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Hidden value in the world's fastest-growing continent

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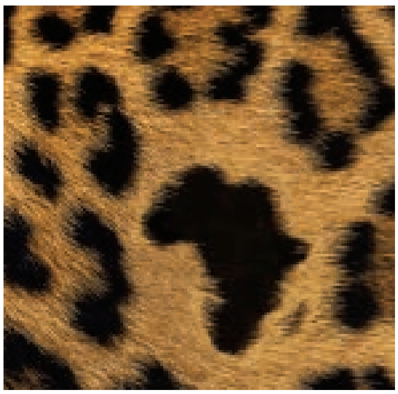
Insight



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Insight

Key trends **African PE has been reshaped in recent years, with a greater shift towards scale**

Platform plays on the rise

As Africa's private equity funds have increased in size and maturity and technological change has brought down national barriers, so firms are creating more businesses of real scale across the region through buy-and-build strategies, ***writes Vicky Meek***. From Actis's pan-African Honoris United Universities education platform to Development Partners International's $1.8 billion telecommunications towers business Eaton Towers, Africa's corporate landscape is consolidating. "We don't like participating in intermediated transactions, yet our sweet spot for investment is around $40 million to $100 million," says Babacar Ka, principal at DPI. "We can source smaller deals away from competitive situations and build strong, regional platforms in sectors such as education, health and telecoms that are ripe for consolidation."

Some of this is facilitated by increased economic co-operation between countries formalised by the African Continental Free Trade Agreement, signed by 27 nations in 2018, but there is also a cultural shift happening, according to Actis partner Rick Phillips. "We are seeing more strategies focused around regionalisation and buy and build across African markets," he says. "That's in part because the barriers between different markets – in particular communications and geopolitical barriers – are lower than they've ever been and populations and boardrooms now think regionally. Graduates now want roles in regional or international businesses. It's also in part because you can build better and more resilient businesses across regions and create scale."

Ethics matter more

The collapse of Abraaj Group is not just having an impact on fundraising. Even though the issues that led to the firm's demise were not directly related to African private equity, many in the market say that what happened has focused minds throughout the private equity chain. "Trust and ethics have really risen up the agenda since the implosion of Abraaj," says Phillips. "It has really brought home to everyone the need to understand the quality of the people you are backing and, for management teams and owners, the quality and track record of the manager backing them."

FX is in focus

The currency devaluations across many African markets in 2015 and 2016 have led to an increased focus on mitigating potential foreign exchange risk among private equity players, even though currencies have now largely stabilised. "The industry is now far more alert to FX risk than before," says Alykhan Nathoo, partner at Helios Investment Partners.

"In the past, funds may have been more focused on local currency returns, but that has clearly switched to US dollar returns. That means more investment going into companies with US dollar contracts, such as those with strong exports or blue-chip customers."

Fewer but larger exits

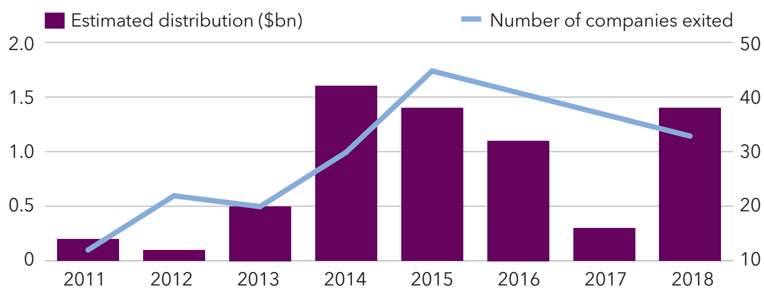
The emphasis on scale has affected exits, which have fallen in number over recent years, according to EMPEA data, but increased significantly in size in 2018. Last year saw 33 exits across the continent, down from 37 in 2017. The amount distributed rose to $1.4 billion, the second highest on record and up considerably from the $300 million distributed in 2017.

"We saw some landmark exits last year," says Jeff Schlapinski, senior director of research at EMPEA. "Even if strategic interest is overall lower than it was in the Africa rising period, for the right business in the right sector, there is strong appetite."

Some of last year's notable exits were Actis's sale of Credit Services Holdings to Experian for $259 million, Helios's IPO of alternative energy business Vivo Energy on the London Stock Exchange and African Capital Alliance's sale of online travel business Wakanow to Carlyle for $40 million. And the large exits are continuing. DPI sold Eaton Towers for $1.8 billion earlier this year to American Tower Corporation after mulling an IPO in London.

"The LSE is actively looking to attract high-quality African companies," says Ka. "There is appetite among investors for African companies of scale because they are facing low growth across many sectors in Europe, along with higher valuations and significantly leveraged companies."

The volume of exits is down, but value is up



Source: EMPEA

Early liquidity appeals

Africa currently sits in fifth position among international LPs for attractiveness, according to the 2019 EMPEA *Global Limited Partner Survey*. Part of the reason for that is it ranks worst of all emerging markets in their minds for realisations – 40 percent of investors say that weak exit environments on the continent will deter them from investing in Africa.

Against this backdrop, it's not surprising that GPs are finding creative ways of providing early liquidity to their investors. "LPs are concerned about the time horizon to exit," says Nathoo. "That's why we are using a number of levers to provide partial liquidity early on, including recapitalisation through the deployment of modest leverage and structuring investments to pay dividends, partial sales and public listings."

Nathoo points to Interswitch in Nigeria, where Helios sold a third of its stake to TA Associates, and Egypt's Fawry, in which Helios sold a minority stake two-and-a-half years into the investment. "This strategy provides early distributions to LPs and is attractive to incoming funds because we've already done the difficult and time-consuming origination and negotiation work," says Nathoo.

