent competitiveness to efforts spent in **growing talent** measured across three indices: formal education, lifelong learning opportunities and access to growth opportunities.

- **Mauritius'** strength lies in **attracting and retaining talent**, and this can be attributed to a robust sustainability and lifestyle, including social protection, pension coverage and environment performance.

## TECHNOLOGICAL ENVIRONMENT: DSGI Rank



Ranking



Technological development and digital skills are of critical importance for international financial centres: serving as a hedge against economic challenges on a global scale and as a competitive advantage in a world where technology has become essential to the fabric of “the new normal” following the Covid-19 pandemic. The Digital Skills Gap Index evaluates the digital strength, resilience, and responsiveness of ecosystems globally. In this framework:

- The **UAE** ranks second (after Singapore) among the 134 economies and territories included in the Index, scoring particularly well highly in the category of government support for **bridging the digital gap** as well as the **level and availability of digital skills**, where it appears leader worldwide.

- **Digital support in Rwanda** was ranked among the top performers in the world, owing to the Rwandese government’s success in ICT promotion (ranked 2nd) and the importance of ICT in its vision (ranked 4th).
- Government support was also a key strength for **Kenya**, but what set the country apart, is the **ease of finding skilled employees**, where Kenya is ranked among the 25 top performers globally.

Sources: Global Financial Centres Index 2022, Prequin, Global Talent Competitiveness 2022 (INSEAD, Human Capital Leadership Institute and Portulans Institute), and The Digital Skills Gap Index (DSGI) 2021

## Future of Funds and Fund Management in Africa

Key to ensuring the long-term success and sustainability of Africa’s private capital industry is the elimination of legal, political, and regulatory barriers that hinder the ease of doing business and deter private capital. Section 4 expands the comparative focus of the report to identify best practice from the characteristics of key financial centres globally. As more African countries continue to develop their major cities to the standard of International Financial Centres, some key lessons can be drawn from what renowned international financial

centres have done to become attractive for foreign investment and fund domiciliation. The following roadmap emerge as key requirements:

### Political and fiscal stability:

1. **A long-term political and fiscal stability** to enhance investors’ confidence and provides a conducive environment for businesses to develop.

## Business Friendly Regulation:

2. **A business-friendly environment** that provides clear rules stating the activities and restrictions, and enabling greater procedural efficiency in the set up and operations of the entities at the centre.
3. **A sophisticated corporate law framework:** to allow multiple structuring options and a distinctive toolbox of investment vehicles which accommodate the needs of international investment projects.
4. **The establishment of several Regulator-to-Regulator agreements with other financial services market partners:** to assist in the management of multi-jurisdictional investment funds and also enable greater procedural efficiency for complimentary entities within the financial ecosystem, both domestically and internationally.
5. **A regulatory environment that fosters innovation, financial inclusion, and financial stability:** to ensure regulation keeps pace with innovation and serve as an additional competitive advantage to African financial centre given the penetration of digital financial services on the continent.
6. **An independent legal, administrative, and fiscal systems** which are not influenced by political interest.

## Competitive Tax Regime:

7. A competitive Tax Regime with key features such as **low (or exemption of) corporate rates and Tax holiday over a long period:** to attract corporate entities and investors and give firms at infant stage opportunity to grow or expand before being subject to corporate tax.

## Alternative Dispute Resolution Mechanism:

8. **An independent body for mediation and arbitration:** to ensure quick and efficient access to remediate action, to boost investor confidence in the right of complaint and administration of justice, and also provide a familiar legal environment that is in compliance with international standards.

## Human Capital and Talent Competitiveness

9. **Internal and external openness to labour, conducive and sustainable work environment and competitive personal income tax:** to attract top local and international professionals, support talent competitiveness and expand depth of financial services cluster which is critical for the development of the funds and fund management industry.

## Strong Reputation:

10. **Develop a strong reputation by building a positive track record** that potential investors can refer to and by **putting in place a strong marketing**, or awareness of the centre's existing or emerging strengths.
11. **Build reputation through the creation of platforms for dialogue:** to assist the development of standards and benchmarks, which will improve the delivery of sustainable financial services among stakeholders.



**As new financial centres emerge, the desire to build a strong reputation will increase competition among financial centres**

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# **Evolution of the Private Capital Ecosystem in Africa**





# The Development of Private Capital in Africa

A historical lens is critical to understanding the current configuration of Africa’s private capital landscape, whose origins can be traced to the early 1990s. Development Finance Institutions (DFIs) played an instrumental role in the creation and development of Africa’s private equity industry when private sector capital was scarce for African fund managers. Their catalytic role can be summarised as follows:

**Capital For Private Projects.** DFIs active in Africa prior to the early 1990s shared an impact-first commitment to private sector development, doing so primarily via loans in government-initiated development projects to build businesses, create jobs, and sustainably improve the living standards of poorer communities. Figure 1 below highlights some examples of development projects that met these strategic objectives and were therefore

backed by DFI capital. At the start of the new decade, however, this cohort of DFIs broadened the scope of their engagement on the continent by extending funding to projects initiated by the private sector<sup>1</sup>. They began making direct investments in private companies independent of government sponsored initiatives, pivoting to provide equity capital to these companies in addition to historically preferred debt capital.

FIGURE 1: **African Development Projects with DFI Backing, Pre-1990**

African Development Bank (AfDB) *	British International Investment (BII) **	European Investment Bank (EIB) ***	International Finance Corporation (IFC) ****
<p><b>1979:</b> Tedzane Fall Hydro-Electric, Malawi. (Power)</p> <p><b>1981:</b> Projet Théicole dans les Communes Nshili &amp; Kivu, Rwanda. (Agriculture)</p>	<p><b>1964:</b> Kenya Tea Development Authority, Kenya. (Agriculture)</p> <p><b>1988:</b> Natex Holdings Ltd, Eswatini. (Manufacturing)</p>	<p><b>1985:</b> Sonel Mape Energy Project, Cameroon. (Power)</p> <p><b>1985:</b> Port De Bejaia, Algeria. (Transportation)</p>	<p><b>1960:</b> Kilombero Sugar Co., Tanzania. (Agriculture)</p> <p><b>1976:</b> SME loan to Kenya Commercial bank to lend to smaller local companies, Kenya. (Financials)</p>

\* African Development Bank Data Portal

\*\* CDC Group, 1999. *Report & Accounts*

\*\*\* European Investment Bank, 2022. *Financed Projects: 1959 – 2022*

\*\*\*\* International Finance Corporation, 2016. *IFC The First Six Decades: Leading the Way in Private Sector Development*

**Advocacy and Capacity Building.** In addition to providing capital for projects initiated by the private sector, the DFI community in Africa adopted an advocational role in the industry. Hoping to demonstrate the benefits of privatising assets and private sector investment, DFIs worked in tandem with government officials on the sub-national level to increase their openness to private sector development; institute pro-business reform that better supported SME growth; and reduce the legislative complexity surrounding foreign direct investment<sup>2</sup>. Their history and experience in the region positioned them as a conduit between governments and businesses, introducing both to the benefits of private capital and creating a foundation that

private equity practitioners used as a springboard to enter the market. The first wave of Africa-focused private equity firms emerged in South Africa in the early 1990s, given the country’s relatively strong legal structure and stable economy<sup>3</sup>. However, as other economies in Africa grew and investment opportunities in other regions increased, private equity funds with wider geographical mandates were established, deploying capital in countries like Botswana, Côte d’Ivoire, Ghana, Kenya, Mauritius, Zambia, and Zimbabwe<sup>4</sup>. Figure 2 highlights early industry pioneers: chronicling the emergence of Africa’s first private capital funds, the institutional investors that supported them, and the geographies these funds covered.

FIGURE 2: **Timeline of Africa's First Private Capital Funds**

**1984**

Initially known as FirstCorp Capital Partners, **Ethos** is established by founding partner Andre Roux in South Africa and becomes Africa's first private equity fund, managing the US\$100 million capitive fund of First National Bank. In 1992, Ethos raise *Ethos Fund II*, the first non-capitive private equity fund in South Africa.

*Fund Profile:* **ZAR 116 million**  
country-focused fund (two investments between 1992 and 1997).

**1991**

**Brait Capital Partners** is launched in South Africa, raising the country's first close-ended, third party funded private equity vehicle.

*Fund Profile:* **ZAR200 million**  
million single sponsor, country-focused fund (30 investments between 1991 and 1994).

**1994**

Tuninvest is launched in Tunisia as an investment and financial services company. Later, under advisement from the Dutch Entrepreneurial Bank (FMO), Tuninvest expands its geographical remit to include sub-Saharan African markets, and becomes **AfricInvest**.

*Fund Profile:* **EUR 2.3 million**  
country-focused private equity fund raised via IPO on the local stock market, backed by both FMO and Proparco.

**1995**

**Cauris Management** launch *Cauris Investissement*, a joint initiative by the West Africa Development Bank and European DFIs. The fund is the first subregional private equity fund to be established in Francophone West Africa.

*Fund Profile:* **XOF5 billion**  
(EUR7.6 million) regional fund providing risk capital within the eight member states of the West Africa Economic and Monetary Union (WAEMU).

The **Dutch Entrepreneurial Development Bank (FMO)** launch the Seed Capital Fund alongside local partners and commercial banks.

*Fund Profile:* Regional fund that sought to create small SME funds in countries like Cameroon, Côte d'Ivoire, Ghana, Kenya, Tunisia, Zambia, and Zimbabwe. The fund also provided technical assistance for local investment managers to later become experienced private equity fund managers.

**1996**

*South African Infrastructure Fund* reaches first close May 1996. **African Infrastructure Investment Managers (AIIM)** are appointed as fund manager in 2000.

*Fund Profile:* **ZAR1.855 billion**  
country-focused fund investing in toll road concessions. The fund later becomes the first 20-year infrastructure fund in South Africa.

**1997**

A total of 12 private equity funds which have cumulatively raised over US\$1 billion now active in Africa.

**1998**

Nigeria's first PE fund manager, **African Capital Alliance** launch its first fund (CAPE I)

*Fund Profile:* **US\$40 million**  
country-focused fund.

**Mustard Capital Partners**, a private equity fund management company, is incorporated in Ghana as a unit within Fidelity Bank and launches its first fund.

*Fund Profile:* **US\$8.5 million**  
generalist private equity fund focused providing equity and debt for Ghanaian SMEs.

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**Investor Diversification From Traditional Asset Classes.** The global financial crisis of 2008 precipitated a shift in investor interest away from traditional asset classes such as public equities and fixed income whose investment value fell significantly, towards alternative investment vehicles<sup>5</sup>. Given Africa's relatively low integration in the global economy at the time, the impacts of the financial crisis manifested mainly in depressed external demand, declining remittances and low commodity prices, which led to sell off across major indices and weakened investor confidence. Stock exchanges in Africa's largest and most integrated economies witnessed significant contractions in 2008, such as Egypt (-55.10%), Nigeria (-45.77%), Mauritius (-35.38%), Kenya (-35.33%), and South Africa (-25.72%)<sup>6</sup>. Motivated by a desire for diversification (both by asset class and geography) and competitive returns, domestic and international investors turned their gaze to private equity and venture capital opportunities on the continent.

**Commercial and Institutional Capital Come to the Table.** The diversification of actors investing and operating in Africa's private capital ecosystem has multiplied significantly in recent years. As the depth and breadth of actors actively investing in the industry expands, the preponderance of the DFI model has given way to some degree in favour of more commercial and institutional capital flows from a range of global investors. Sovereign wealth funds, pension funds, endowments, foundations and family offices that are now investing in private capital vehicles in Africa, with their interest



**African pension funds, whose rapid growth in assets under management and long-term investment horizons make them well suited to be a key funding source for private capital in Africa.**

driven by a combination of regulatory liberalization, improved structure and relatively high return potentials. Nonetheless, there remains room for further investment in the asset class, especially from African pension funds, whose rapid growth in assets under management and long-term investment horizons make them well suited to be a key funding source for private capital in Africa.

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## A Contemporary View: Private Capital in Africa at Present

Africa's private capital landscape underwent its most significant period of growth and metamorphosis between 1990 and 2010. This section of the report investigates the evolution of the ecosystem, profiling the changes in geographic, strategic, sector and asset foci of the industry's founding fathers and earliest adopters. Finally, this section concludes with a deep dive into the profile of funds, fund types, and investment vehicles that can be found in Africa's private capital industry at present. It begins with a discussion of both established and emerging fund structures employed by Africa-focused fund managers, before mapping the emergence of and services provided by fund administrators that cater to this growing cohort of capital allocators.

## Profile of Funds in Africa<sup>7</sup>

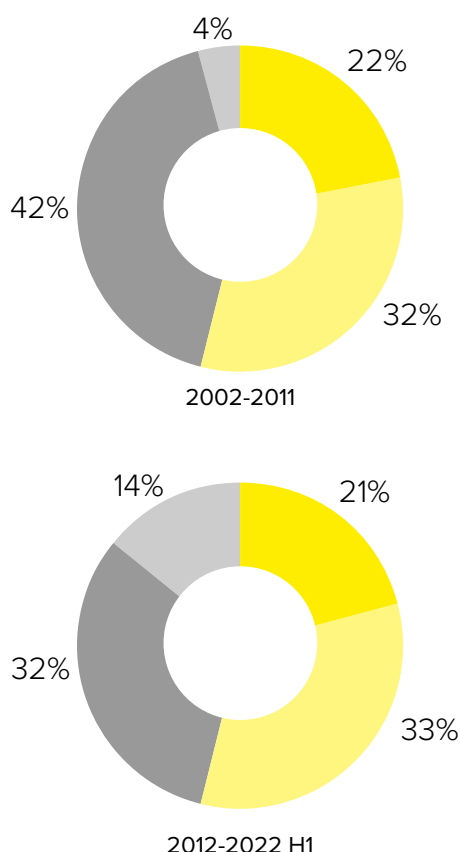
### Geographic Focus

Regional funds outside of Southern and North Africa begun to emerge from the mid-1990s. West African private capital funds first appeared when the likes of Cauris Management, African Capital Alliance and Mustard Capital Partners were established, while East Africa started receiving fund manager attention with the establishment of Fusion Capital and Kibo Capital Partners. From the early 2000s, some country-specific fund managers such as Venture Capital Botswana (2002), Pearl Capital Partners in Uganda (2006), Morocco's Azur Innovation Management (2008) were established. Overall, most Africa-focused private capital funds continue to have a Sub-Saharan or regional geographic focus, while country-specific funds have also increased in volume in recent years.

### Strategy Focus

With the exception of Ethos which had a dual private equity and private debt strategic focus, **a majority of Africa's earliest indigenous fund managers from the late 1980s to the early 1990s were principally focused on private equity.** Given the specificity of the market and the nature of investable assets, African private equity was driven by growth capital strategies to finance the growth of established small and medium enterprises. Growth capital accounted for 60% of the forecast allocation of private equity fundraising between 1992 and 2012<sup>8</sup>. Thereafter, more funds with either a combined growth and buyout or explicitly buyout strategic focus emerged, as African investors increasingly aligned their investment strategies with the strong demand for capital in the middle market.

FIGURE 3: **Geographic Focus of Private Capital Funds in Africa, 2002-2022 H1**



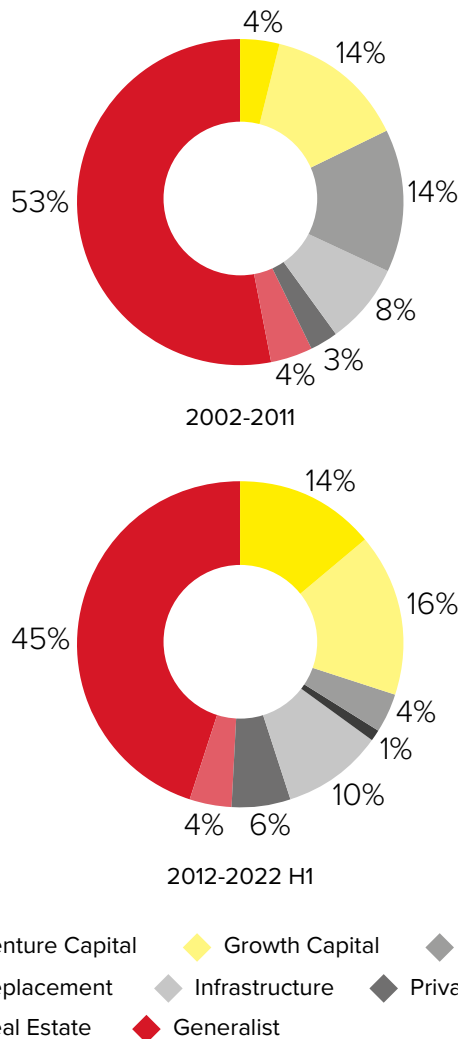
◆ Pan-Africa   
 ◆ Regional   
 ◆ Country Specific  
◆ Sub-Saharan Africa

Source: AVCA

Only final closed funds that focus solely on Africa or have an allocation to Africa alongside a broader emerging markets investment mandate are included in this analysis. Funds with a global investment remit that invest in Africa are excluded.



**FIGURE 4: Investment Stage Focus of Private Capital Funds in Africa, 2002-2022 H1**



Source: AVCA

Unlike private capital funds in developed markets where private debt is a popular alternative investment asset, most private capital funds in Africa are equity funds which occasionally have a small portion of debt in their portfolio as a way to diversify assets. Nevertheless, private debt is a growing subset of the market. More private debt fund transactions are taking place in Africa’s private capital ecosystem, in addition to those led by development finance institutions and multilateral development banks, which have historically led the sector<sup>9</sup>. Although some mezzanine and pure debt structures can be found, there remains a need for more debt structures (namely senior and distressed debt) and greater geographical diversification of the asset class.

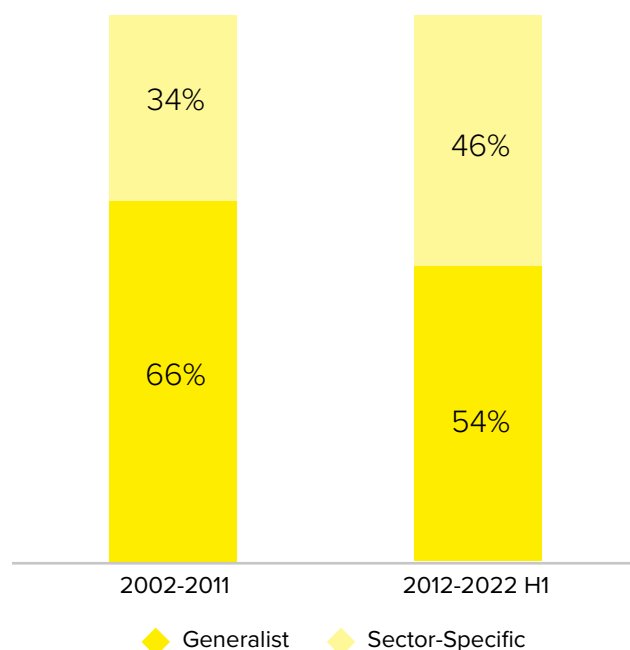
### Sector Focus

Private capital funds with a sector-specific investment focus have seen a remarkable growth in Africa in recent years as seen in Figure 5 below. The current

predisposition towards raising sector specific funds was not always the case in Africa’s private capital ecosystem, which in its infancy favoured multi or sector-agnostic approaches. Although fund specialisation becomes apparent in the early years of the industry’s development, it only begins to corner the market from 2010 onwards. Illustratively, sector-specific funds accounted for 59% of private capital fundraising in 2021, up from a historical average of 52%<sup>10</sup>. This indicates that with the maturation of the African private capital industry, fund managers are increasingly adopting specialised investment strategies in sectors presenting significant commercial opportunity. This trend will likely persist in the long term as more emerging fund managers successfully deploy and exit their maiden funds and raise follow-on funds, in the process refining their investment strategies to make calculated, not sporadic, investments across key sectors of investor interest. Congruent to the specialisation of private capital funds has been the surge in venture capital fund managers coming to market, which disproportionately favour sector-specific investment approaches.

Sector-specific fund managers in the late 1980s and early 1990s were primarily focused on Infrastructure, Agriculture (particularly primary agriculture projects) and Banking<sup>11</sup>. More recently, funds raised are now channelled towards Financial Services (including Fintech), Information Technology, Infrastructure (particularly projects within the Communication Services and Transport industries) and Renewable Energy, with increasing consideration being given towards climate-resilient assets and sectors<sup>12</sup>.