VC taking centre stage

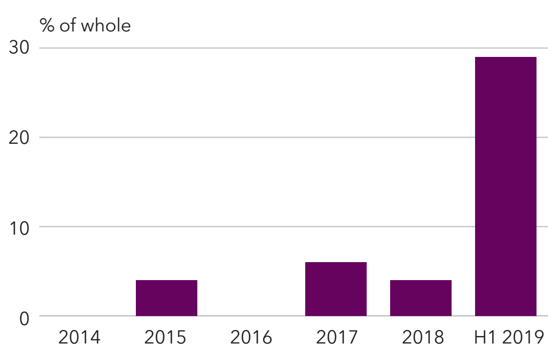
When CDC embarked on a new initiative to create a small venture capital fund project two years ago, the sector was tiny and largely overlooked. "The speed at which venture capital has evolved in Africa is astonishing," says Clarisa De Franco, managing director, African funds, funds and capital partnerships at CDC.

"We now see hubs in Kenya, Nigeria, South Africa and North African markets, such as Egypt. VC transactions had been funded primarily by local angel investors and people linked to US VCs. We are now seeing the emergence of funds with capital being raised from institutional investors, opportunities are increasing and cheque sizes are growing – the question is whether this growth is sustainable."

PEI figures demonstrate this growth. Nearly one third of the capital raised for Africa focused funds (29 percent) went to venture capital in the first half of 2019 – the largest proportion previously was just 6 percent in 2017.

"We are seeing a lot more activity in the VC space," agrees Sofiane Lahmar, partner at DPI. "That's down to a combination of factors, from disruptive technology in fintech, e-commerce, medtech and edtech creating new applications that solve problems unique to African markets through to increased interest from US funds and individuals, high-net-worth individuals and family offices. This will be beneficial for private equity in the future once the successful businesses reach scale and become private equity deals, and also through larger portfolio companies incorporating technology in their operations."

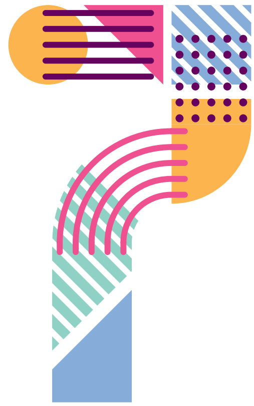
Venture capital fundraising is growing



Source: PEI

Consolidation to come

We may not be there yet, but GP consolidation is coming, according to De Franco. "Some managers are not in a sustainable position," she says. "They may not have reached their target fund sizes, they may have team issues or they're having problems identifying the right opportunities. We'll see GP consolidation – and that could be from 2020."



The recent finalisation of Actis's acquisition of Abraaj's Africa Fund II and its Private Equity Fund IV is one example of consolidation, albeit for different reasons, but another is Cerberus Capital's acquisition of SGI Frontier Capital, which has a fund in Ethiopia. And there are other discussions happening, according to De Franco, who adds M&A between firms for the right reasons can help GPs reach sustainability and grow across different markets.

More long-term vehicles

"Longer holding periods in some African markets is leading some players to look at alternative fund structures," says Schlapinski. "Some strategies may just take longer than usual to come to fruition, particularly in frontier markets."

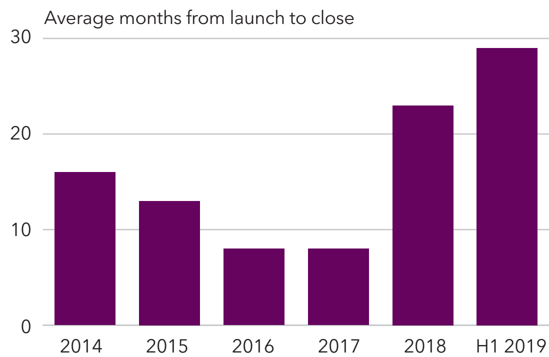
Permanent capital vehicles are one answer to the issue. AfricInvest last year reached a second close at €61 million for its evergreen FIVE fund, which invests in financial inclusion opportunities, and is targeting €200 million over the next few years across a series of closings.

Sierra Leone-based Solon Capital Partners and Africa Capitalworks are two other long-term capital vehicles that have received funding over the past couple of years. "This kind of experimentation and innovation is encouraging as the vehicles are able take account of the local context," adds Schlapinski.

Fundraising is taking longer

The average time taken to reach final close for Africa's private equity funds has risen considerably over the past 18 months, from just eight months in 2016 and 2017 to 23 months last year and 29 months in the first half of 2019, *PEI* figures show. This may reflect some pull-back among investors following currency devaluations in 2015 and 2016 and geopolitical issues in markets such as South Africa, but De Franco also points to another major factor.

Funds are taking longer to close



Source: PEI

"Challenging fundraising is one of the biggest issues for African private equity today," she says. "It's taking 50 percent to 100 percent longer to reach first close, even for established managers, and that clearly reflects nervousness on the part of some investors following the collapse of Abraaj."

She adds that LPs are now taking longer to commit. "They are focusing much more on operational due diligence so that they can understand the systems and processes GPs have in place. That is adding to the time it takes to reach a decision, while the overall allocation to Africa has reduced significantly." ■

Private credit is growing

Regulatory change has constrained banks' ability to lend to small and medium-sized businesses globally and Africa is no exception. It's unsurprising, therefore, that private credit has become an increasingly attractive asset class for investors looking for African exposure. Last year saw six private debt funds raise the second highest amount on record – $379 million, according to EMPEA data.