**FIGURE 5: Sector Focus of Private Capital Funds in Africa, 2002-2022 H1**



Source: AVCA

## Profile of Fund Structures in Africa

### Traditional Fund Structures

**Most private capital fund managers in Africa are structured as partnership** which entails a General Partner (GP) as the fund manager, and Limited Partners (LPs) as the fund's investors. This fund structure allows the investors to avoid a double taxation, since partnerships are not taxed as entities, and taxes are administered at the individual investor level.

**A Limited Liability Partnership (LLP) is another structure adopted by private capital firms in Africa.**

LLPs are hybrid structures, combining the characteristics of both a company and partnership. This structure is available in major jurisdictions in Africa including Mauritius, South Africa, Morocco, Ghana, Nigeria, and Rwanda.

**Some private capital firms and family offices in Africa are also structured as Bewind or Vested Trusts.**

Under this system, which is relatively uncommon outside of South Africa, the ownership of the underlying asset is vested with the beneficiaries while the trustee manages the investment on behalf of the beneficiaries.

**Finally, Master-Feeder funds are relatively common fund structures utilised by Africa-focused private capital fund managers.**

This approach sees a Feeder fund acting as a pooling vehicle for certain groups of investors, which then injects this capital into the Main or Master fund. Although often structured as limited partnerships, Master-Feeder fund structures can also make use of a combination of corporate entities including companies, limited partnerships and/or limited liability companies<sup>13</sup>. Master-Feeder funds are mostly used when groups of investors, depending on their respective jurisdictions, have specific tax or regulatory requirements that cannot be accommodated through a traditional single main Fund. In South Africa, Master-Feeder funds are used by investment managers for cross-border investment arrangements. Subject to the country's exchange control and tax regulations, a feeder fund invests into a master fund that is invested offshore.

It is worth noting, however, that some fund managers of single country funds that are investing capital on behalf of both international and domestic investors are opting out of the Master-Feeder structure in favour of parallel funds. In Nigeria, an increasing cohort of private equity fund managers are raising Naira denominated parallel investment vehicles to attract capital commitments from local pension funds. This is because pension funds are no longer comfortable with dollar commitments to private equity funds, given the historical impact currency devaluation has had on the Naira value of their commitments; as well as the more



**Most private equity fund managers in Africa are structured as partnership**

recent difficulty in sourcing dollars to meet capital call obligations<sup>14</sup>. The first Nigerian private equity firm to raise a parallel vehicle was African Capital Alliance in 2011, to accommodate commitments from non-closed pension fund administrators into their *Capital Alliance Private Equity III*.


### Emerging Fund Structures

**Permanent Capital Vehicles (PCVs)** are a new structure being adopted with increasing frequency by private capital firms. Although the structure is still yet to be popular in Africa, it offers a competitive advantage to jurisdictions providing it to investors. Unlike the partnership structure that involves raising funds within a short window (typically 12-18months), PCVs allows for several rounds of fundraising over an indefinite or unlimited time. In the same vein, PCVs enable private equity firms to benefit from the full growth period of the underlying investment by removing the pressure to exit at the culmination of the fund's investment horizon. An example of a private equity firm structured as a PCV is TLG Capital, which launched the *TLG Credit Opportunities Fund* in 2016 and the *TLG Africa Growth Impact Fund* in 2021, both anchored by the firm's permanent capital vehicle TLG Africa.

In some cases, private capital firms may establish **Special Purpose Vehicles (SPVs)**. Primarily used to isolate financial risk, for project financing, or asset transfer, a SPV is a stand-alone legal entity or subsidiary with its own assets and liabilities. Usually, they are created to achieve the temporary goal of the sponsoring organisation.

While they have historically oscillated in and out of favour by private investors globally, activity from **Special Purpose Acquisition Companies (SPACs)** in developed markets was particularly buoyant in 2020 and 2021 and became an increasing topic of interest for private equity investors in emerging markets. SPACs are shell companies with no existing business operations, established as investment vehicles to raise capital from

investors based on the expertise and reputation of the manager. The first SPAC to list in Africa belonged to Capital Appreciation Group, which listed on the JSE in 2015 and successfully completed its viable acquisition in 2017. Hulisani Limited also listed on the JSE in 2016 as a SPAC specialising in renewable energy investments, acquiring its first viable asset 11 months later thereby converting its listing as an investment entity<sup>15</sup>. In Africa, SPACs have also been used as an exit avenue, enabling private companies to raise capital during their transition to public market. An example is the Egyptian ride-sharing startup *Swwl*, which listed on Nasdaq in March 2022 through a merger with Queen's Gambit Growth Capital, a U.S. women-led blank check company at a valuation of US\$1.5 billion.



**Protected Cell Companies were established in Guernsey and originally conceived for use by family offices and (re) insurance companies**

Finally, while nascent, **Protected Cell Companies (PCCs)** have found a multitude of applications as an investment fund vehicle due to their versatility and unique legal structure. Also referred to as segregated portfolio companies, PCCs were established in Guernsey in 1997 and were originally conceived for use by family offices and (re)insurance companies<sup>16</sup>. They have since found their way into many jurisdictions and were first introduced in Africa in 1999 with the passing of the *Protected Cell Company Act* in Mauritius. More recently, the Law Governing Companies in Rwanda was amended and enacted in 2021 to accommodate PCCs, as part of a series of investment friendly restructuring of national legal and regulatory structures by the Kigali International Financial Centre. Cell companies have become increasingly popular fund vehicles favoured by close-ended private equity funds and funds-of-funds because of their capacity for legal segregation and inbuilt 'ring-fencing' mechanisms<sup>17</sup>. Notably, this structure also lends itself to private capital investors looking to invest outside a fund structure, on a co-investment or 'deal-

by-deal' basis. This is apt for Africa's venture capital landscape at present, given that an increasing number of projects are being financed outside the traditional GP-LP fund space. Instead, deal-by-deal activity has risen, as individual groups, family offices and corporations invest in mid to late-stage funding rounds with large ticket sizes. In this evolving context, protected cell companies can be used as vehicles to structure a series of distinct private equity, venture capital or real estate transactions, enabling direct investors on the continent to conduct due diligence on individual transactions without relying on a fund manager. The flexibility of the PCC structure also enables investors to opt in/out of individual deals based on their sector, geography and deal size preferences, and also vary their capital commitments on a deal-by-deal basis depending on their risk appetite or available dry powder at the time<sup>18</sup>.

## Profile of Fund Administrators in Africa

A major party that supports the work of private capital firms are third-party fund administrators. Fund administrators have a critical role to play to ease the legal and administrative processes associated with establishing private capital funds. Generally, most private capital firms - including Africa-focused fund managers - have limited in-house resources to carry out administrative and non-core operational functions. As such, this necessitates an outsourcing of these operations to fund administrators given the heavy administrative and reporting burdens of investor expectations. Fund administrators provide a host of necessary services, including facilitating fund expenses, providing asset custodial services, ensuring compliance with regulation, performing fund accounting and asset values calculations, providing capital call management, calculating waterfall and managing distribution to investors. By outsourcing these and other fund administration functions, fund managers then have increased capacity to focus on internal portfolio management.

**The majority of fund administrators servicing Africa (often alongside other regions) are primarily headquartered in offshore jurisdictions, chiefly concentrated in North America and Europe<sup>19</sup>.** Examples of administration and custodial firms with a global service provider remit, but a robust presence or operation in Africa, include Trident Trust, Sanne Group and Apex Group. **Fund administrators with a sole or predominant focus on service provision for African markets tend to be clustered in South Africa and Mauritius, which also host the continent's oldest and well-established financial centres.** Notable examples include Axis Fund Services, Adanson Management

Services, and BTG Trust and Corporate Services (all headquartered in Mauritius) as well as Curo Fund Services, Maitland Group, and Prescient Fund Services (all headquartered in South Africa). Onshore providers of fund and trusts services for Africa-focused private capital fund managers are emerging with increasing frequency outside these two financial poles, such as Zilla Capital (Egypt); Bora Capital Advisors (Ghana), and CPF Financial Services (Kenya).

**With the rapid proliferation of Africa-focused private capital funds in recent years, African domiciled fund administrators are concurrently expanding to other markets on the continent to meet the rising demand for their services.** An example is *Axis*, which is headquartered in Mauritius but later expanded to the Seychelles and South Africa. Another is *DTOS*, also headquartered in Mauritius but later expanded throughout East Africa (to Kenya and Uganda) and to the United Arab Emirates, recognising its increasing prominence as a gateway to invest in Africa. Similarly, some fund administrators in developed markets have expanded their operational reach to Africa. An example is *Maitland Fund Services*, which was founded in Luxembourg in 1976 but later opened another office in South Africa through the acquisition of *Finsource* in 2005. Additionally, given the speed with which established private capital firms in Africa are launching follow-on funds, and the increasing need for specialisation and customisation with these follow-on funds, fund managers are increasingly seeking fund administration services at earlier stages of the fund lifecycle. It has become relatively commonplace for fund managers to engage the services of third-party fund managers while contemplating the early stages of their fund structure, rather than once the fund's capital and investment priorities had already been established, which was previously standard practice<sup>20</sup>. Accordingly, fund administrators servicing the African market have expanded their service offering beyond traditional fund accounting and registrar activities to include fund structuring; registration and licensing; regulatory compliance and investor due diligence; and connecting fund managers with appropriate channel partners (such as counsel, auditors, tax accountants and placement agents).



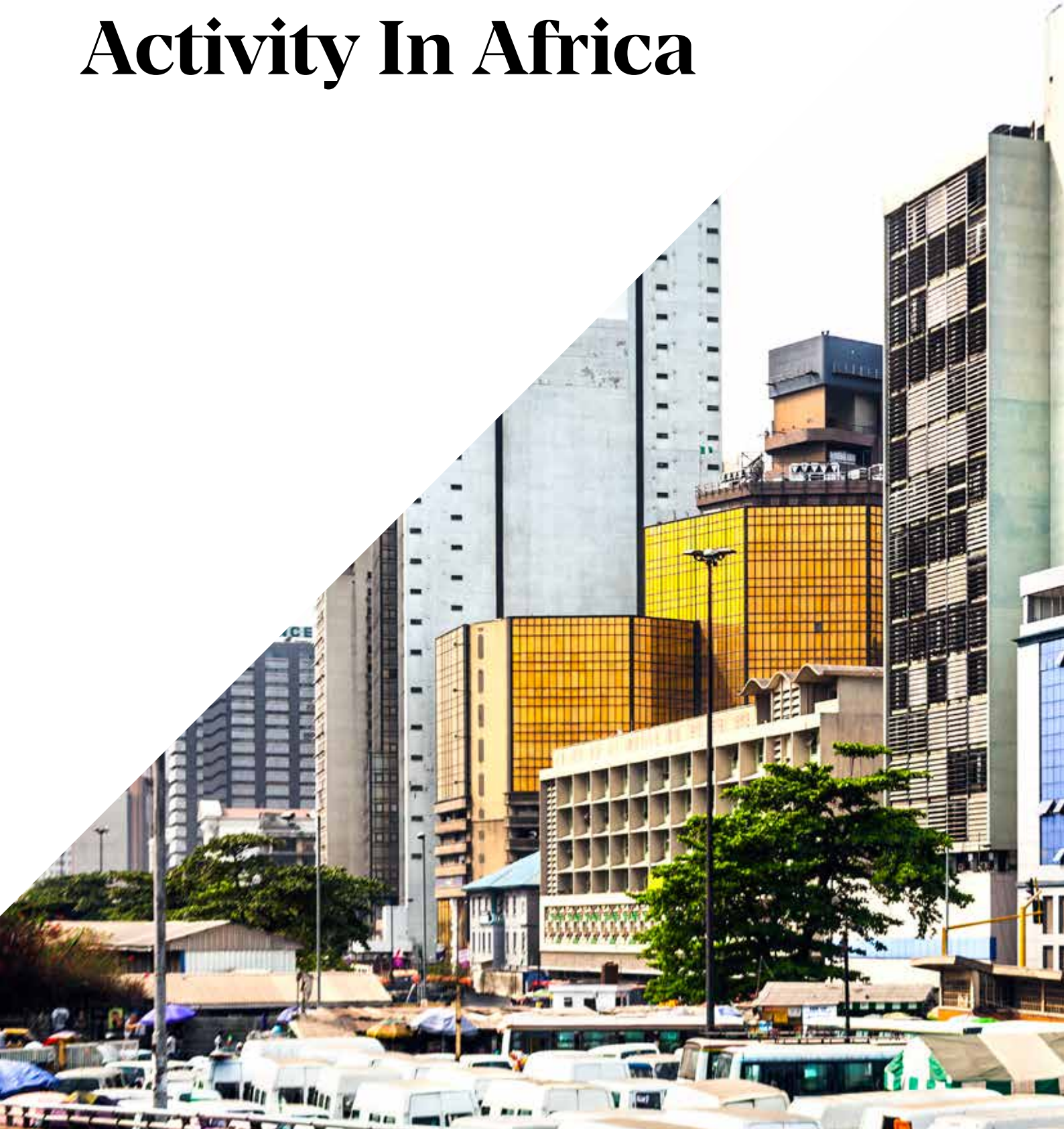
**With the rapid proliferation of Africa-focused private capital funds in recent years, African domiciled fund administrators are concurrently expanding to other markets on the continent to meet the rising demand for their services.**

The maturation of Africa's private capital ecosystem has also required **fund administrators servicing the market to invest in technology-enabled solutions to meet the dynamic needs of fund managers and investors in the 21st century**, that are adopting an increasingly sophisticated range of investment tools and strategies. Data and technology solutions are being harnessed with increasing frequency to improve the efficiency, accuracy, and competitive advantage in fund administration. An example is *Curo Fund Services*, a South African investment administration services provider, which joined *Temenos Multifonds*, a global accounting platform, in 2021. The *Temenos* platform is expected to simplify *Curo's* architecture, enable automated processing and improve administrative efficiency<sup>21</sup>. The *TMF Group*, a multinational provider of critical administrative services, is another fund administrator that has deployed digital solution to improve client experience.



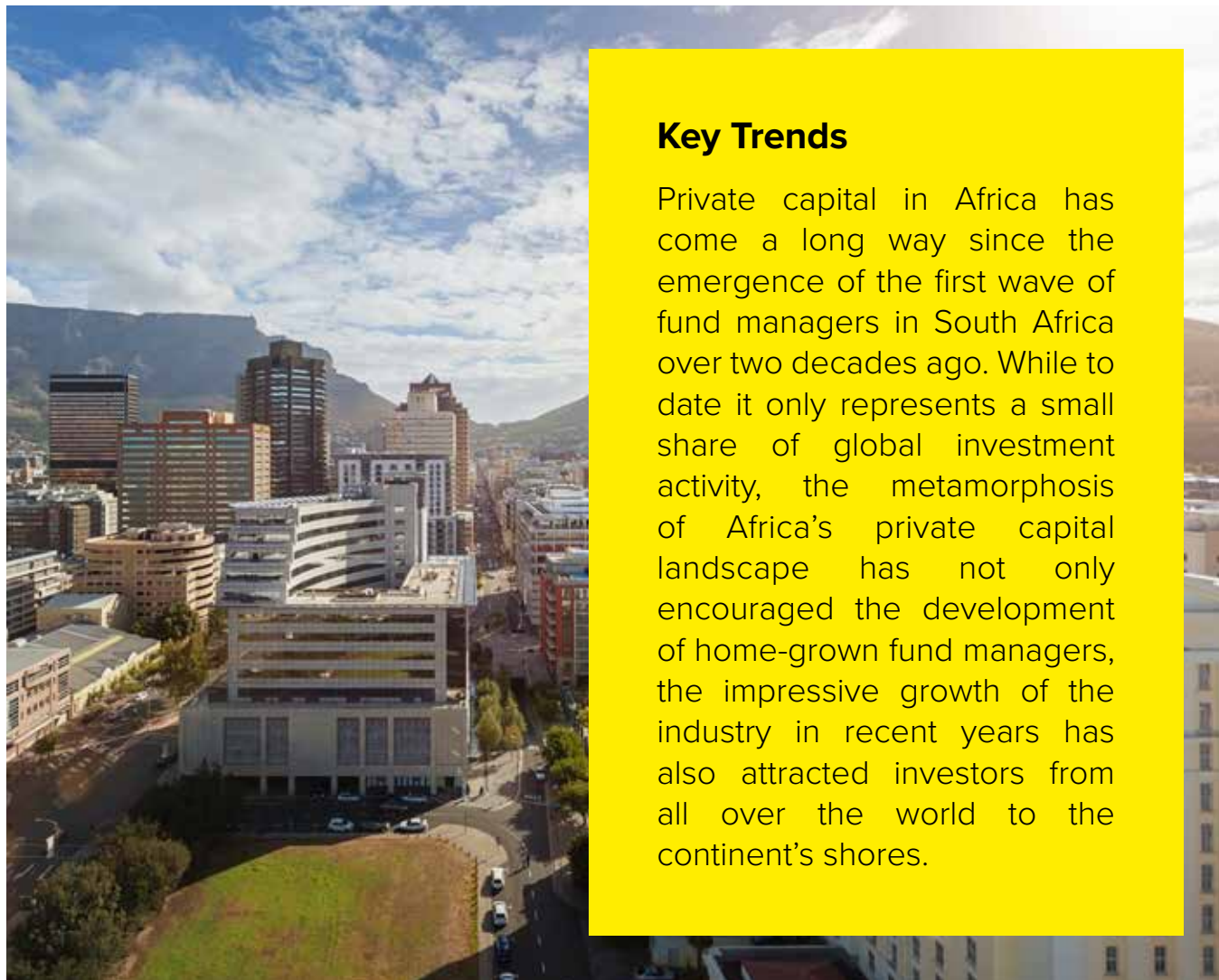
**2**

# **Overview of Private Capital Activity In Africa**



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# Evolution of Private Capital Activity in Africa



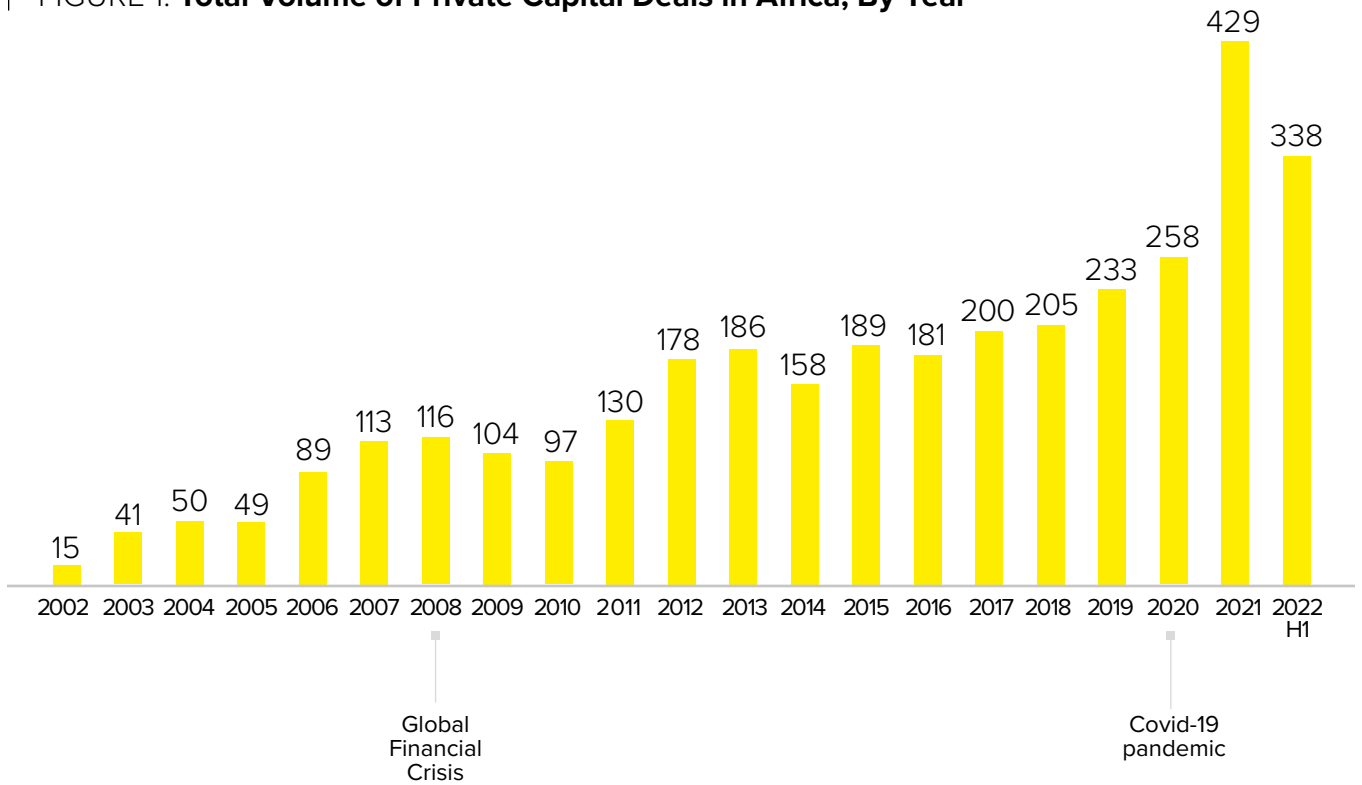
## Key Trends

Private capital in Africa has come a long way since the emergence of the first wave of fund managers in South Africa over two decades ago. While to date it only represents a small share of global investment activity, the metamorphosis of Africa's private capital landscape has not only encouraged the development of home-grown fund managers, the impressive growth of the industry in recent years has also attracted investors from all over the world to the continent's shores.

No stranger to crisis and volatility, Africa's private capital industry has made significant achievements and continued to grow in adverse conditions, demonstrating remarkable resilience to exogenous shocks. Neither the 2007-2008 global financial crisis nor the unprecedented Covid-19 pandemic overturned the high growth trajectory of investment activity on the continent. However, while the industry can, and has, shown itself capable of overcoming uncertainty and withstanding macroeconomic crises, several reasons contributed to its tenacity. Specifically, in the aftermath of the global financial crisis, several major institutional players increasingly turned their attention to Africa and other emerging markets to achieve levels of growth that were not possible to attain elsewhere<sup>22</sup>. Additionally, the strong investment activity during the

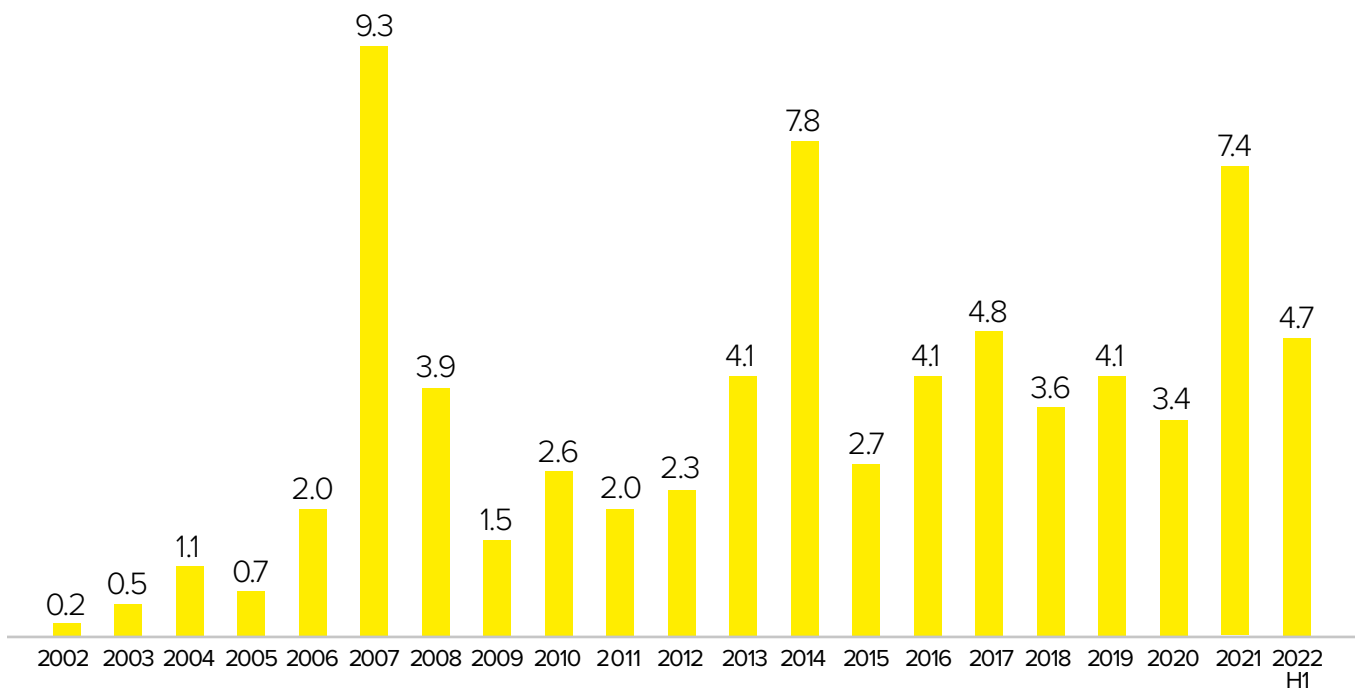
Covid-19 pandemic was driven by deals in technology-enabled companies leveraging digital innovation to provide access to much needed goods and services, whose immediate accessibility was interrupted with the introduction of containment measures by national authorities. The industry's ability to navigate periods of both continental and global macroeconomic turbulence is also down to the hands-on engagement of Africa-focused fund managers, who have long prioritised not only financial support for their portfolios but also having a transformative impact in terms of value creation. As a result, the volume of private capital deals in Africa, which has maintained an upward trend over the last 20 years, reached a peak of 429 investments in 2021 driven primarily by venture capital investments in early-stage companies.

FIGURE 1: **Total Volume of Private Capital Deals in Africa, By Year**



Source: AVCA

FIGURE 2: **Total Value of Private Capital Deals in Africa, By Year, US\$bn**



Source: AVCA

2022 H1 refers to the first half of 2022



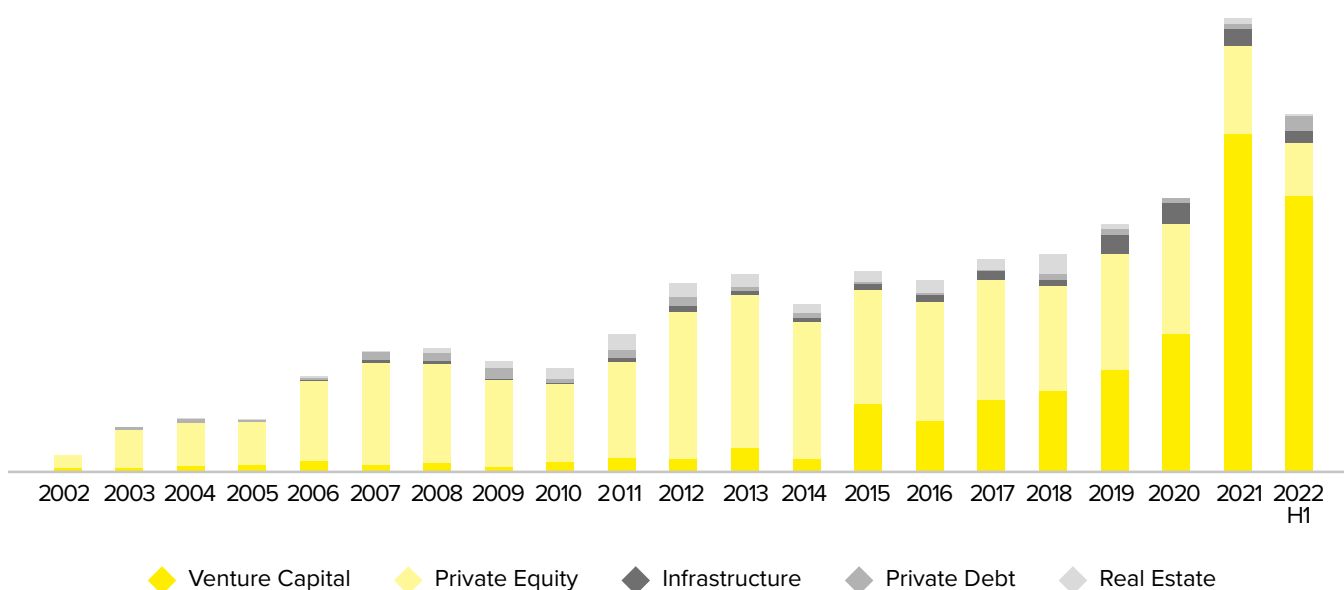
## Strategy Focus

Until recently, private capital in Africa developed in tandem with the private equity industry, which absorbed the vast majority of investments in the ecosystem (see Figure 3). Private equity investments in Africa were chiefly in the form of growth capital given the nascency of the industry alongside the continent's demographic trajectory, which jointly encouraged investors to adopt strategies that focused on the sustainable expansion of their portfolio companies. Overall, private equity investments have attracted over half (54%) of all investments recorded on the continent since 2002. However, these investments have recently experienced a notable drop in their share of total deal volume, influenced by the exponential growth of Africa's venture capital industry. **The tremendous growth of venture capital investment activity, which timidly started at the beginning of the previous decade, reached its peak in 2021** with a total of 319 early-stage deals being reported (see Figure 3). The rising tide of venture capital in Africa continued in the first half of 2022, which saw a total of 445 venture capital

investments take place on the continent. Notably, the expansion of Africa's venture ecosystem, particularly in the last two years, has served as a buffer or insulation layer for the entire private capital ecosystem, leading its growth during times of global uncertainty and extreme macroeconomic headwinds. Illustratively, since 2021 large venture capital investments accounted for 75% (equivalent to US\$6.7bn) of the total private capital deal value reported between 2021 to 2022 H1.

Furthermore, **the evolution of the industry brought additional financing instruments to the forefront.** The relative illiquidity of African stock exchanges along with the risk-averse tendencies of many African banks and financial institutions have historically presented significant challenges for businesses seeking funding. Private sector financing instruments evolved to fill this gap, and over time **private debt has emerged as a key component of the industry with an increasing number of investors raising private debt funds.**

FIGURE 3: Total Volume of Private Capital Deals Reported in Africa, By Year & Asset Class

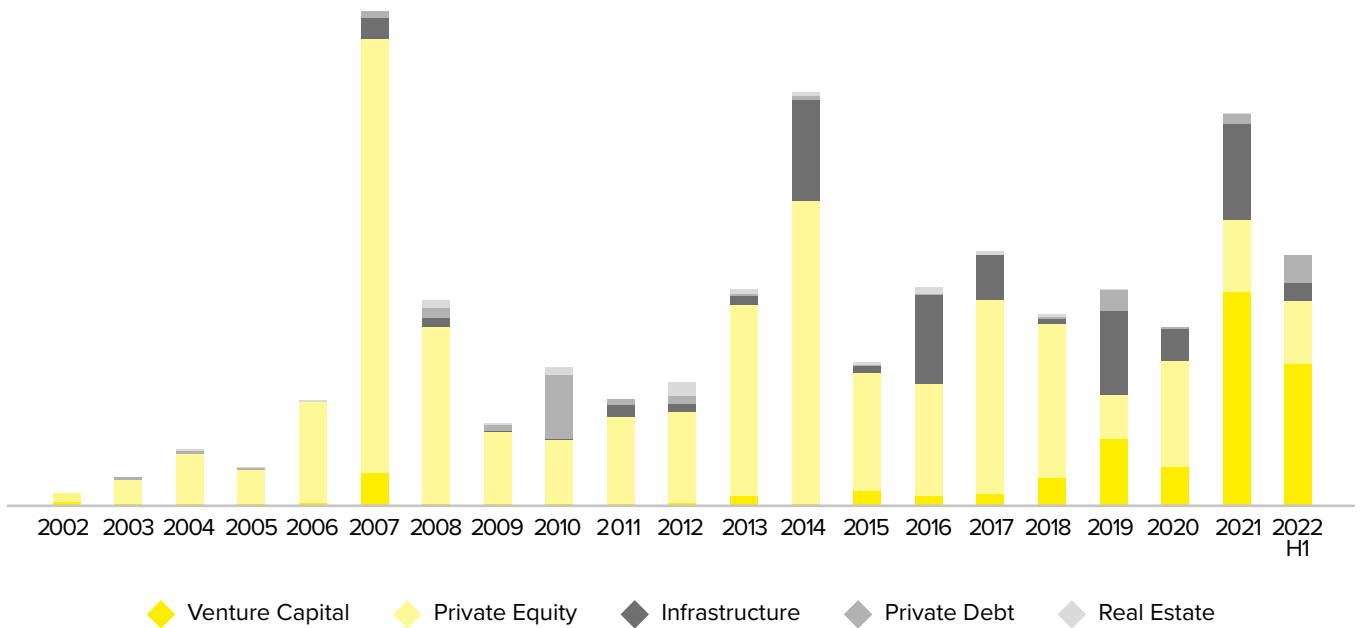


Source: AVCA

Prior to 2014, large private equity investments were the main contributor to total annual investment values. However, this trend started differentiating in **2014 when Africa's private capital industry experienced the first wave of substantially large investments in infrastructure related projects**, which were associated with the expansion of telecoms towers and the development of energy generation projects across the continent. Although the establishment of

an increasing number of funds focused exclusively on infrastructure have strengthened this trend towards large infrastructure investments, their share of total annual deal values has seen notable fluctuations. These variations have historically resulted from the relatively limited number of infrastructure focused funds available on the continent, and the unpredictability that comes along with the time when, and the size at, infrastructure projects will finally reach their financial close.

FIGURE 4: Total Value of Private Capital Deals in Africa, By Year & Asset Class

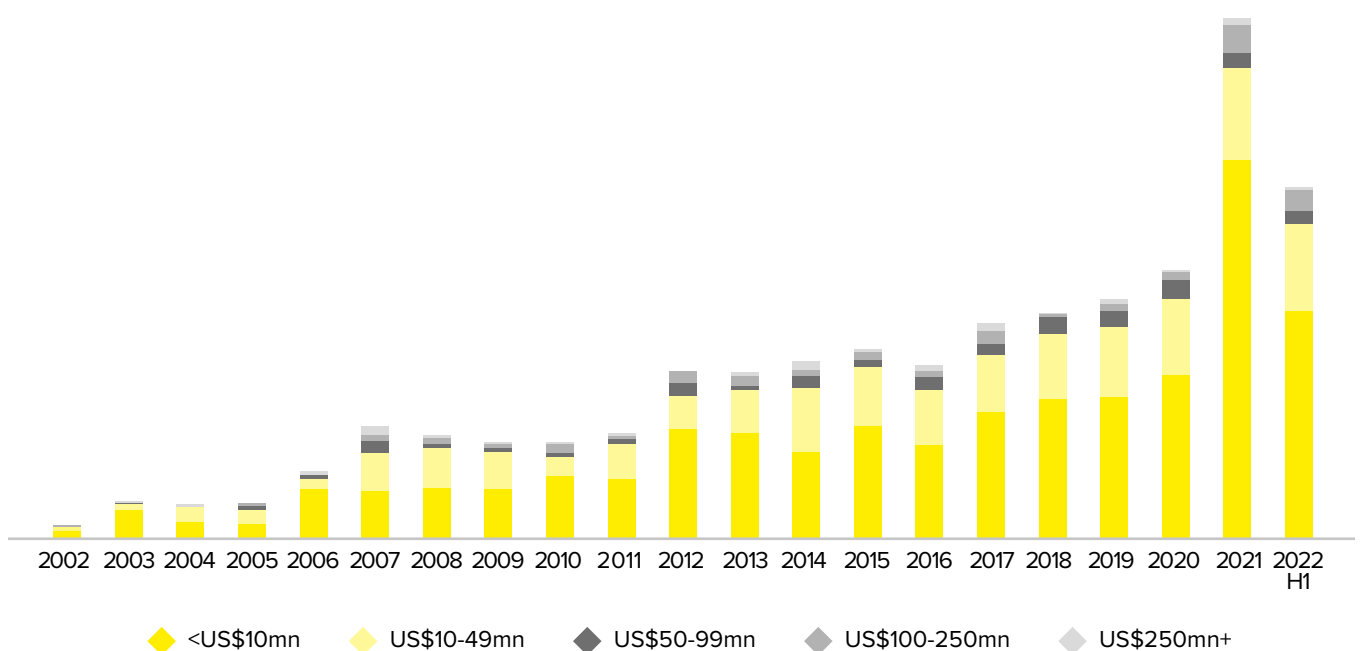


Source: AVCA

**Africa's private capital industry has been focused on supporting small and medium sized enterprises** which constitute the backbone of Africa's economy and account for approximately 90% of all companies<sup>23</sup>. **Accordingly, the majority (61%) of all private capital investments in Africa from 2002 to 2022 H1 were below US\$10mn in size.** Although this has always been

the dominant trend, the increasing number of venture capital investments taking place in recent years has further reinforced the prevalence of deals sized below US\$10mn. This is due to the smaller investment sizes that start-ups often attract, especially in the early stage of their development.

FIGURE 5: Total Volume of Private Capital Deals Reported in Africa, by Ticket Sizes, By Year



Source: AVCA



## Sector Focus

**Private capital fund managers have been investing across a broad range of industries in Africa**, financing companies and consequently sectors that are not captured by African capital markets. The latter tend to be dominated by companies in mining, natural resources, and financial sectors and as such do not fully reflect the range of industries that contribute to consumer-driven economic growth<sup>24</sup>.

New sectors have increased in popularity through the years driven by certain economic, social, and technological developments such as the rise of the African consumer; the transition to a low carbon economy; and technology's role in driving economic development. That said, **Financials – a sector deeply associated with middle-class consumers in Africa – has dominated deal volume across the entire period.** Although investments in Financials have been the dominant trend, there is a remarkable change in the nature of the companies that private capital fund managers support. While historically investors targeted traditional banking service providers and insurance companies, current trends show that investments in financial technology are driving the continued growth of the sector. **Information Technology has also been subject to increasing investor interest and deal flow**, driven by the transformative role of technology and digitalisation in boosting the efficiency and productive capacity of many other industries, with Financials serving as a case in point.

**Other sectors that have experienced an increase in the decade between 2012 -2022 H1 are the Consumer Discretionary and Healthcare sectors.** Although the growth of both sectors are also related to rise of the

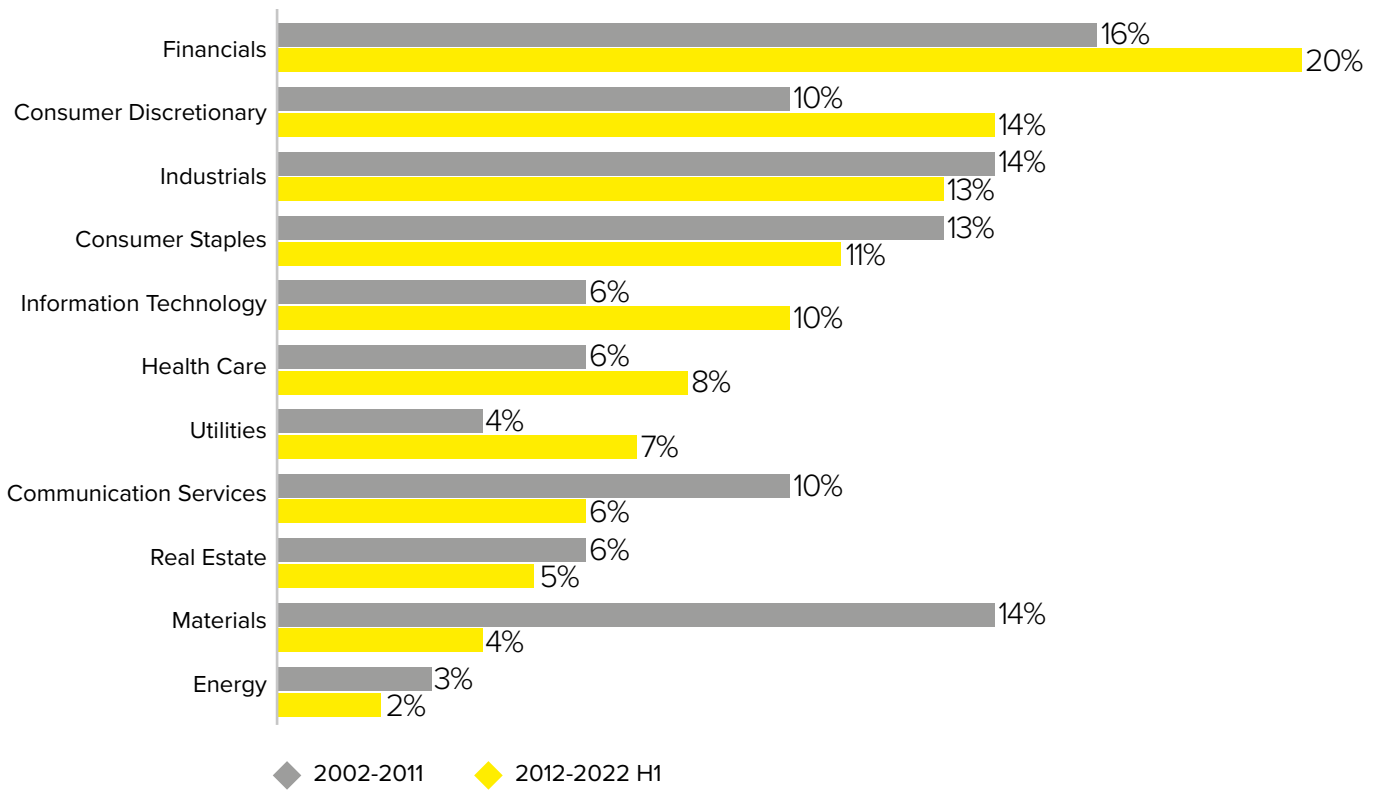
African consumer with growing purchasing power, they also owe their rising popularity to a number of different growth determinants. The Consumer Discretionary sector has benefited from investments in e-commerce and online consumer services providers, which have facilitated increased accessibility and thus consumption of goods and services across the region. On the other hand, the Covid-19 pandemic was a pivotal growth driver for Healthcare. While the Healthcare sector showed steady annual growth prior to the onset of Covid-19, it set the stage for increased private-public investment and co-operation given Africa's already weak and overburdened healthcare systems. At the height of the pandemic, private capital investors pivoted to capitalise on emerging opportunities in defensive sectors, providing the critical infrastructure, pharmaceutical, and supplies that in some cases governments could not.