That may be small beer compared with other regions, but we may well see further growth in years to come, says Schlapinski.

"Increasing numbers of institutional investors are warming up to private credit in emerging markets, including Africa," he says. "Most of the private debt deals done in Africa are sponsorless, and so this is complementary to their portfolios. Private credit allows for stable cashflows and faster liquidity than private equity and there is a case to be made that the returns are not highly correlated with other investments, including private equity."

Editor's letter

Not just finding value, but creating it

James Linacre
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African markets have been affected by currency exchange rate volatility, political instability, even recession, but investors have not given up as the 'Africa rising' narrative has given way to a more nuanced discussion of opportunities and challenges. After a leaner few years, the green shoots of recovery are coming through.

The number of funds closing is recovering and the average size of closed funds is up. A succession of landmark exits in 2018 – which were down by volume but up by value – has shown what can be achieved, which bodes well for future fundraising efforts.

Large players are returning, such as Emerging Capital Partners last year and Amethis in 2019. As they and others raise funds, there is cause for optimism that more capital will flow into African markets.

> **"The scope for investment is vast, particularly in infrastructure"**

When that capital does flow in, it is frequently looking to diversify rather than concentrate on a single country. This brings greater resilience to portfolios, but also the ability to build scale and turn portfolio companies into regional champions. The expansion across the continent of Compagnie Marocaine de Goutte a goutte et de Pompage, which was originally backed by Amethis's North African fund before being bought out by DPI last year, is just one recent example.

Africa is the second-most populous continent and the fastest expanding, with hubs of activity in the north, west, east and southern regions. The scope for investment is vast, particularly in infrastructure, but also in real estate and other sectors, while venture capital activity is likewise increasing significantly.

Considerable value can be both found and created in what our interviewees tell us is the most rewarding corner of private equity. The conversation may no longer be of a continent on an inexorable rise, but that doesn't mean it isn't a very exciting place indeed.

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Q&A

Headline numbers only tell you so much, says Clarisa De Franco, CDC's managing director of funds and capital partnerships, but more information is being unlocked for investors in Africa

CDC was the world's first development finance institution – it's now more than 70 years old – and invests both directly and via funds. Clarisa De Franco, managing director, Africa funds, funds and capital partnerships, shares her thoughts on the trend for impact investment and how the industry can overcome the challenges it faces.

Q What advice would you offer to first-time investors in Africa?

A You really need to understand what you are looking for: are you purely after returns or is impact also important? Do you want exposure to certain sectors or markets? There is now a wide variety of managers and funds across the continent, yet there is still not much information available.

Q What kinds of information could be developed?

A The overall performance headline numbers only tell you so much. We are working with other DFIs and, potentially, the African Private Equity and Venture Capital Association, to provide more detailed breakdowns, showing, for example, what performance looks like in local currencies. We're also working with local investors to find out what kind of information they need that would encourage them to invest in African private equity markets.

Q What challenges are you seeing in the industry?

A It's still a relatively new industry and many GPs still aren't thinking ahead enough when it comes to their organisations, about succession and how to share the economics more widely within teams to ensure alignment. This is common to any private equity market under development – we saw the European market go through the same phase a decade ago.

"The IFC published a report this year on private equity … and found that firms with gender-balanced teams generated higher returns"

Q How is the appetite for impact investments affecting the African market?

A The bulk of managers today make reference to the UN's Sustainable Development Goals. That is one way they are looking to attract capital from investors, and that is a big change because previously many managers didn't want to be labelled as impact funds.

One area starting to emerge is an increased focus on the diversity of team make-up, partly driven by a group of US investors such as foundations and endowments that are increasingly challenging GPs around, for example, more gender-balanced teams. The International Finance Corporation published a report this year on private equity and venture capital in emerging markets and found that firms with gender-balanced teams generated higher returns.

Q What are you seeing in exits in Africa?

A Exits are happening, but it is still challenging. For the majority of companies, IPOs are not an option and so trade sales and secondary buyouts are a more realistic outcome. The development of secondary buyouts is positive, though, as it is helping build out the private equity industry more generally.

Quite a few exits have been delayed over recent times and some are running out of extensions. Pricing has come down, so that may be an issue for some, but for those with capital, that will be an opportunity. ■

KEYNOTE INTERVIEW

Africa back on track

While other emerging market economies stumble, Africa's macro story is increasingly robust, says DPI's Runa Alam

Headlines from across emerging markets shout about economic instability. From Turkey to Indonesia to Argentina, over the past year the media spotlight has focused on currency devaluations, rising inflation, dwindling foreign capital inflows and impeded growth. However, it would be a mistake to lump all emerging markets together and assume these levels of volatility apply to economies in Africa, says Runa Alam, chief executive officer and co-founder of pan-Africa investor Development Partners International.

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Q Many emerging market economies have had a tough year. Why are African economies different?

When you read the press you might assume every emerging market economy is in decline and perhaps the worst performers are in Africa. But that's not correct. African economies have actually been quite stable since the beginning of the year. From a macro perspective, Africa differs from other emerging markets in key ways. African economies are less dependent on exporting to Europe and the US and more dependent on trading with each other.

Like other emerging markets, African countries have suffered currency devaluations, but that happened back in 2015 and 2016 at the bottom of the commodity cycle. The only exception to this is South Africa, which has stronger links to other emerging markets through its stock market and capital flows. Combined with the domestic political situation there, growth is currently muted.

$35m

Invested in most recent acquisition - International Finance Services

The picture in Africa is the opposite to the rest of the world. Collectively, African markets remain high growth – the continent is the second-fastest growing economic region in the world – surpassing developed and many emerging economies. This growth is underpinned by strong demographics, a young population and one of the fastest urbanisation rates globally.