Finally, the **Utilities sector has also experienced an increase in both private capital deal volume and value.** Investments in renewable energy projects, coupled with the proliferation of new opportunities for private capital fund managers to fill the continent's electrification gap and enable its transition to a low carbon future, are some of the driving forces behind the rise of Utilities. Between 2012 and 2022 H1, **Utilities attracted the largest share of private capital investments by value, owing to the capital intensity of renewable energy projects** which often require substantial investment for their development and operations. Although Utilities represented just 2% of the total deal value in 2002-2011, the sector's increase in share of deals to 19% in 2012-2022 H1 indicates the changing agendas and priorities of investors operating on the continent.



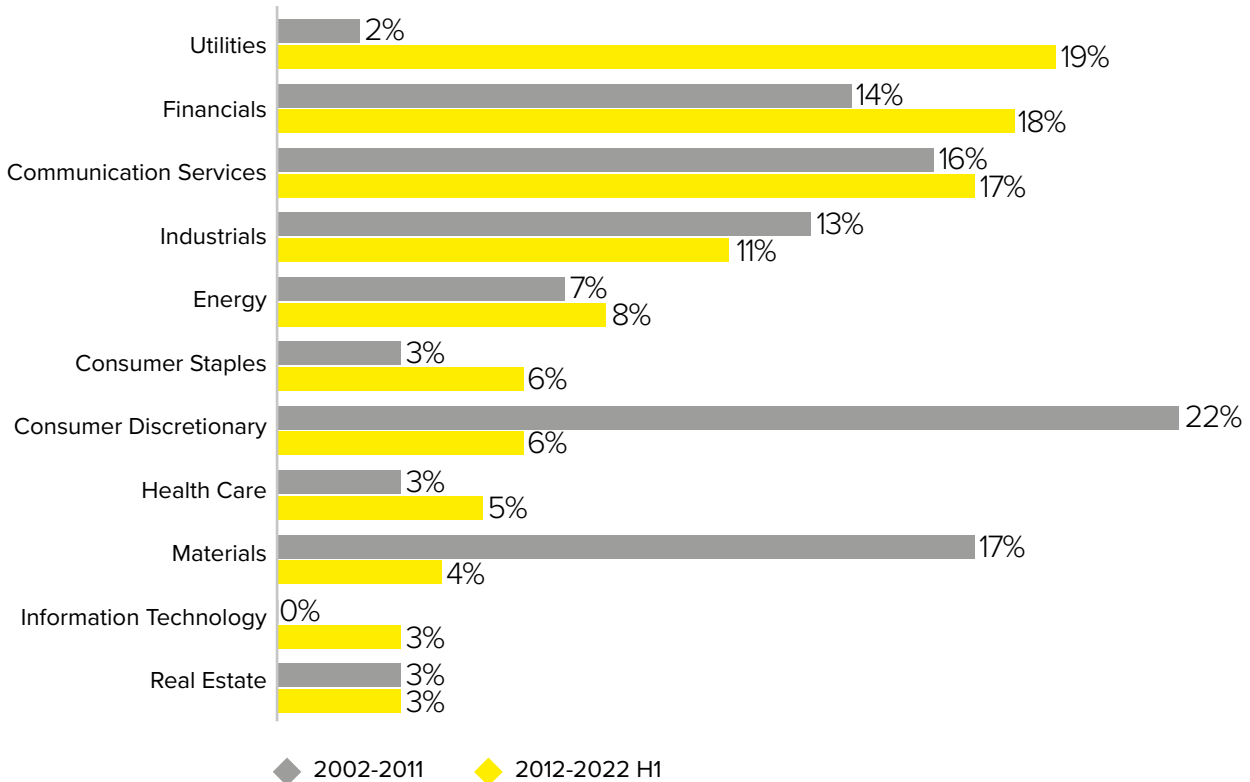
**Financials – a sector deeply associated with middle-class consumers in Africa – has dominated deal volume across the entire period.**

FIGURE 6: Share of Private Capital Deal Volume in Africa, By Sector and Year Groups



Source: AVCA

FIGURE 7: Share of Private Capital Deal Value in Africa, By Sector and Year Groups



Source: AVCA

# Growth Drivers of Private Capital in Africa



**Africa has boasted promising prospects for investors looking to capitalise on the continent's long-term growth fundamentals**

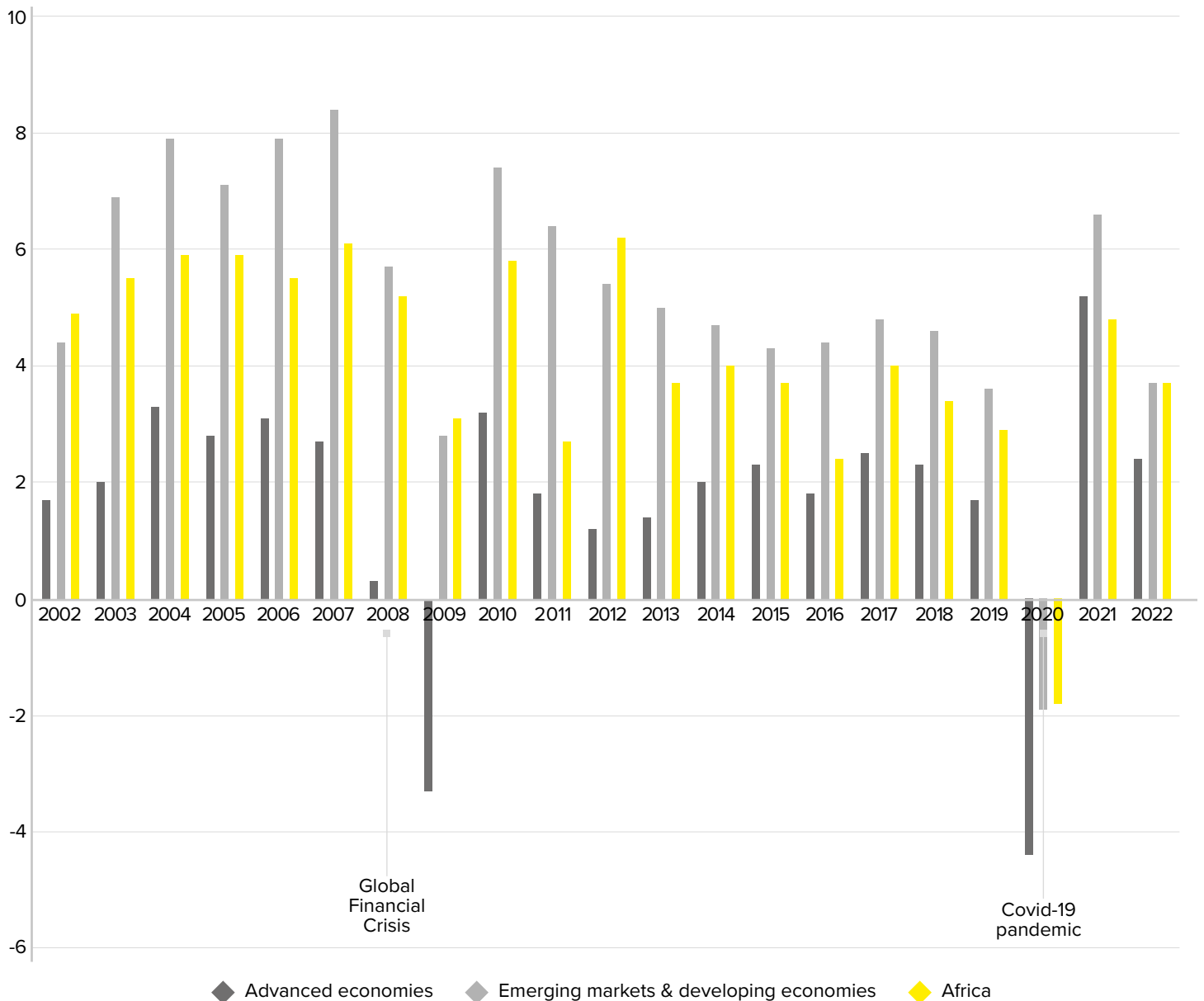
Over the last two decades, Africa has boasted promising prospects for investors looking to capitalise on the continent's long-term growth fundamentals. What was once described as the "hopeless continent"<sup>25</sup> at the turn of the century has since made significant progress across a wide spectrum of economic, political, and social indicators to become one of the last frontiers in the global economy. Although each of the continent's 54 countries has had a unique developmental path and economic trajectory, a host of economic and social reforms initiated by various African governments through the years has set the stage for robust continental growth and the elimination of many traditional market entry barriers. The growth of private capital investment in Africa reflects the changing nature and scope of external flows to sub-Saharan Africa, where foreign direct investment (FDI) has come to eclipse official development assistance (ODA)<sup>26</sup>. 17 African countries recorded receiving more FDI than ODA in 2012, climbing to 26 countries in 2017 as investment activity on the continent continued to rise<sup>27</sup>. According to the UNCTAD's World Investment Report 2022, foreign direct investment to African countries hit a record of US\$83bn in 2021. It is indisputable that the continent's growth narrative has been turning the heads of both international and local investors who have been proved extremely keen on harnessing the continent's potential.

What has been driving the high growth trajectory of Africa's private capital industry? Firstly, **the targeted efforts of African governments in the early 2000s to restore political stability, improve macroeconomic conditions, and undertake microeconomic reforms**<sup>28</sup>.

Specifically, government action to end armed conflict and institute democratic reforms along with the implementation of market-oriented adjustments and microeconomic policies laid the foundations for the "Africa Rising" narrative to form. These structural adjustments aimed at reducing domestic inflation rates, decreasing exposure to foreign debt, cutting budget deficits, liberalising industries and lowering corporate taxes, thus creating the conditions for private capital to flourish.

Secondly, **the continent's relatively strong economic performance coupled with its resilience to global economic headwinds**. Many African economies were expanding at a record pace before the Covid-19 pandemic. For example, Ethiopia and Rwanda recorded some of the fastest growth in the world with an average of more than 7.5% per year over the past two decades<sup>29</sup>. Senegal has also experienced a strong growth with its economy expanding by more than 6% per year between 2014 and 2018<sup>30</sup>, and the country's economy is projected to grow the most in Sub-Saharan Africa at a rate of 8.1% in 2023<sup>31</sup>. In addition to this strong economic growth, Africa has been notably resilient to external shocks (see Figure 8). During the period of the Great Recession (2007-2009), Africa managed to maintain above-average GDP growth of 5.2% in 2008 and 3.1% in 2009. Even the Covid-19 pandemic, which caused an unparalleled shock to the global economy, did not significantly overturn the continent's growth trajectory. While Africa's economic growth saw modest contractions, these were to a lesser degree than the contractions witnessed in emerging and developed markets.

FIGURE 8: Annual percent change of real GDP Growth



Source: IMF

Thirdly, **Africa’s strong demographic dividend is not only a tremendous opportunity for the continent to significantly develop its socioeconomic welfare, but it also presents a unique prospect for investors.** Africa’s population has more than doubled since the turn of the century, creating an infrastructure gap that is largely insurmountable for local governments to bridge alone. Private capital funds have been disbursed to bridge this infrastructure financing gap, concurrently benefiting from the consumer middle class that has emerged from Africa’s exponential population growth, which is projected to reach 1.7 billion consumers by 2030. As it stands, the continent already provides access to a

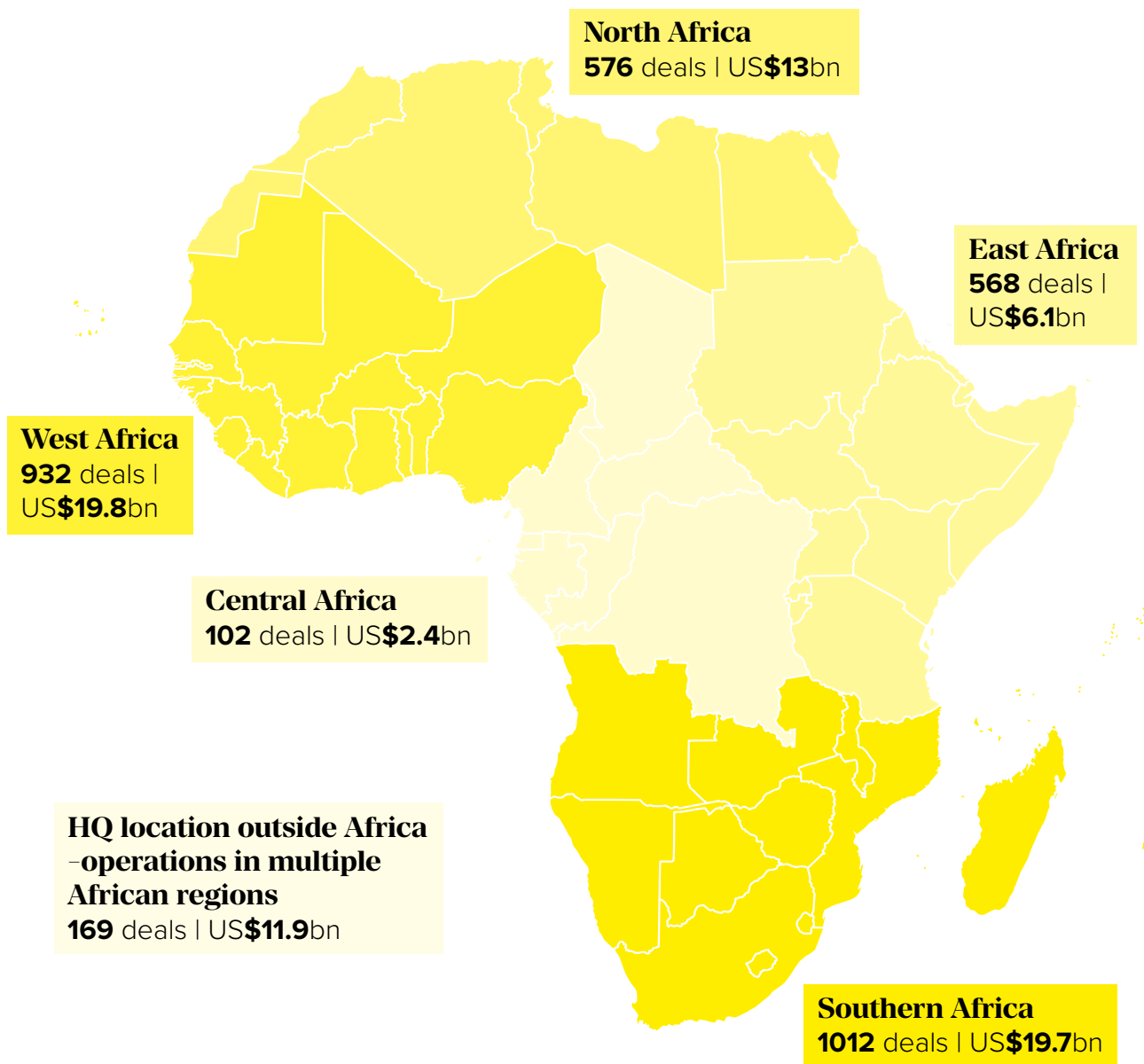
1.2-billion-person consumer-oriented market. Rising income levels along with an increasing demand for goods and services has created a strong consumer class in Africa. Given this already significant and rapidly expanding consumer base, lucrative opportunities for investment, production, and delivery are emerging on the continent. The demographic dividend extends beyond consumerism - as the proportion of skilled labour increases and educational attainment improves across the continent, the result is a surge of human capital needed to further power Africa’s growing businesses and industrial development.

Finally, the **African Continental Free Trade Area Agreement (AfCFTA)**, which came into force in January 2021 to establish the largest free-trade area in the world, is **a strong signal to investors wishing to make the most of an integrated Africa open for domestic and foreign investment.** The AfCFTA consolidates

a market of about \$1.3 billion with a combined GDP of \$3.4 trillion<sup>32</sup>, and its successful implementation enables more regional integration, the development of competitive and resilient regional value chains in African industries, and will significantly raise the continent's share of global trade.

## Regional Spotlights







FIGURE 1: **Volume and value of private capital deals reported in Africa, by region, 2002 – 2022 H1**



Source: AVCA



## Eastern Africa

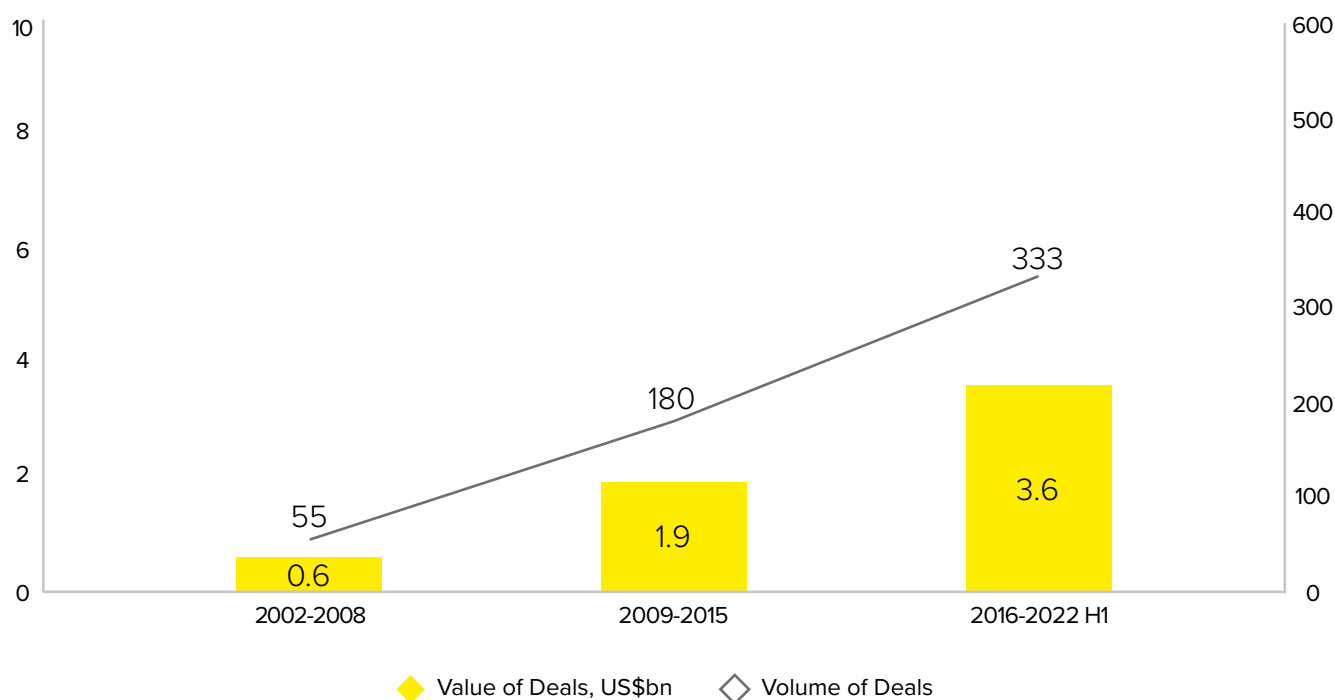
	2002 - 2008	2009 - 2015	2016 - 2022 H1
 <b>Deal Volume</b>	55	180	333
<b>Deal Value</b>	US\$0.6bn	US\$1.9bn	US\$3.6bn
<b>Average Deal Size</b>	US\$22mn	US\$15mn	US\$15mn
 <b>Top Asset Class</b>	Private Equity	Private Equity	Venture Capital
 <b>Most Active Country</b>	Kenya	Kenya	Kenya
<b>Most Active Sector</b>	 Financials	 Consumer Staples	 Financials

**Private capital investment activity in East Africa has been on an upward trajectory since 2002.**

Private capital investment activity in East Africa has been on an upward trajectory since 2002. The diverging scale of opportunities available in the region has increasingly attracted the attention of investors based in Africa and beyond. Private capital investment activity has been steadily rising in the region from a historically low threshold, growing at a CAGR of 9% over the last ten years. In its infancy, **private capital investment activity in East Africa was primarily driven by Pan-African, Sub-Saharan and Regional private equity funds** targeting SMEs that had the potential for strong regional market expansion. However, in **the last six years venture capital deal making has led dealmaking in the region, accounting for 60% of all the investments reported therein.** East Africa's venture capital landscape has gradually matured in recent years, evidenced by the growing specialisation amongst both investors and start-ups and the increasing separation between impact and venture funds<sup>33</sup>. In the past, investing in early-stage companies within the region was largely synonymous with impact investing, but the two have been uncoupled alongside changing narratives around the nature and scope of impact investing.

The value of private capital investments reported in East Africa has notably increased since 2002. While a handful of large investments have caused fluctuations in annual deal values, the median deal size has remained at US\$4mn - driven by private equity and venture capital deals sized below US\$10mn.

FIGURE 2: **Total Volume and Value of Private Capital Deals Reported in East Africa, 2002-2022 H1**



Source: AVCA

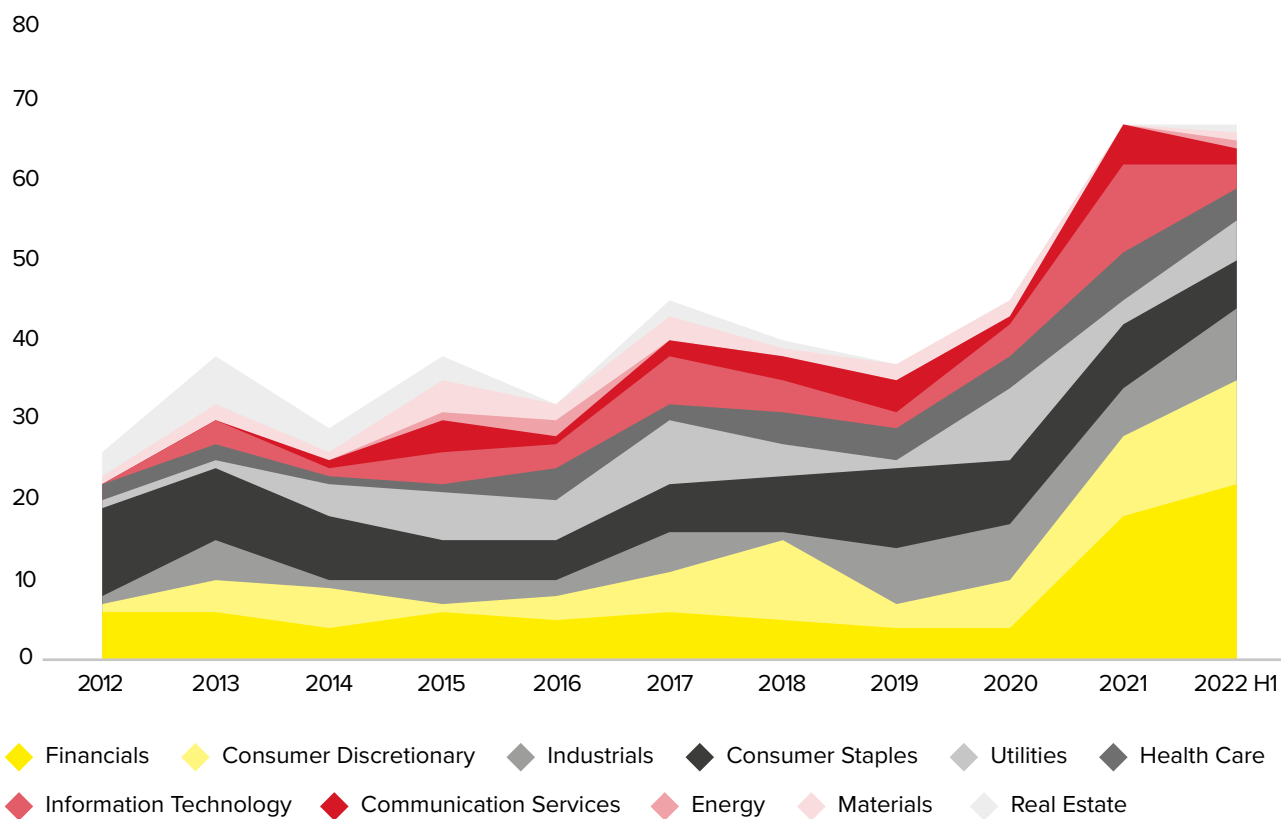
The aftermath of the global financial crisis had an adverse impact on the Financial sector's share of deal volume within East Africa. Additionally, Kenya's mini banking crisis in 2016, when one of the nation's largest banks was unable to meet its financial obligations, further deteriorated investment activity within the sector. However, driven by **a surge of investments in FinTech companies between 2021 and 2022 H1, Financials has recently bounced back to become the most active sector by volume in East Africa.** The success of financial technology in East Africa, which has encouraged foreign and local investment in recent years, can largely be attributed to successful partnerships among value chain players, which have mainly been centred around telco/wallets<sup>34</sup>.

The Consumer Discretionary sector has also been the recipient of increasing deal activity, supported by venture capital investments in companies providing consumer services and e-commerce. On the other hand, investments in the Real Estate sector have experienced the hardest hit through the years. This was due to Real Estate focused funds which initially targeted the region (mainly from 2011 onwards), that did not go on to raise second generation funds.



**Driven by a surge of investments in FinTech companies between 2021 and 2022 H1, Financials has recently bounced back to become the most active sector by volume in East Africa.**

FIGURE 3: Total Volume of Private Capital Deals Reported in East Africa, by Sector, 2012 – 2022 H1



Source: AVCA

**Kenya, East Africa's largest economy with a GDP of US\$110.3bn and a growth rate of 7.5% in 2021<sup>35</sup>, has been the largest market for private capital investment in the region.** The country's regulatory framework, ease of doing business, the openness of its economy along with its high competitiveness due to the quality of human capital, research, and innovation have positioned Kenya as a lucrative investment market both regionally and continentally. Private capital investment activity has grown impressively in Kenya (from just 27 deals in 2002-2008 to 192 deals in 2016-2022 H1), and as such the country has cemented itself as the region's leading investment destination. Given the country's leading position within the East Africa Community (EAC) which provides investors access to a wider consumer market of up to 400 million people<sup>36</sup>, investors have historically used the country as a launchpad to expand their Kenyan investments into other parts of the region and consequently increase their regional footprint.

**Additionally, other countries within the region – such as Uganda, Tanzania, Rwanda, and Ethiopia – have also been on the radar of investors.** At the forefront of the privatisation trend in Africa, **Uganda is the second**

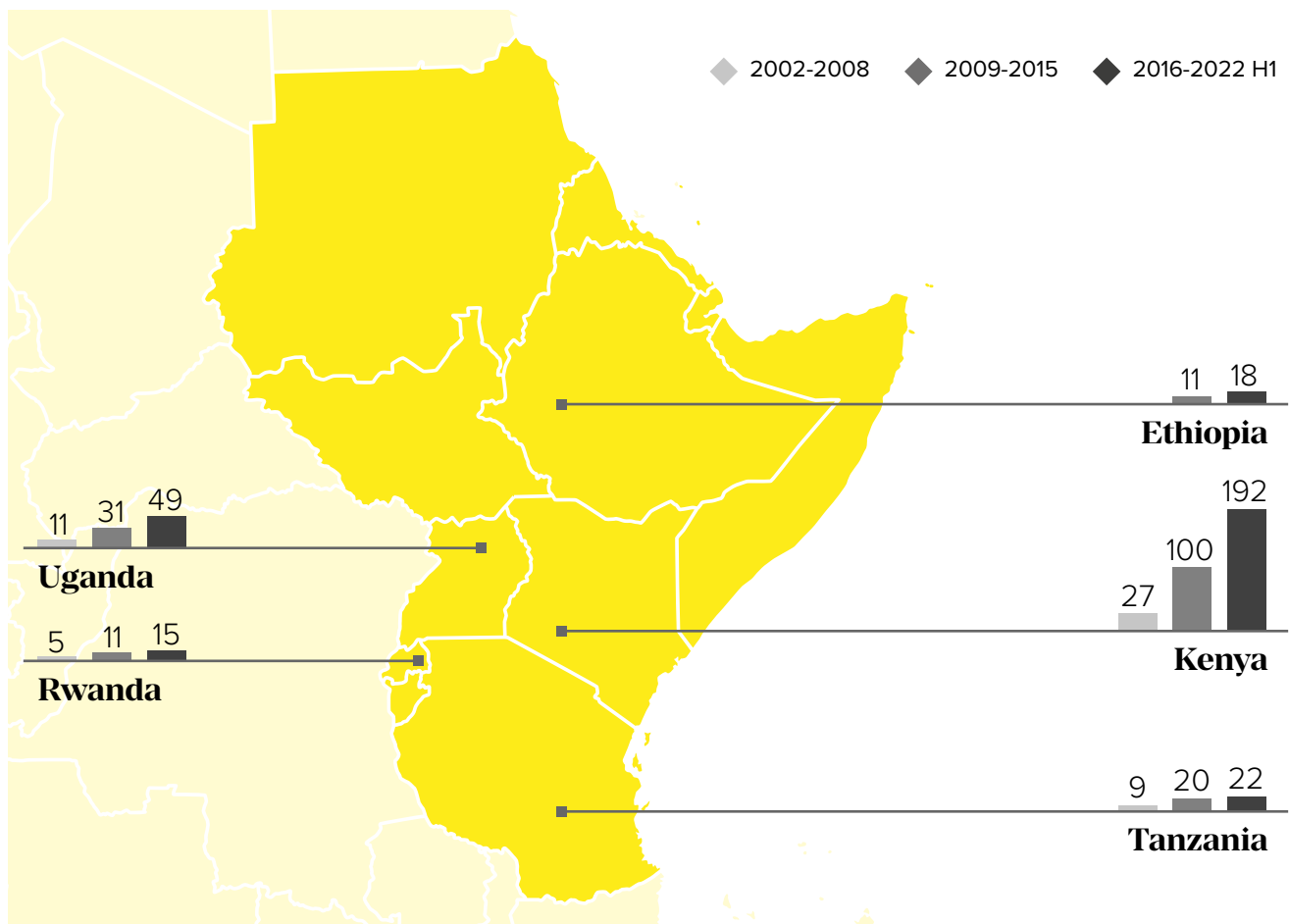
**largest market by investment volume in East Africa** driven by investments in Consumer Staples, Financials, and Healthcare. Moreover, the country's electricity generation industry, which was unbundled two decades ago, has been an enabler of significant investment by major African and international investors in Uganda's Utilities sector.

**Rwanda has enjoyed strong economic growth over the last years, averaging 6.5% a year in the decade leading up to 2021.** This has been accompanied by substantial improvements in living standards, access to services and human development indicators, while poverty has also declined<sup>37</sup>. Aggregate private capital deal volume channelled to Rwanda has also increased, centring around deals in early stage and growth stage businesses. The decisiveness exhibited by the Rwandese government to enable private sector growth by positioning itself as an investment hub will enable the achievement of the country's long-term developmental goals and facilitate a shift away from its public-sector led development model which has shown its limitations.

Finally, **Ethiopia has been among the fastest growing economies in the world. Averaging real GDP growth of 9.5% per year** over the last 15 years, Ethiopia also constitutes the second most populous country in

Africa. Riding on the preceding macroeconomic growth fundamentals, private capital investors began to invest more earnestly in Ethiopia in the early to mid-2010s.

**FIGURE 4: Total Volume of Private Capital Deals in East Africa for the Top 5 Most Active Countries, 2002-2022 H1**



Source: AVCA

## Growth drivers fuelling private capital investment in East Africa

Although private capital dynamics are very country specific, growth determinants which can be applied to most East African countries have fuelled private capital activity across the region. Firstly, **most East African countries have been engaged in privatisation programs for more than two decades now.** For example, the privatisation programme of the Government of Rwanda - dated March 1996 - recognised the private sector as the engine of growth, and established privatisation as one of the key elements in the







Government's economic reform and reconstruction efforts. In Kenya, a committee was formed in 1991 to implement the privatisation process, while in Uganda the Public Enterprise Reform and Divestiture Statute was enacted in 1993 to promote the role of the private sector<sup>38</sup>. These reforms undoubtedly paved the way for both local and foreign investment into the region in the 1990s and continue to be powerful signals to potential investors. For example, in September 2022 Ethiopia passed a landmark decision to open its banking sector to foreign investors as part of the government's economic reform<sup>39</sup>. Secondly, **East Africa fully represents the narrative of "Africa rising"**. The region has been the continent's fastest-growing region in recent years since

it is home to several of the fastest-growing economies, including Ethiopia, Djibouti, Kenya, Rwanda, Tanzania, and Uganda<sup>40</sup>. Thirdly, **the size of the middle class in East Africa has been growing**. In 2020, Tanzania became the latest country in the region to graduate from low-income to middle-income status, joining three of its neighbours in the World Bank's lower middle-income category<sup>41</sup>. Fourthly, **there is an increasing urbanisation in cities across the region** which results in growth in related industries such as housing, retailing

and general consumption. Furthermore, **the increasing level of integration among the countries of the East Africa Community** has encouraged the establishment of a persuasive investment thesis for the region. The East African Community has facilitated intra-regional trade, cross-border investments and provides investors with access to a market of 146 million consumers<sup>42</sup>. Individual markets in East Africa are small in global context, but as a single community and market the region becomes an attractive investment destination.



## Western Africa

	2002 - 2008	2009 - 2015	2016 - 2022 H1
 <b>Deal Volume</b>	111	238	538
<b>Deal Value</b>	US\$2.3bn	US\$9.3bn	US\$8.1bn
<b>Average Deal Size</b>	US\$28mn	US\$44mn	US\$20mn
 <b>Top Asset Class</b>	Private Equity	Private Equity	Venture Capital
 <b>Most Active Country</b>	Nigeria	Nigeria	Nigeria
<b>Most Active Sector</b>	 Financials	 Financials	 Financials





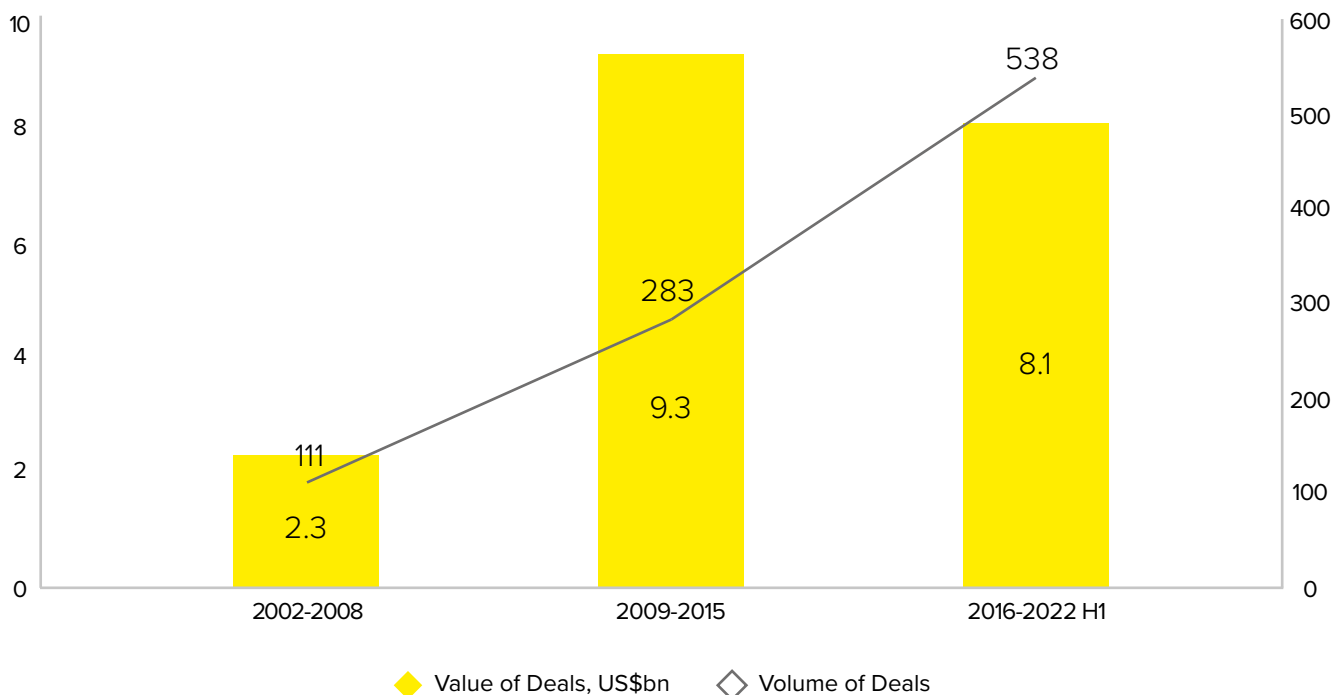
## West Africa is widely seen as a robust market for private capital investments in Africa.

West Africa is widely seen as a robust market for private capital investments in Africa. The region has seen tremendous growth in both the volume and value of investments recorded through the years, attracting an increasing share of overall African private capital activity. **Although historically the region's share of deal volume was the second largest after Southern Africa,**

**West Africa's investment activity exceeded Southern Africa with a total of 538 deals being reported over the last six years.** The increase in deal execution was due to **the number of venture capital investments grew exponentially to a high of 57%, having only accounted for 9% of the total number of deals that took place between 2009 and 2015.** This growth has been largely driven by Nigeria which has evolved into one of the continent's most vibrant start-up investment hotspots, accounting for the largest part of early-stage deal activity in Africa (by country) between 2021 and 2022 H1<sup>43</sup>.

Large venture capital investments in financial technology companies headquartered in the region have significantly contributed to the substantial capital inflow that West Africa has seen recently. Furthermore, large investments predominantly in infrastructure that have been directed to West African companies have also contributed to the significant capital that the region has attracted through the years.