More Africans will reach working age in 2035 than in the rest of the world combined. The continent benefits from natural resources including oil and rare minerals and is leapfrogging into new technology.

Debt levels in Africa are among the lowest globally. Many countries do not have much leverage outside of the very large corporates.

In the US and Europe asset prices have reached levels as high as pre-crisis 2008. In Africa it's the opposite. Valuations have remained stable in the African stock markets for 10 years, despite volatility across commodity and FX markets, demonstrating confidence in the African growth opportunity. The leverage amounts and pricing/valuation risk are both low.

Q How is investor appetite?

Following the US Federal Reserve's decision to reverse course and cut interest rates, which is being followed by central banks around the world, money supply is expected to remain strong over the next two years. Asset allocators are looking globally, including at Africa, trying to think about how to generate higher returns.

Africa should be very much in the limelight when they think about diversification. African equity is uncorrelated to US private assets like buyouts or real estate. Historically, it hasn't been front of mind because of lack of expertise in these markets.

Q Are they still worried about currency and political risk?

Currency and sovereign risk are always the first set of questions investors ask but they move beyond that fairly quickly. Too many people in the market approach Africa as a single country; this is clearly wrong with the continent being made up of over 50 very distinct countries. It is not one sovereign risk.

If you have a pan-African strategy, there are always investable regions and countries and you benefit from the ability to hedge your sovereign, macro-economic and currency risk exposure. During 2015 and 2016 when most of African currencies devalued against the dollar and inflation rose, Francophone African economies did not. Their currencies are pegged to the euro. Inflation remained low and growth rates hovered above 6 percent.

"If you have a pan-African strategy, there are always investable regions and countries and you benefit from the ability to hedge your sovereign, macro-economic and currency risk exposure"

In other markets, the crisis showed that companies and funds can grow despite currency devaluation.

It might take a business a year or two to recover depending on growth rates, but then it still has three to five years to demonstrate growth and the chance to deliver a very decent top quartile equity return. Growth among many African companies can be high, up to 125 percent a year. There are rising numbers of experienced and institutionalised managers in Africa that have gone through two or three cycles and they have shown they can deliver returns.

Q And dealflow?

Dealflow is the highest I've seen in 20 years operating in Africa, while competition in the market remains comparatively low. That's a big change. Companies are growing and the demand for capital is rising.

In contrast, the level of private equity dry powder focused on Africa is down, although interest from strategic investors and family office capital remains strong when one is looking for exits. Private equity funds have been slower coming back to market and some managers no longer operate in Africa. The result is that pricing for private equity deals is flat or falling.

We're actively investing this year. Over the past 12 months, we've closed five deals. Our most recent acquisitions were in January when we invested in International Facilities Services. The business operates across the continent and specialises in delivering services such as catering, laundry, maintenance and housekeeping to remote locations. Its clients operate in sectors like hospitality, natural resources, shipping and mining. We invested $35 million through African Development Partners II to support acquisitions and working capital.

Q Given the number of markets and economies within your remit, what sectors and geographies are you drawn to?

In terms of geographies, most dealflow will continue to come from the larger countries,

Q You recently announced the exit of telecom tower management company Eaton Towers. How does that sale reflect changes in the African market?

The recently announced sale of our stake in Eaton Towers to American Tower Corporation for an enterprise value of $1.85 billion was one of the largest private equity exits ever in Africa. Eaton Towers owns and operates more than 5,500 towers in five markets: Burkina Faso, Ghana, Kenya, Niger and Uganda. It sold its South African assets to ATC in 2016.

The latest transaction exemplifies the theme of increased interest from multinational strategic investors in Africa. ATC is one of the leading owners and operators of wireless infrastructure in the world.

As companies grow, they have the option to list if there is a local market, or on the London Stock Exchange or Johannesburg Stock Exchange, which is the 20th largest globally. But it's a mixed picture in terms of whether exchanges are up or down and in Africa they've been largely flat for more than 10 years. Exits to strategic buyers will always be a place for private equity funds to look, and family offices and sovereign wealth funds are buying private equity portfolio companies as well.

including Egypt, Algeria, Morocco, Senegal, Cote D'Ivoire, Ghana, Nigeria, South Africa and all the Southern African Development Community and Common Market for Eastern and Southern Africa countries, starting with Kenya, Tanzania and Uganda. However, over a five-year investment period, smaller markets have typically generated at least one deal for us to look at, and many of our portfolio companies grow regionally or throughout Africa.

Certain markets have more dealflow so we spend more time there, but we are truly pan-African. Investments in Fund I were dispersed throughout the continent, Fund II invested more in North and Francophone Africa.

In Fund III, again we're seeing opportunities in our pipeline throughout the continent, but this time there are more multi-country, larger companies and more platform deals. With a bigger pool of companies to look at, there's better choice in terms of a company's growth trajectory, profitability, management ability and institutionalisation, as well as value. We believe in investing in blue-chip high-growth businesses that are reasonably priced. That can only be achieved when you have the whole continent to look at.

In terms of industries, we look at those that benefit from the emerging middle class and draw on Africa's positive demographic and urbanisation trends, its resources and access to new technology.

That thesis has meant we've invested in companies that performed defensively during the crisis of 2015-16 – demand for products did not fall below supply – and that generate high growth in times of stability as the consumer base expands and spending rises.

Q DPI has been investing for more than a decade. How has the corporate landscape changed?

There's been 20-plus years of economic liberalisation and privatisation in Africa. The proportion of GDP contributed by the private sector has increased significantly across the continent since the 1990s.

Government spending is no longer the predominant economic driver. Today you would be hard pressed to find any country where the private sector isn't the main driver. This means there are more investible industries, highly sophisticated management teams and entrepreneurs, and larger companies today.

"Government spending is no longer the predominant economic driver. Today you would be hard pressed to find any country where the private sector isn't the main driver"

Q What's been the role of private equity?

Private equity managers have been active in Africa over that timeframe. Development finance institutions supported the industry as a way to fuel private sector growth, both with capital and hands-on coaching of management and by introducing new ideas, governance, commercial strategies and technology.

Private equity is motivated not to lose money. The returns DFIs have achieved demonstrate to the rest of the world that the private sector in the region is investible. After 20 years, there's a track record and institutionalised companies.

Q Impact is gaining traction in private equity. Are more impact-defined investors looking at Africa?

Africa is the one region where the word impact doesn't quite differentiate funds. The reason is the whole industry was created by DFIs. When they funded GPs in the late 1990s there was a contractual agreement to implement high-level environmental, social and governance programmes.

Most funds have very robust ESG capabilities and have done this for 20 years. I view ESG as a necessary underpinning for any impact work. ESG makes sure there is no harm done in the community and it reduces operational risk on the commercial side.

Every fund that I've been associated with has had impact reporting requirements for decades. Over time, funds have developed their own tools to both show intentionality and measurements. When you have a commercial fund that targets a commercial equity return but still does and reports all the things that impact means, you don't need to have a separate industry. Larger funds touch the lives of more Africans with new jobs, training, delivering needed products, creating new companies in the supply chain, and so on.

Q Has your reporting changed at all?

From inception our reporting demonstrated our ESG and impact results. Every year that goes by, reporting gets more sophisticated in terms of the work we've done. That comes from experience and active development of toolkits and annual training.

We also report against external sources like the International Finance Corporation's recent impact guidelines and the UN's Sustainable Development Goals.

In most parts of the world, and especially Africa, there has to be customisation and specialisation. Over the years funds have upped their game in terms of impact work, results, measurement and reporting. ■

Q&A

From Ethiopian PE to consumer markets, Alison Klein, manager, private equity, at FMO, discusses emerging themes and opportunities in Africa

Dutch development finance institution FMO has been investing in emerging and frontier markets for more than 45 years. Alison Klein, manager, private equity at FMO, discusses where she sees opportunities in Africa's private equity markets and how they will develop over time.

Q What advice would you offer to first-time investors in Africa?

A Investors should take a portfolio approach. I've seen some newer investors commit to just one fund, but if you invest in a single manager, country or sector, that can present additional risk. There's enough critical mass now to create a diversified exposure, so you can mitigate against currency or macroeconomic challenges.

They should also try to benefit from others' experience. There are a number of investors that now have 20 or even 30 years of history in African markets and they are usually happy to share information. That's particularly the case with DFIs such as FMO – we're here to catalyse and support new investors.

Q Are you seeing newer, emerging managers in Africa?

A We have a relatively higher allocation to first-time managers and we're seeking to build best practice with them by supporting team development, firm sustainability, succession planning and helping to incorporate ESG management in firms' processes. Yet we are currently in a slower part of the cycle for newer managers in Africa.

The fundraising market is challenging for private equity, but we are seeing more managers in the private credit space.

"There are some markets that are showing good future potential that aren't yet on the private equity map in a big way"

Q Which markets are the most attractive right now?

A You have the largest markets, such as South Africa, Nigeria, Kenya and Egypt, where there are well-established private equity industries and these are benefiting from growing economies and populations. Yet there are some markets showing good potential that aren't yet on the private equity map in a big way. Ethiopian private equity is starting to emerge, for example.

Q And what about the most attractive sectors?

A Anything consumer-facing has strong potential as these businesses can benefit from tailwinds such as rising populations, increasing incomes and urbanisation. We're seeing a lot of activity in financial services, FMCG, retail, restaurants, healthcare and education. Logistics and transport, as well as on-grid and off-grid power, are also active. Venture capital is another growth area as barriers to entry for technology-enabled businesses have fallen substantially.

Q How are returns in Africa shaping up?

A Compared to other regions where we invest, they are lagging a little. There are a few reasons for this. The biggest factor is the J-curve, which tends to be more pronounced in our African portfolio because we have a high proportion of new managers and because fundraising is taking longer.

You have to consider that private equity is still relatively new in many African markets and so it can take a long time from a firm making initial contact with a potential investment opportunity to completing the deal and then exiting. This timeframe will shorten. ■

The continent's private equity is scaling up, with regionalisation emerging as a key strategy. James Linacre scouts out where activity is highest and where the next opportunities will be

Africa regional guide

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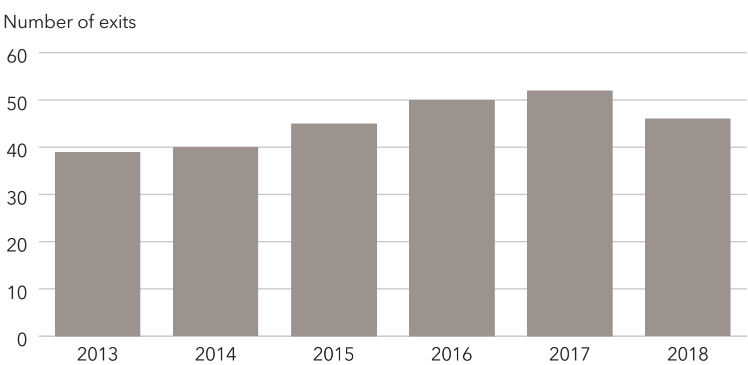
Number of reported African PE exits (2013-18)