FIGURE 5: Total volume and value of private capital deals reported in West Africa, 2002-2022H1



Source: AVCA

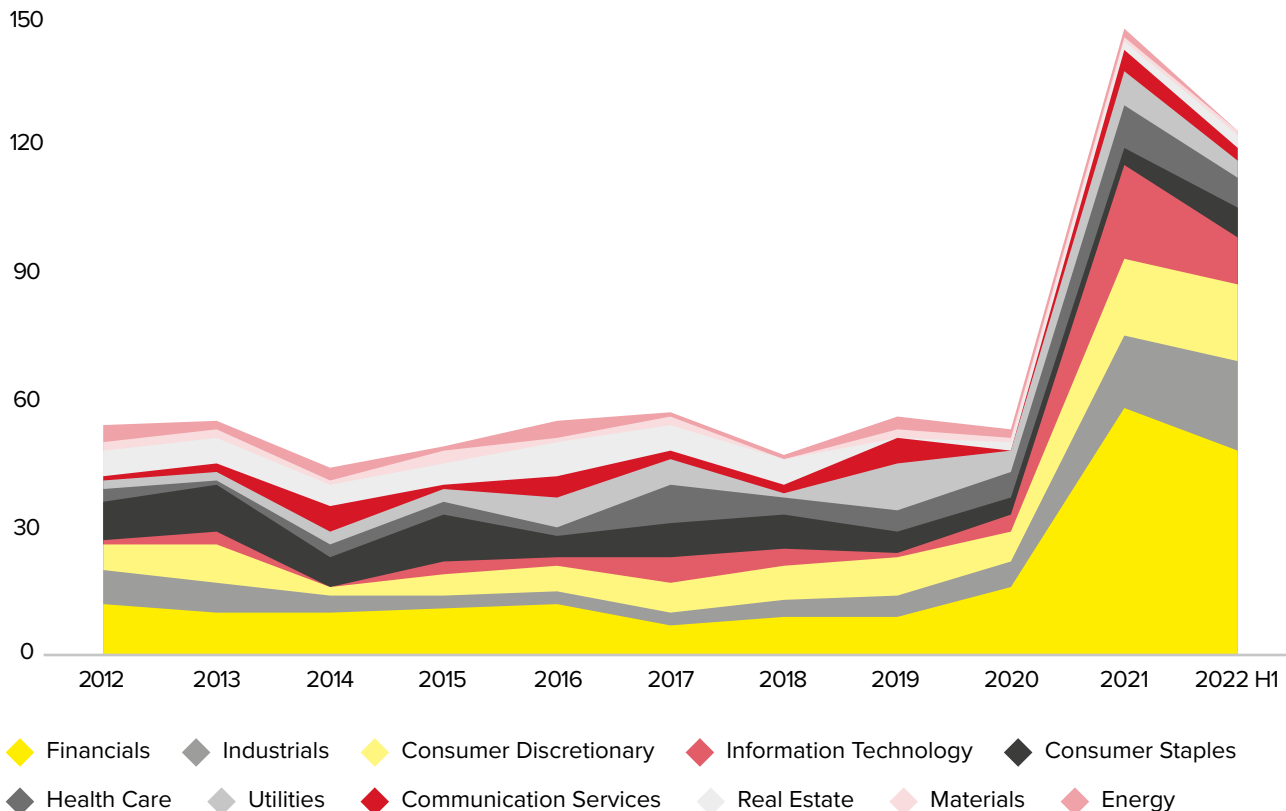
**Financials dominate West Africa's private capital landscape.** Within the financial sector, **investment activity initially targeted traditional banking institutions. However, FinTech proved to be a game changer and a very strong driver for the region's future growth.** The significant increase in the number of

mobile subscribers in West Africa and the tremendous potential for digital businesses providing financial services was a factor that determined the direction of investment activity in recent years. A significant majority of deals (75%) in West Africa's financial sector from 2016 to 2022H1 were in financial technology companies.

Investment activity in West Africa has traditionally been focused in sectors that address the basic needs and services of the region's growing population. Consequently, the Consumer Discretionary, Industrials, Healthcare and Consumer Staples sectors have drawn the bulk of investor attention in the region. For example,

the currency depreciation of some of West Africa's local currencies (e.g., Nigerian Naira) constituted a growth driver for some industries such as consumer goods and agribusiness as there was a significant demand for local products that could substitute exports.

FIGURE 6: Total volume of private capital deals reported in West Africa, by sector, 2012 – 2022 H1



Source: AVCA

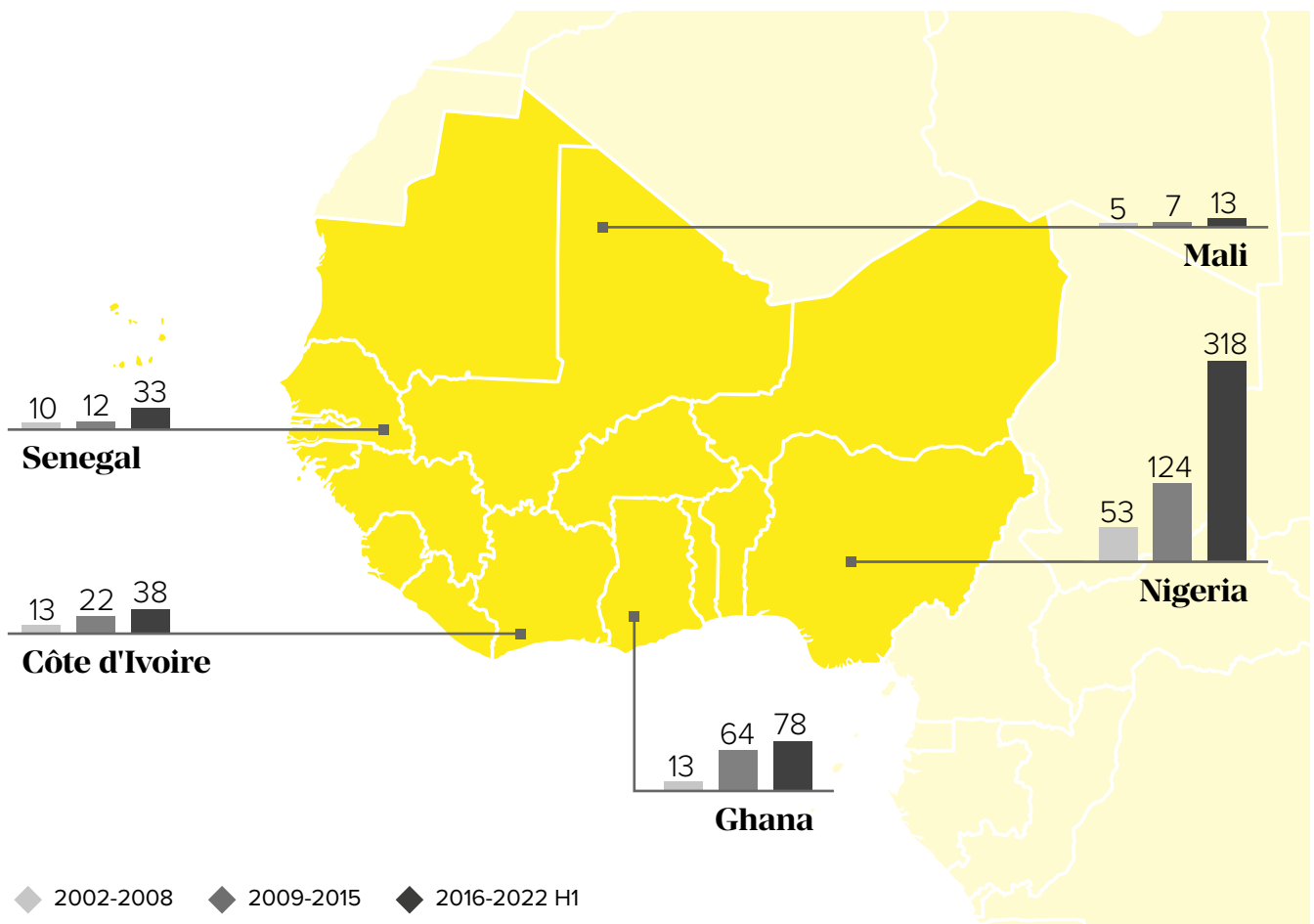
**Africa's largest economy, Nigeria, has historically dominated West Africa's private capital activity.**

**Africa's largest economy, Nigeria, has historically dominated West Africa's private capital activity, and has shaped investment trends in the region.** The sheer size of its economy and population has positioned Nigeria as a key market for private capital investors located in Africa and beyond. Although the country has experienced significant volatility through the years partly due its high dependence on commodities, the number of deals executed in the country have been on an upward trend reaching a record high of investments in 2021 which was driven by early-stage deals mainly in FinTech companies. **In the rest of Anglophone West Africa, Ghana has historically accounted for the second largest share of investments.**

Outside of these two key markets, a broad range of countries – predominantly within Francophone West Africa – have also attracted investors interest. Specifically, Côte d'Ivoire and Senegal have been the dominant markets for private capital investment among the francophone countries of West Africa.

The similar business culture across Francophone West Africa; its Euro-linked common currency; and the growing harmonisation of the legal and regulatory landscape in the region due to OHADA have made a strong investment case for the region.

FIGURE 7: Total volume of private capital deals in West Africa for the top 5 most active countries, 2002-2022 H1



Source: AVCA

### Growth drivers fuelling private capital investment in West Africa

Although West Africa consists of private capital markets with different levels of maturity, universally applicable growth drivers have led private capital activity in the region and will continue playing an important role in the future. **The region's sizeable population has created a tremendous opportunity for investors wishing to capitalise on the region's large consumer base.** Specifically, West Africa has a population of 426 million people which is equivalent to 5.16% of the world's population. **This coupled with the region's increasing**







**middle class with higher spending power, youthful population, and relatively low penetration rates across a variety of industries** creates an attractive investment environment for both local and international investors. Furthermore, **West Africa is rich in natural resources**, which makes the region a key partner for the western world and other emerging economies. This has created investment opportunities in businesses providing services to relevant industries. Moreover, the **increasing level of harmonisation of business law among the member states of OHADA has promoted a unified legal and regulatory framework making Francophone West Africa viewed as a homogenous**

**and investment-friendly group.** In addition to efforts resulting from the regional integration of different states, **individual countries have also undertaken reforms to spur investor interest.** For example, in December 2019 Senegal became the second African country to pass a Startup Act which aims to create a better environment for innovation and entrepreneurship by providing tax-breaks and reducing the legal complexities of business regulation for SMEs<sup>44</sup>. Finally, **the deepening**

**of integration among the member states of the Economic Community of West African States** - which among others aim to address a range of investment policy and investment climate issues that constitute barriers for private investment across the region - **is also a strong signal to investors.** The vision of a monetary and currency union among the 15 ECOWAS member states will inevitably stimulate cross-regional and foreign investment.



## Southern Africa

	2002 - 2008	2009 - 2015	2016 - 2022 H1
 <b>Deal Volume</b>	177	352	483
<b>Deal Value</b>	US\$8.9bn	US\$4.8bn	US\$5.9bn
<b>Average Deal Size</b>	US\$109mn	US\$29mn	US\$19mn
 <b>Top Asset Class</b>	Private Equity	Private Equity	Private Equity
 <b>Most Active Country</b>	South Africa	South Africa	South Africa
<b>Most Active Sector</b>	 Industrials	 Consumer Staples	 Financials

**Southern Africa consists of two distinct private capital markets: South Africa, and the remainder of the SADC region which is one of the most nascent.**



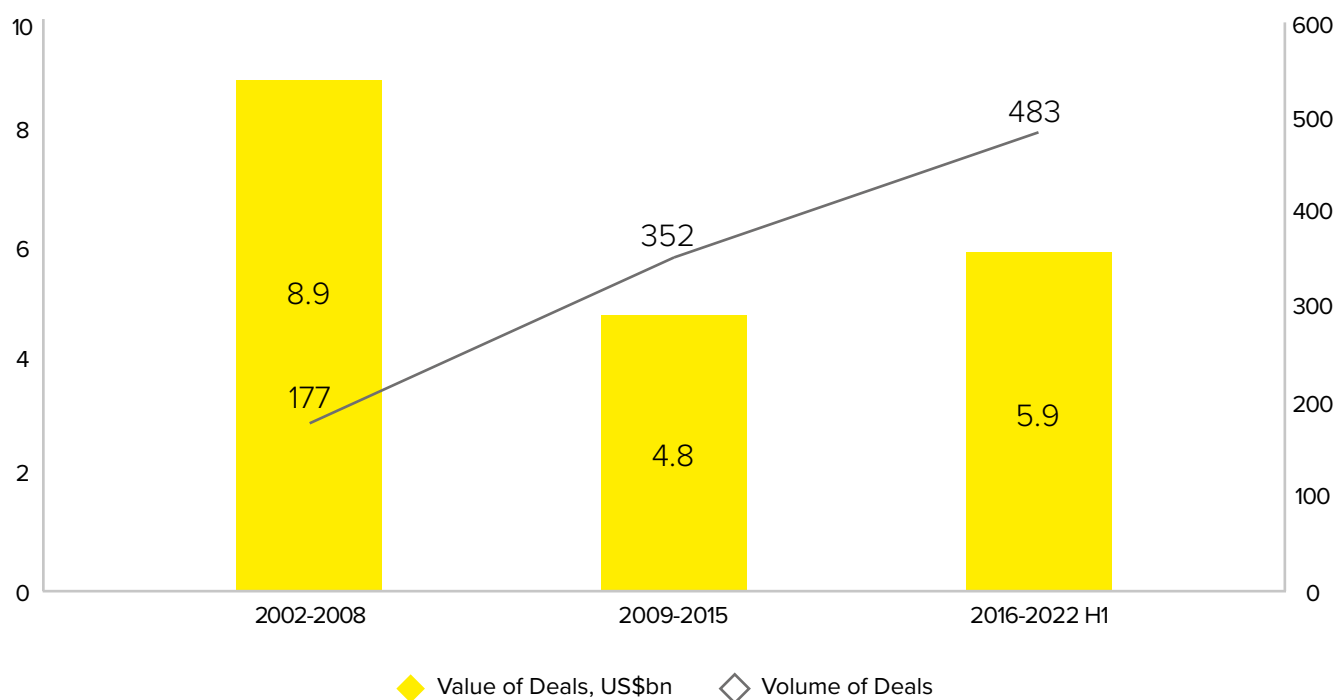
nascent. Consequently, the evolution of the private capital industry in the region should be approached from two different perspectives.

**South Africa has been leading private capital investment activity in Southern Africa, and therefore developments within the country have played a significant role in determining the evolution of the private capital industry in the region.** From 2002 to 2015, Southern Africa accounted for the largest share of private capital deals in Africa by volume. However, this changed in 2016-2022H1 with West Africa taking the lead in investment volume.

Large investments in South Africa such as the Actis-led investments in Alexander Forbes (US\$1.2bn in 2007) and Actom (US\$0.7bn in 2008) have significantly affected year on year deal values and contributed to the high value of capital directed into the region from 2002 to 2008. Although the value of deals in the region experienced a notable drop in 2009-2015 driven by the scarce number of deals above US\$250mn in South Africa, total deal value has recovered recently driven by investments in Materials, Financials, Industrials, Communication Services and Utilities.

Southern Africa consists of two distinct private capital markets: South Africa, which has been the most mature market for private capital on the continent, and the remainder of the SADC region which is one of the most

**FIGURE 8: Total volume and value of private capital deals reported in Southern Africa, 2002-2022 H1**



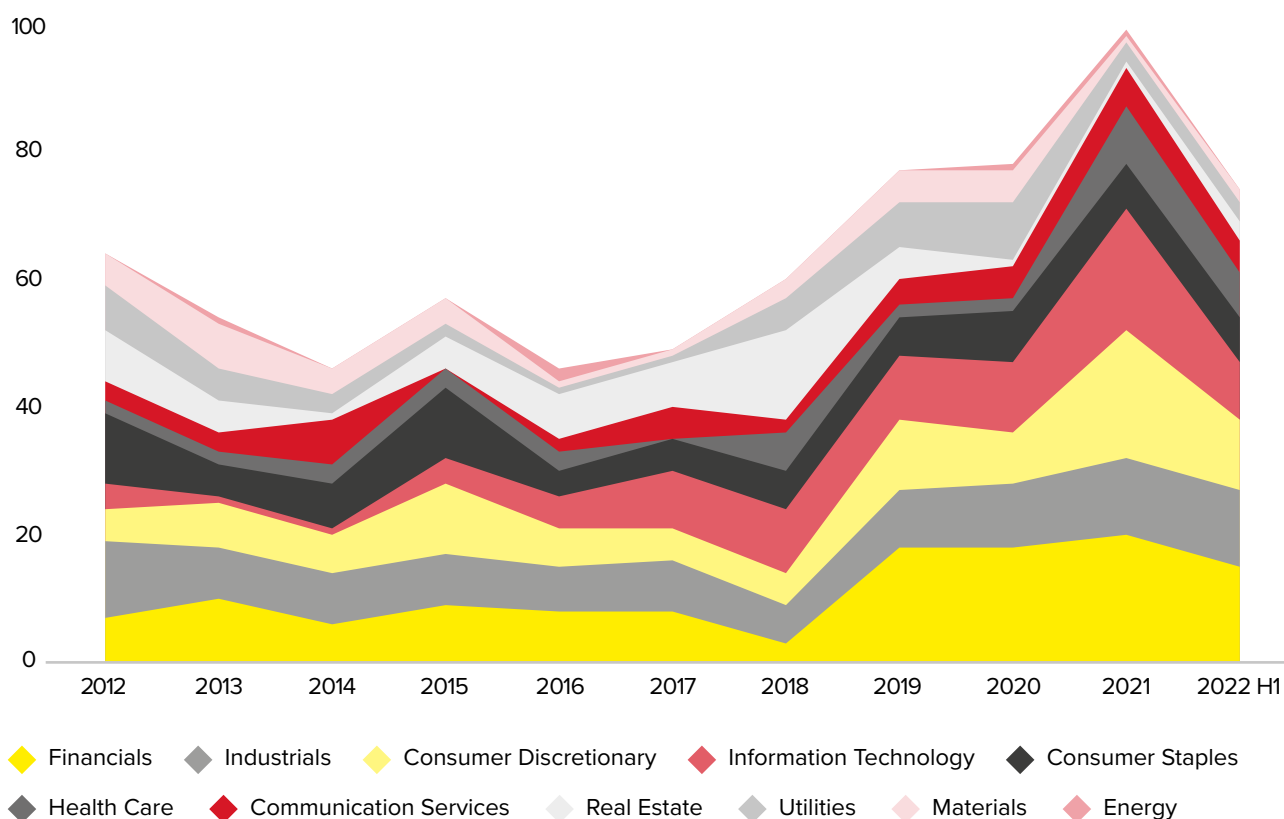
Source: AVCA



**Financials have emerged as the most active sector for private capital investments in Southern Africa.**

Financials have emerged as the most active sector for private capital investments in Southern Africa accounting for 22% of private capital investments from 2019 to 2022H1. As in other regions of Africa, the growth of the sector has been driven by venture capital investments in financial technology companies. Although South Africa is home to one of the most developed banking and financial sectors on the continent, the sector only recently started accounted for largest share of investments. That said, other sectors such as Industrials, Consumer Discretionary, Consumer Staples and Real Estate which are associated with South Africa's strong manufacturing base, middle income consumers and rapid urbanisation have been leading by investment volume.

**FIGURE 9: Total volume of private capital deals reported in Southern Africa, by Sector, 2012 – 2022 H1**



Source: AVCA

South Africa remains the most significant market for private capital investment in Southern Africa despite its decreasing share of private capital deal volume in the region. Specifically, the country's share of investments which dropped to 67% in 2016-2022 H1

from 77% in 2002-2008 was due to a combination of factors. First, challenges associated with local currency devaluation and low commodity prices which resulted in slower economic growth had an adverse impact on investments in the short term. Second, the spread

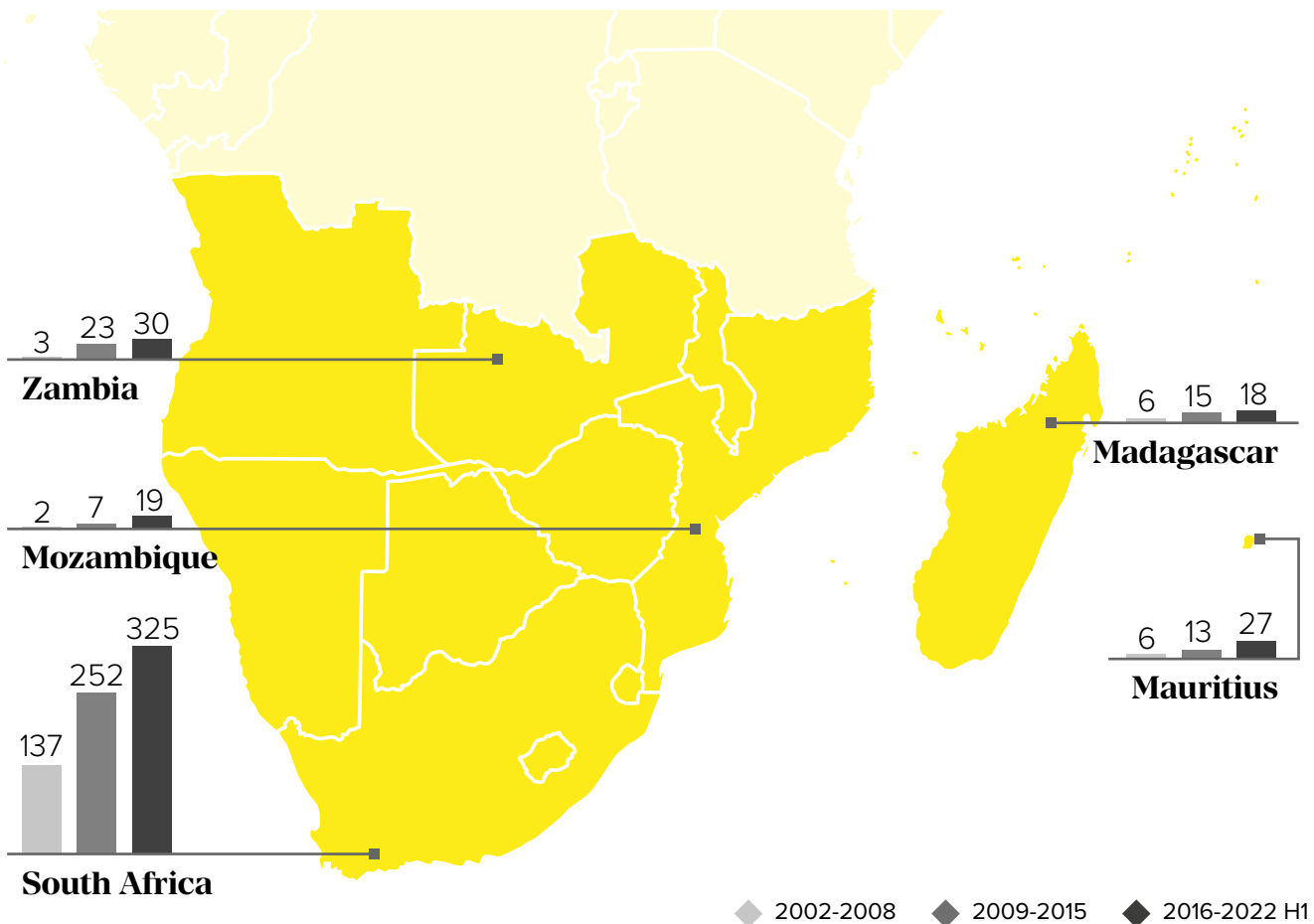
of private capital investments in other countries such as Zambia, Namibia, Mauritius, and Madagascar have slightly decreased the dominance of South Africa in deal volume.