PE exits dropped last year from 52 to 46, largely due to a fall in the number of exits in South Africa



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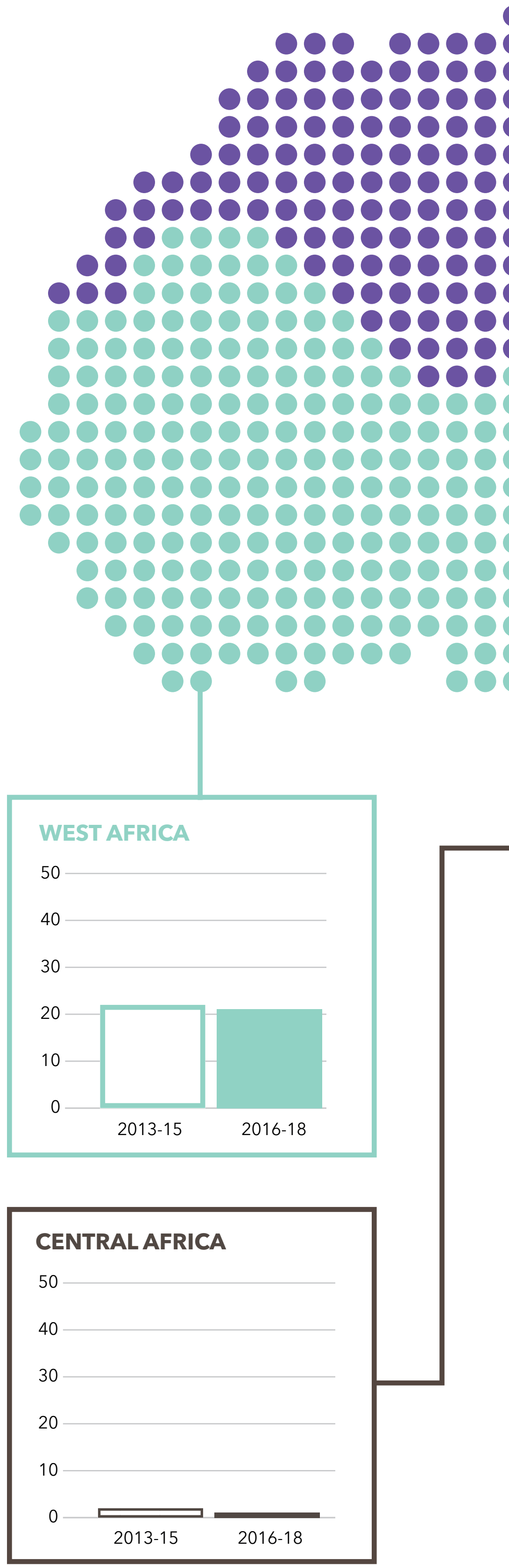
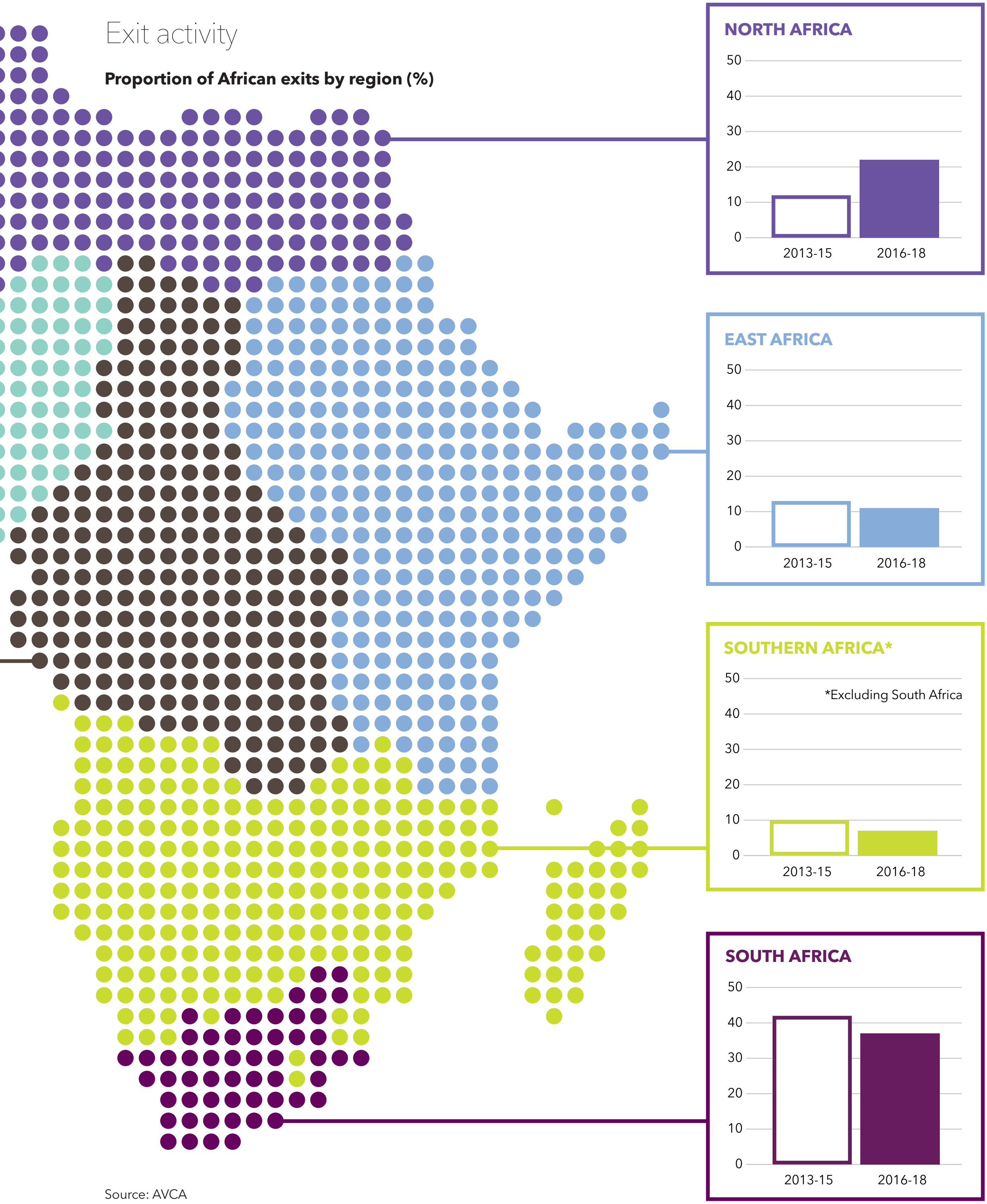


Exit activity

Proportion of African exits by region (%)

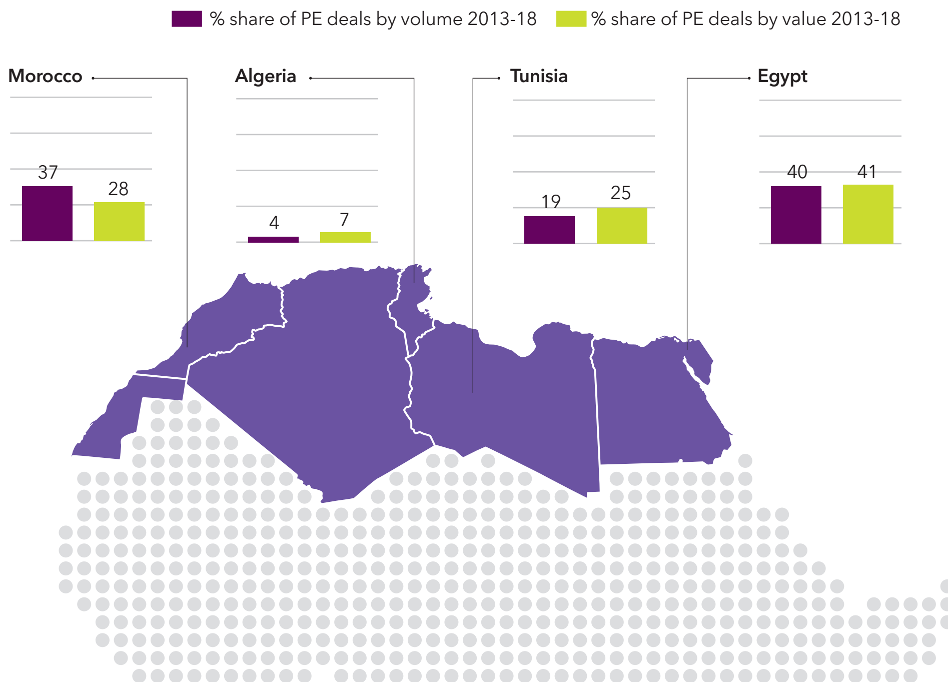


Source: AVCA

North Africa

With two-fifths of Africa's GDP growth this year, the region is a powerhouse

Morocco and Egypt continue to dominate the private equity industry in North Africa, with 37 percent and 40 percent of private equity deal volume respectively, according to the African Private Equity and Venture Capital Association. No other region accounted for a greater share of African private equity activity by deal value and there is an increasing trend of regionalisation, as North African companies expand across national borders and increasingly into Francophone West Africa.



Source: AVCA

$454m

Value of reported PE deals in 2018, according to EMPEA data

KEY SECTORS

AVCA figures show the highest percentage of private equity activity in North Africa between 2013 and 2018 was focused on Industrials, at 23 percent. Consumer Discretionary (21 percent), Information Technology (15 percent), Healthcare (12 percent) and Consumer Staples (7 percent) were the other major areas of activity.

GROWTH AREAS

Real GDP growth reached 4.9 percentage points in 2018. Debt levels remain sustainable, and the fiscal deficit is expected to gradually shrink following fiscal consolidation, tax reform, the rationalisation of public expenditure, and improvements in the collection of tax revenues, says Enitan Obasanjo-Adeleye, head of research at AVCA. "Even though average GDP growth in North Africa is erratic because of Libya's rapidly changing economic circumstances, of Africa's projected 4 percent growth in 2019, North Africa is expected to account for 1.6 percentage points, or 40 percent," adds Obasanjo-Adeleye.

FUTURE PROSPECTS

Much of the growth for North African private equity is expected to come from companies expanding across borders, not just within North Africa but also into Francophone West Africa. As a traditional hub of private equity activity in the region, Egypt will be key to broader fortunes, and the nation's own economic recovery is encouraging.

Real GDP growth in Egypt was 5.3 percentage points last year, which is the highest rate in a decade, while unemployment also fell to 10 percent. "Economic reforms and a new investment regime have improved the business environment, supporting foreign direct investment and improving the confidence of private equity players," says Obasanjo-Adeleye.

Education, in particular, is a sector that could see growth. Within Egypt, EFG Hermes and GEMS Education's joint platform acquired four schools in 2018.