**Outside of South Africa, Zambia attracted the second largest share of deal volume from 2002 to 2022 H1.** Investment opportunities within the country have been targeted by mainly Southern Africa-based fund managers, a few local funds and opportunistically by Pan-African funds. Despite a relatively challenging environment for fund managers operating in the country, the largest reported private capital deal that the country has seen to date was the US\$97mn investment by the Australia-based private equity firm EMR Capital which acquired

an 80% interest in Zambia’s Lubambe copper mine for US\$97.1mn.

**Mauritius also increased its share of deal volume within Southern Africa through the years.** The country’s dynamic and established financial ecosystem has attracted investments largely in businesses that are headquartered in the country but have a regional or multi-regional footprint. Finally, **private capital in Madagascar and Mozambique has also been active but remains nascent.** Although Madagascar has attracted mainly investment from local impact funds and Southern Africa based fund managers, Mozambique has also seen investments from funds with a pan-African geographic remit.

**FIGURE 10: Total volume of private capital deals in Southern Africa for the top 5 most active countries, 2002-2022 H1**



Source: AVCA

### Growth drivers fuelling private capital investment in Southern Africa

In Southern Africa, private capital activity is predominantly concentrated in South Africa meaning

that trends within the country have influenced the overall trajectory and growth drivers of the private capital industry in the region. **Southern Africa is home to the continent’s second largest economy, South Africa, which constitutes the most developed of sub-Saharan economies,** with its deepest capital markets









and understanding of the continent since it is the fifth-largest source for FDI<sup>45</sup>. The country has also recently ranked first in the Absa Africa Financial Markets Index for 2022, which evaluates countries' financial development based on measures of market accessibility, openness, and transparency<sup>46</sup>. Historically, the country's advanced economy has not only attracted investors into the region, but most importantly initiated the development of the whole industry in the continent.

Outside of the continent's financial hub, South Africa, developments in other countries within the region have also favoured the development of the private capital industry. For example, Zambia's good governance, sound macroeconomic policies, GDP growth rate at

4.1% in 2021<sup>47</sup>, political stability have created a dynamic environment for private capital which is however at its infancy. Furthermore, the Mauritius International Financial Centre, which is home to a range of key financial services and has been serving as a hub for financial services across the continent, has also favoured the gradual development of private capital in the country. Finally, **several Southern African countries are member states of the Common Market for Eastern and Southern Africa (COMESA) and the Southern Africa Development Community (SADC)**. This gives them access to both the COMESA market, which has a combined population of 492.5 million and a GDP of USD 657.4 billion, and the SADC market, which has a combined population of 293 million consumers and a GDP of US\$700 billion.



## Northern Africa

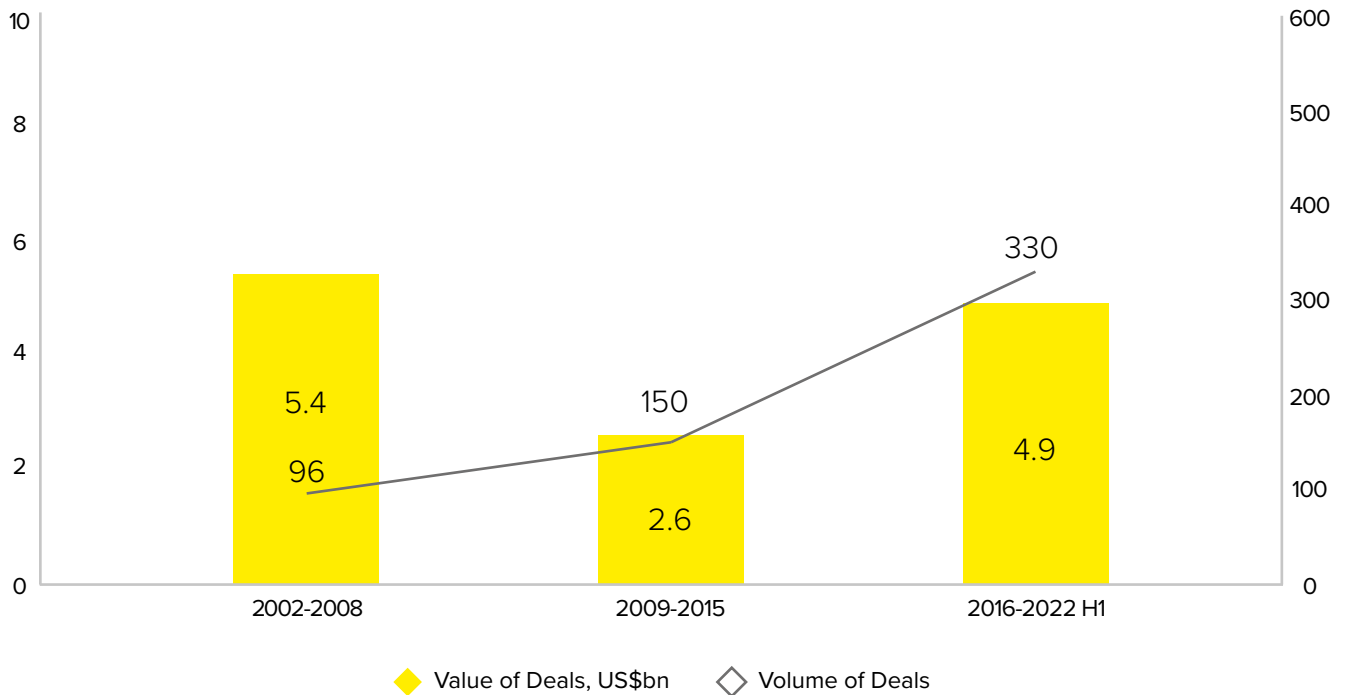
	2002 – 2008	2009 – 2015	2016 – 2022 H1
 <b>Deal Volume</b>	177	150	150
 <b>Deal Value</b>	US\$5.4bn	US\$2.6bn	US\$4.9bn
 <b>Average Deal Size</b>	US\$97mn	US\$23mn	US\$21mn
 <b>Top Asset Class</b>	Private Equity	Private Equity	Venture Capital
 <b>Most Active Country</b>	Egypt	Morocco	Egypt
<b>Most Active Sector</b>	 Consumer Staples	 Industrials	 Consumer Discretionary

**North Africa's private capital landscape has significantly evolved over the last two decades.**

North Africa's private capital landscape has significantly evolved over the last two decades. **Despite the political and economic instability that the region experienced after the outbreak of the Arab Spring**

in 2010, private capital in North Africa remained resilient partly driven by local investors with deep local expertise and presence on the ground who continued investing in opportunities emerging in the region through this geopolitical turmoil. The fact that banks were less active and constrained at that time coupled with the decreased market competition due to the perceived high risk created opportunities for domestic players. Specifically, as Figure 13 shows, the number of private capital investments grew by 56%, from 96 in 2002-2008 to 150 in 2009-2015 despite the series of political events which had a significant impact on the economic and financial side of businesses. The fortitude of North Africa's private capital industry paved the way for its future growth and success. The volume of investments more than doubled between 2016-2022 H1, reaching a record of 330 deals. This exponential growth is attributable to Egypt's emergence as a VC hub both in Africa and the wider MENA region, which has consequently brought about a surge in the number of venture capital investments in Egyptian startups.

**FIGURE 11: Total volume and value of private capital deals reported in North Africa, 2002-2022H1**



Source: AVCA

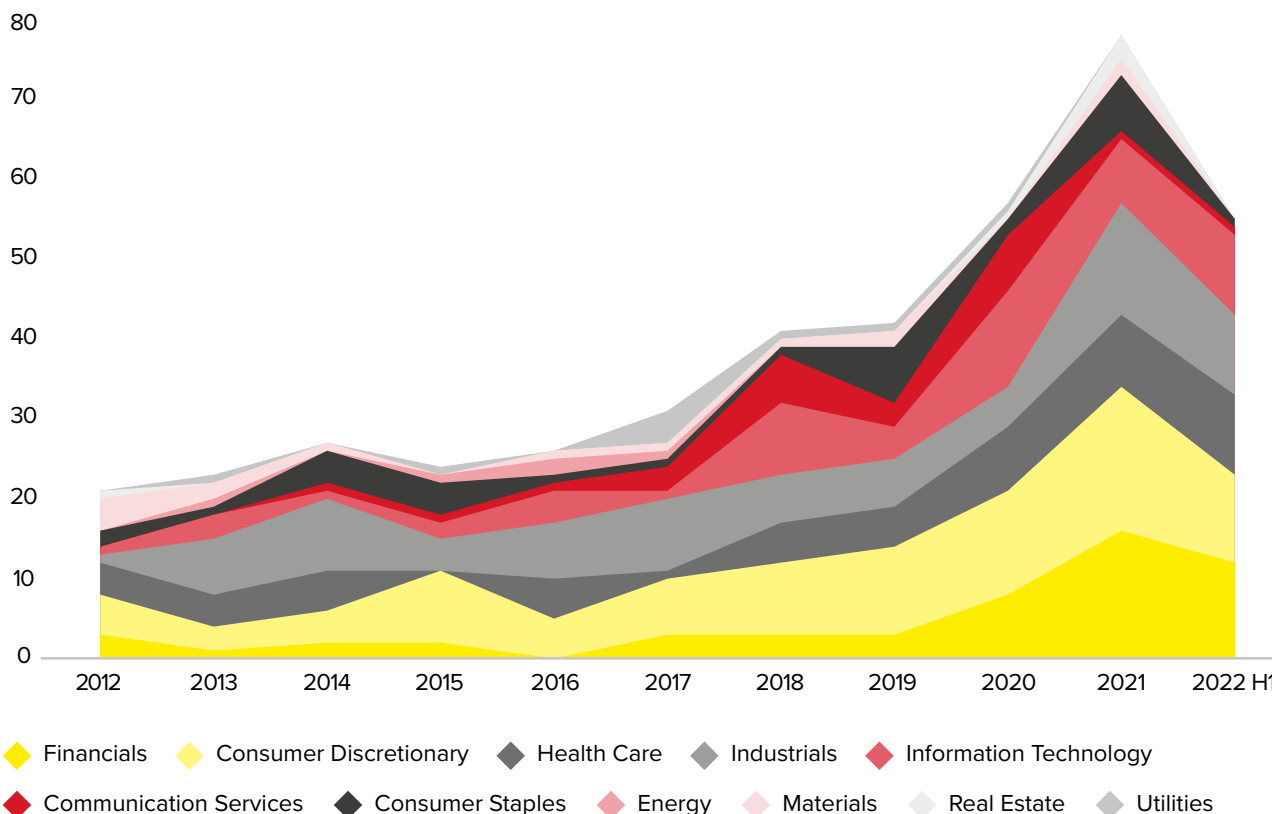
Private capital investments in North Africa have been focused on sectors that are associated with the region's strong manufacturing base and rising middle-class demand for improved goods and services. Furthermore, resilience to the political and economic

instability which hit the region at the beginning of the last decade was also a factor that determined the most active sectors by deal volume in the region. For example, during the Arab Spring uprisings, private capital was redirected to defensive sectors which only

stand to grow further with the re-stabilisation of the local economy. Overall, Consumer Discretionary, Industrials, Healthcare, Consumer Staples, and Materials have traditionally attracted the bulk of private capital investments in the region.

Additionally, in recent years the growing appetite of investors for technology and technology enabled businesses has favoured the emergence of other sectors such as Information Technology and Financials, which unlike with other regions have accounted for only a small share of private capital deals prior to 2016.

**FIGURE 12: Total volume of private capital deals reported in North Africa, by sector, 2012 – 2022 H1**



Source: AVCA

**Egypt, Africa's third largest economy with the third largest population in Africa, has historically accounted for the largest share of investments in North Africa.**

**Egypt, Africa's third largest economy with the third largest population in Africa, has historically accounted for the largest share of investments in North Africa.** Egypt has significantly increased its share of private capital deal volume in recent years, even through the mass uprisings that gripped the region in 2010, driven by early-stage investments in the country's high growing entrepreneurial ecosystem.

**Morocco and Tunisia are the second and third largest markets for private capital investment in North Africa.** The Arab Spring's relatively low impact on Morocco socio-economic and political landscape compared

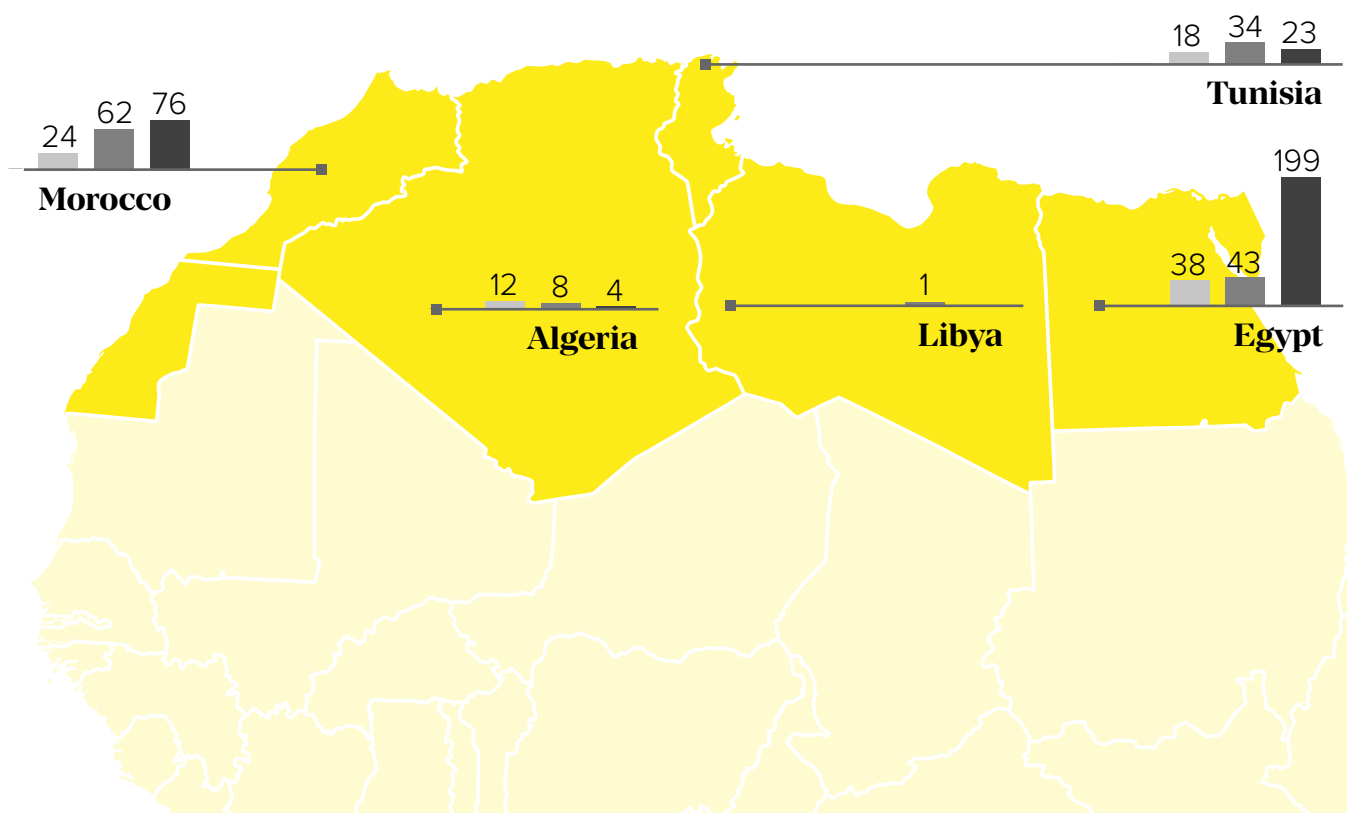


to some other countries within the region, together with other factors, allowed Morocco to emerge as the most active investment destination within North Africa from 2009-2015. On the other hand, the number of private capital investments in Tunisia have decreased in recent years. This might be due to the country's challenging

macroeconomic profile at present, which necessitated IMF intervention in October 2022 via an Extended Fund Facility with the aim to restore macroeconomic stability; strengthen social safety nets and tax equity; and step-up reforms that support an enabling environment for inclusive growth and sustainable job creation<sup>48</sup>.

FIGURE 13: **Total volume of private capital deals in North Africa for the top 5 most active countries, 2002-2022 H1**

◆ 2002-2008    ◆ 2009-2015    ◆ 2016-2022 H1



Source: AVCA

### Growth drivers fuelling private capital investment in North Africa

Despite a series of political and economic events which marked North Africa in the beginning of the last decade, long term growth drivers have fuelled private capital investment. Firstly, **the region has a population of 257 million people, which represents 3.16% of the total world population.** This coupled with **a young working population and a growing middle class** has







been a significant driver for investments into the region. According to data from AfDB, already since 2010 North African countries had a much higher concentration of the middle class among their population with Tunisia having the highest at 89.5% followed by Morocco and Egypt at 84.6% and 79.7% respectively<sup>49</sup>. Additionally, **North Africa has a strategic position with its proximity to Europe, Middle East, and Sub-Saharan Africa,** and as such the region can play a strategic role in bridging the rest of Africa with the other two regions of the

world. Besides that, **North Africa has established trade links due to its favourable geographical position.** Furthermore, North African countries have undertaken **reforms to facilitate the ease of doing business for investors, and spur investment activity in the region.**

For example, Tunisia was the first country in Africa to pass a Startup Act in April 2018 with the purpose of positioning the country as an innovative business hub for startups at the crossroads of the Mediterranean region, Europe, and Africa.



## Central Africa

	2002 - 2008	2009 - 2015	2016 - 2022 H1
 <b>Deal Volume</b>	26	44	32
<b>Deal Value</b>	US\$0.1bn	US\$0.3bn	US\$2.1bn
<b>Average Deal Size</b>	US\$9.1mn	US\$20mn	US\$128mn
 <b>Top Asset Class</b>	Private Equity	Private Equity	Private Equity
 <b>Most Active Country</b>	Cameroon	Democratic Republic of Congo	Democratic Republic of Congo
<b>Most Active Sector</b>	 Consumer Staples	 Consumer Staples; Consumer Discretionary; Industrials	 Consumer Discretionary; Financials

**Central Africa has been the most nascent area for private capital investment on the continent.**



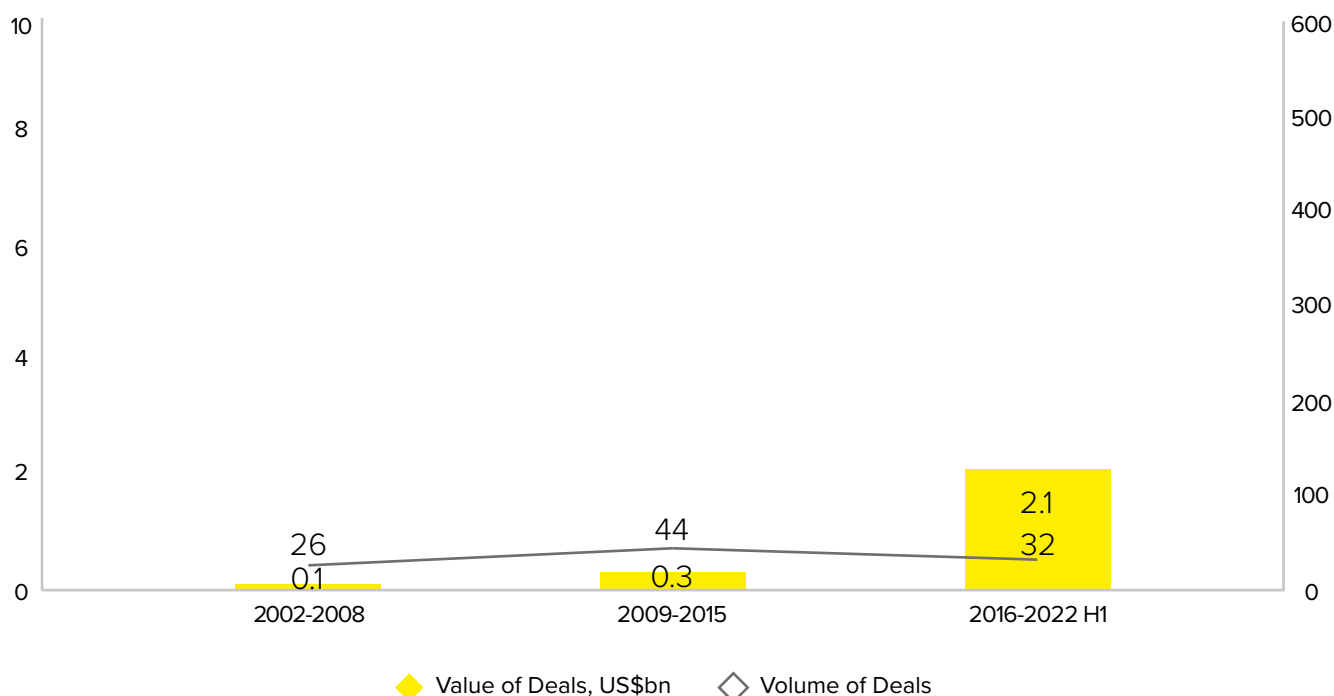
Central Africa has been the most nascent area for private capital investment on the continent. A series of overlapping crises such as civil conflicts in some parts of the region, droughts, and sharp declines in oil prices have hit some countries in Central Africa hard, creating major macroeconomic challenges<sup>50</sup>. In this environment, the development of private capital

in Central Africa hasn't followed the high growth trajectory of other African regions thus remains the least developed in Africa.

Private capital activity in Central Africa has been driven by Regional, Sub-Saharan and Pan-African funds. Although large Pan-African funds have invested opportunistically in Central Africa, **impact investment funds have largely targeted opportunities within the region.** Overall, the number of investments has remained low throughout the period with a slight increase in 2009-2015, which was driven by the establishment fund managers such as XSMC Capital that exclusively focused on opportunities in Central Africa.

On the other hand, **the modest increase in deal values allocated to Central Africa that occurred between 2016-2022 H1 was due to large investments in the infrastructure sector.** Specifically, substantial capital allocated to infrastructure projects within the Transportation and Utilities sector contributed significantly to the increase in deal value in the last five years.

**FIGURE 14: Total volume and value of private capital deals reported in Central Africa, 2002-2022 H1**



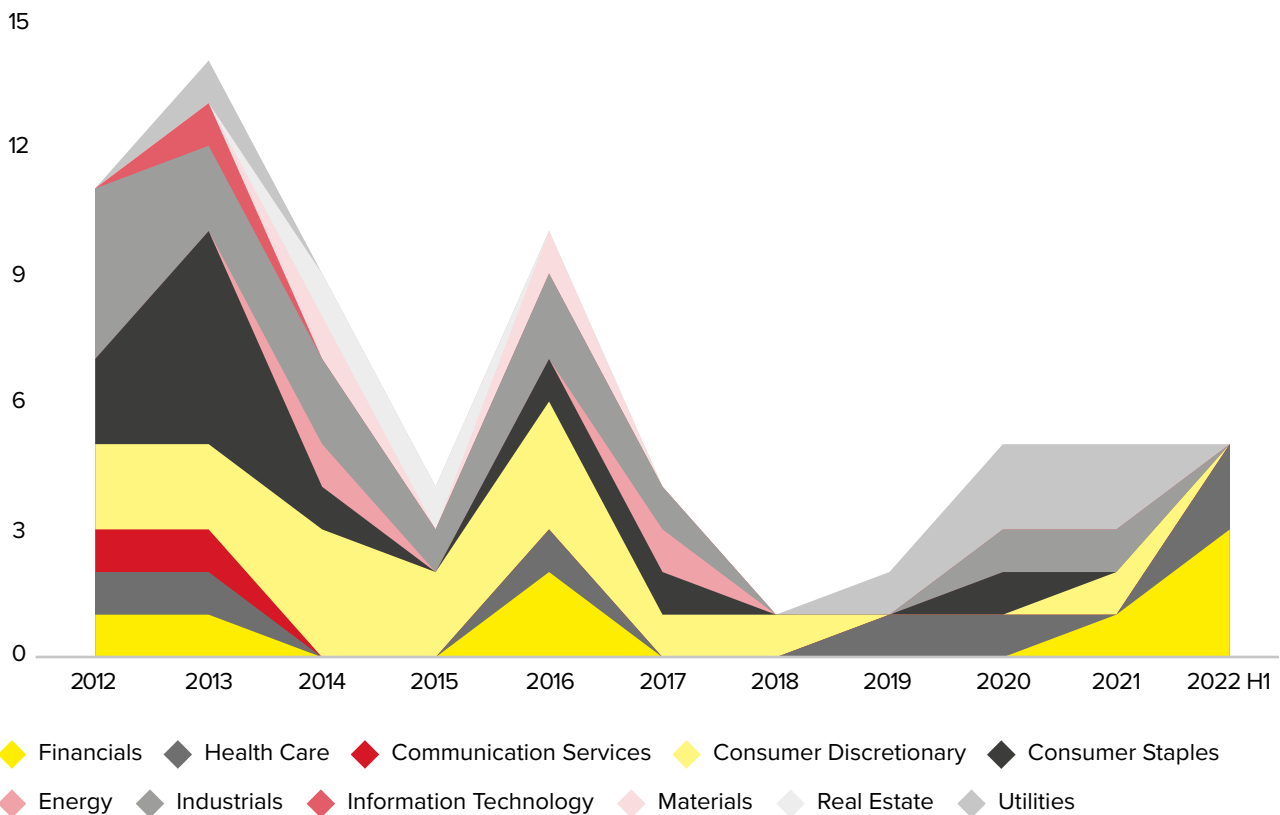
Source: AVCA

**Private capital investment activity in Central Africa has been focused on consumer-driven sectors.**

Private capital investment activity in Central Africa has been focused on consumer-driven sectors. Investments in Consumer Discretionary have accounted for the largest share of investments within the region since 2012, particularly in educational institutions and companies offering retailing services. Consumer Staples has also been one of the most active sectors in the region supported by investments in agribusiness and food retailing. Overall, **the activity of impact-oriented funds in the region has significantly encouraged the orientation of investments in high-impact sectors such as education and agribusiness.**

Finally, Industrials has attracted the second largest share of investments in Central Africa due to **investments in companies offering transportation and logistics services, and in larger transport infrastructure projects** by infrastructure focused funds. Finally, the Utilities sector started seeing investments over the last few years driven by **deals in renewable energy infrastructure projects and early-stage investments in renewable energy businesses.**

**FIGURE 15: Total volume of private capital deals reported in Central Africa, by sector, 2012 – 2022 H1**



Source: AVCA

**The Democratic Republic of Congo has accounted for the largest share of investments in Central Africa.**



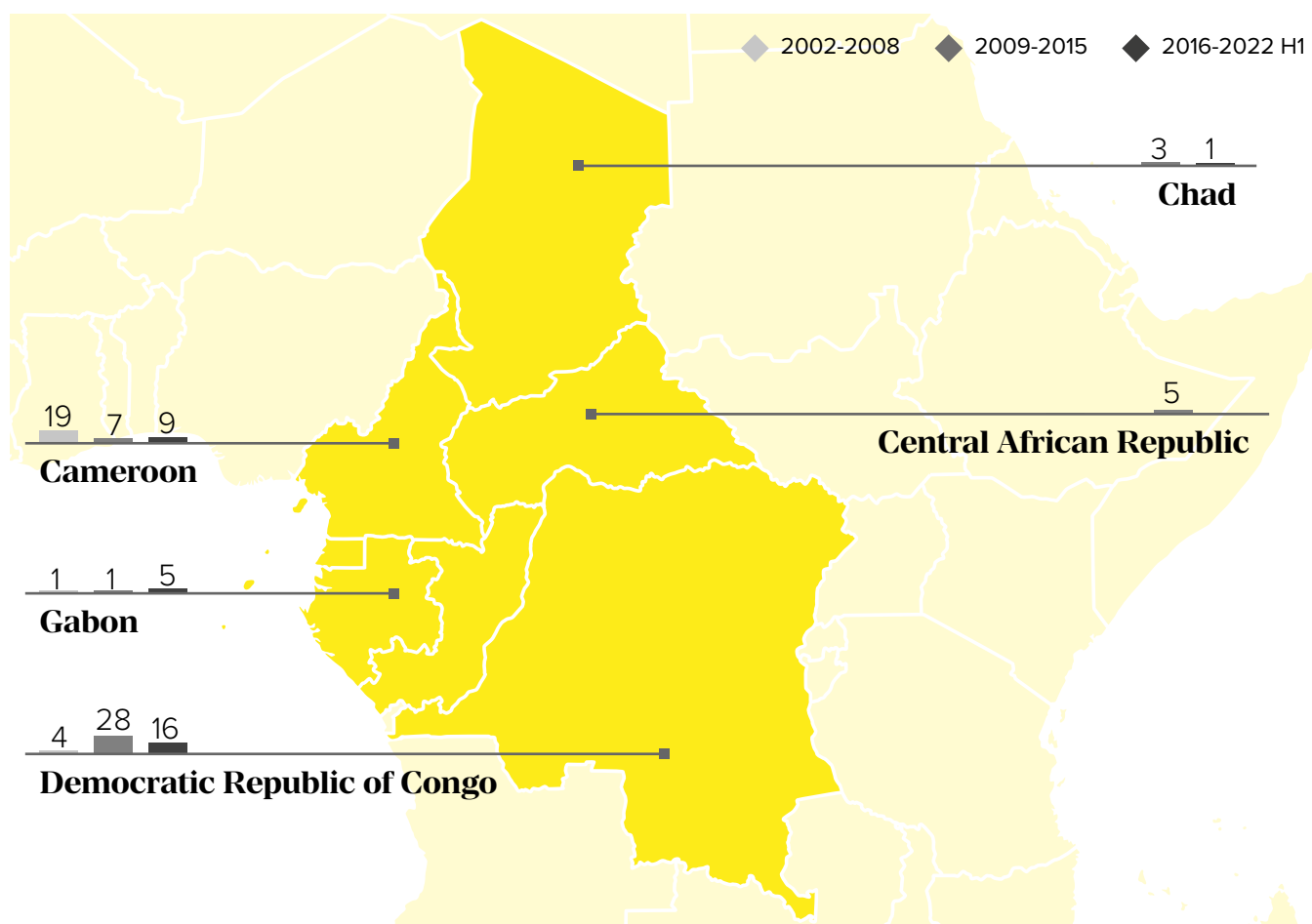
**The Democratic Republic of Congo**, the most populous Francophone country in the world with a population of around 92 million<sup>51</sup> as of 2021, **has accounted for the largest share of investments in Central Africa.** Starting from a very low base of deal activity (most likely the effect of the Congo Wars that only ended in 2003), the

country since attracted the largest share of investments within the region. Although investments have been made across a variety of sectors, industries benefited by the country's large population (3rd largest in Africa) have seen most investments, followed by deals in transport services providers that connect the different parts of the largest country in Sub-Saharan Africa.

**Despite attracting the second largest share of investments in Central Africa, Cameroon has experienced a notable drop in its share of deals in the region.** Development challenges associated with weak governance hinders the country's development and ability to attract investors<sup>52</sup>.

Overall, complex challenges associated with acute and prolonged crises, the confluence of conflict and violence, deep poverty, demographic pressures, weak governance, chronically high food insecurity, and the impact of climate change<sup>53</sup> have adversely affected investment flow into the Central Africa region, thus impeding the development of private capital in the region.

**FIGURE 16: Total volume of private capital deals in Central Africa for the top 5 most active countries, 2002-2022 H1**



Source: AVCA



# Future Trends

## Strategy Focus

**Venture capital absorbing a larger market share.** Venture capital investments accounted for 70% of the total volume of private capital deals reported between 2020 to 2022 H1, up from an average of just 37% between 2017 and 2019. The expansion of Africa's venture ecosystem, particularly in the last two years, has seen the asset class account for 75% (equivalent to US\$6.7bn) of the entirety of private capital deal value that occurred within the period. Funding is pouring into the asset class with dizzying alacrity, positioning venture capital to assume an even more significant proportion of private capital deal activity in future. Supportive legislation enabling innovation and entrepreneurship to thrive across the continent, most recently with the Nigerian Startup Bill, will further draw capital to the asset class. The preceding sets the stage for the emergence of venture capital as a dominant investment strategy in the continental ecosystem.

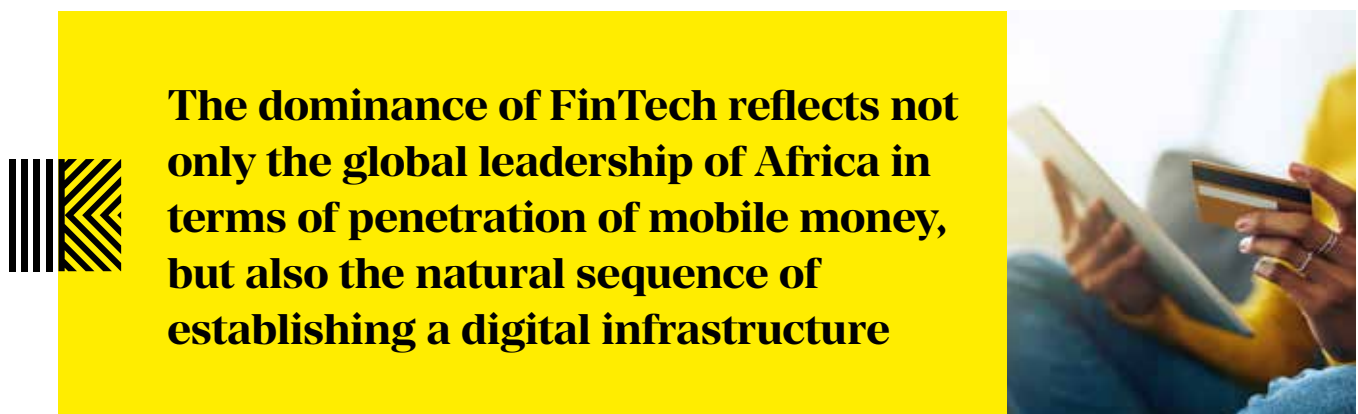
**Surging demand for private debt.** On the back of tenfold growth in the past decade, growth forecasts for global private debt assets are estimated to reach nearly US\$2.7 trillion by 2026, surpassing real estate to become the second-largest private capital asset class<sup>54</sup>. Reflecting

the rise of private debt strategies globally, a growing trend is the number of private debt funds that are raising capital in Africa. A number of growth drivers will lead to the further entrenching of private debt as a preferred alternative investment in Africa. Firstly, macroeconomic headwinds in 2022 including resurgent inflation, sharp moves in interest rates from increasingly protectionist central banks, and beleaguered domestic public finances have created a somewhat bleak countenance for investors facing decreasing values to their public and private equities. In this context, private credit will likely become "the new financier of the economy"<sup>55</sup> as conventional financial institutions are tied up contending with the preceding concerns. Secondly, given the significance of energy infrastructure investments facilitating renewable energy on the continent and the rising popularity of climate investing, appetite for private debt will only intensify to meet the need for concessional, catalytic climate capital in project finance. As such, private credit capital structures will emerge from the periphery to become a key component of the African investment ecosystem in the medium-term future.

## Sector Focus

**Financials consistently emerges as a prominent sector for private investment in Africa driven by outstanding growth in financial technology.** The dominance of FinTech reflects not only the global leadership of Africa in terms of penetration of mobile money, but also the natural sequence of establishing a digital infrastructure as the first step toward the digital transformation of

other significant industries in the consumer space. Given the long-term growth fundamentals driving the growth of FinTech (such as accelerating mobile and internet penetration in Africa and challenges related to traditional banking infrastructure and services) we expect financial services to pilot the growth of private capital investments in Africa in the next few years.



**The dominance of FinTech reflects not only the global leadership of Africa in terms of penetration of mobile money, but also the natural sequence of establishing a digital infrastructure**

**Information Technology is another sector driving increased investor interest and appetite for private capital in Africa.** Fuelling the attractiveness of the sector is the relatively low level of legacy infrastructure, which serves as a unique advantage to emerging entrepreneurs on the continent. In particular, African startups are enabling the rest of the economy to migrate to digital solutions in a wide variety of industries including Agribusiness, Healthcare and Mobility - achieving inclusion, employment and value generation. The necessity of tech-centred innovation will only grow, both on the continent and globally, as new habits adopted during the Covid-19 pandemic by consumers (e-commerce), employers (remote working practice), students (e-Learning) and service providers (mobile money, online last-mile delivery) shift to become mainstream practice. Information Technology has substantially disrupted and transformed the development of several other industries, and, in recognition of its catalytic role, it will remain a high priority for Africa-focused investors.

**The demand for reliable and affordable energy has created a compelling case for the adoption of modern renewable energy in Africa, leading to the rise of Utilities developing as one of the highest-interest emerging sectors for private investment.** Investor focus on renewable energy is catalysed by the enormity of Africa's energy deficit, and the productive limitations of traditional energy sources in Africa. 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, but it also arms investors and businesses with the necessary tools to capitalise on Africa's electrification needs, which are acute. Illustratively, over 640 million Africans have no access to energy. This corresponds to an electricity access rate of just over 40% for African countries- the lowest in the world<sup>56</sup>. In this environment, private capital fund managers have an important role to play in supporting the continent with its renewable energy transition, and as such we expect them to remain attracted by the high potential of this sector.



**The demand for reliable and affordable energy has created a compelling case for the adoption of modern renewable energy in Africa, leading to the rise of Utilities developing as one of the highest-interest emerging sectors for private investment.**



## Region Focus

The Big 4 (Egypt, Kenya, Nigeria, South Africa) remain the giants of Africa's silicon savannah, continually attracting the lion's share of both private capital deal volume and value. Regional trends in capital distribution outlined earlier in this section will likely persist in the medium to long term - particularly if the macroeconomic uncertainties of 2022 carry forward into 2023, which would likely see investors retreat into familiar markets with diversified and advanced economies. However, **some emerging markets outside of Africa's leading quartet, particularly within Francophone West**

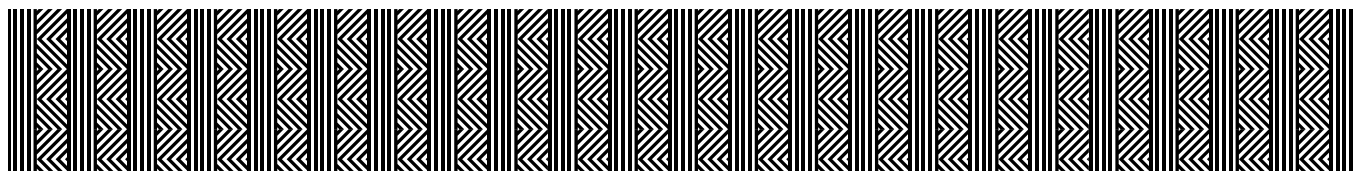
**Africa, have also shown marginal year-on-year growth that will likely endear investor interest in the short-term future.** Concomitant to the maturation of Africa's private capital industry is increasing levels of geographical diversity, as investors prove eager to explore opportunities in countries with promising growth determinants, low market penetration and low competition. This trend towards heterogeneity will solidify in the future, supported by increasing levels of both cross-country and cross-sector collaboration as well as regional integration.

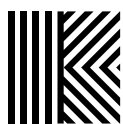
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