RISING STAR

Egypt is now the third most attractive country for private equity investment in Africa over the next three years, according to AVCA's 2018 LP survey. The number of venture capital deals in the country has grown steadily over recent years, with the continuation of this trend pointing to Egypt becoming a new venture capital hub on the continent.

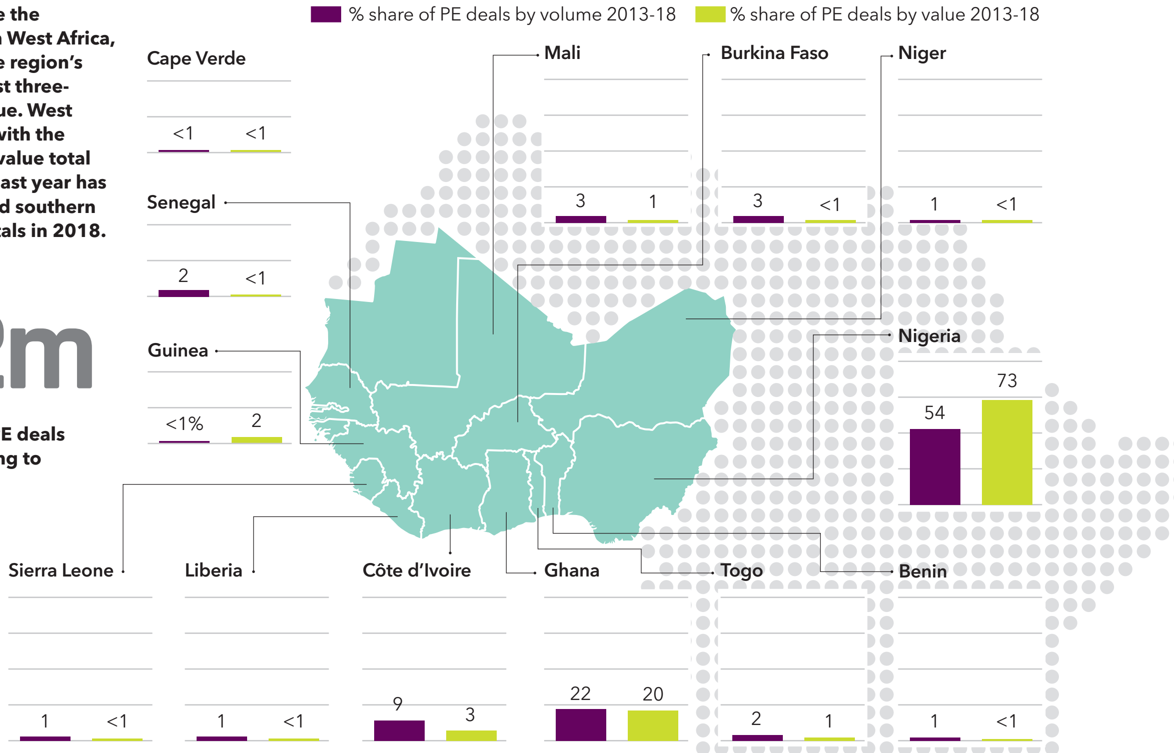
West Africa

A number of nations - not just Nigeria - are poised for growth

Nigeria continues to be the standout jurisdiction in West Africa, with more than half the region's deal volume and almost three-quarters of its deal value. West Africa was the region with the highest reported deal value total in 2017, but a quieter last year has seen the north, east and southern regions post higher totals in 2018.

$162m

Value of reported PE deals in 2018, according to EMPEA data



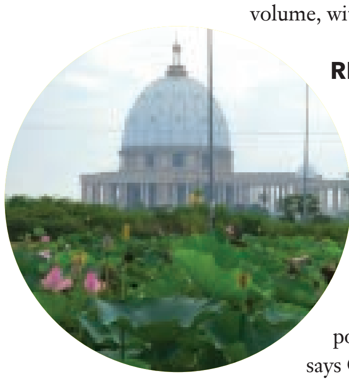
Source: AVCA

KEY SECTORS

The most active sector since 2013 has been Financials, accounting for 18 percent of activity, although Consumer Staples is right behind on 17 percent. The other dominant sectors are Real Estate (13 percent), Consumer Discretionary (12 percent) and Information Technology (9 percent).

GROWTH AREAS

"In West Africa, Nigeria remains a favourable destination for investors, attracting 54 percent of the total private equity deal volume and 73 percent of the total private equity deal value in the region between 2013 and 2018. Other West African countries showed resilience in the face of economic challenges, with Ghana, Senegal and Côte d'Ivoire expected to be among the strongest growth performers over the period 2017 to 2019," says Obasanjo-Adeleye.



FUTURE PROSPECTS

The World Bank has projected a 7.3 percent GDP growth rate for Ghana in 2019, with an increase in oil production expected. As Ghana continues to go great guns, the stable political environment in Senegal has seen GDP growth there of 6.6 percent, with growth in Côte d'Ivoire even higher at 7.5 percent. Nigeria continues to dominate the region, accounting for 54 percent of the total deal volume, with Ghana next on 22 percent.

RISING STAR

"In West Africa, Côte d'Ivoire is an attractive market for private equity due to its fast economic growth and its position as a regional hub within the West African Economic & Monetary Union. The return of the African Development Bank, Africa's leading lending institution and a major institutional investor in private equity funds, to Abidjan in 2014 signalled a pivotal point in the country's post-conflict renaissance," says Obasanjo-Adeleye. The EIB and firms such as AfricInvest, Amethis Finance, AFIG Funds and Emerging Capital Partners have also opened headquarters or regional offices in the country.

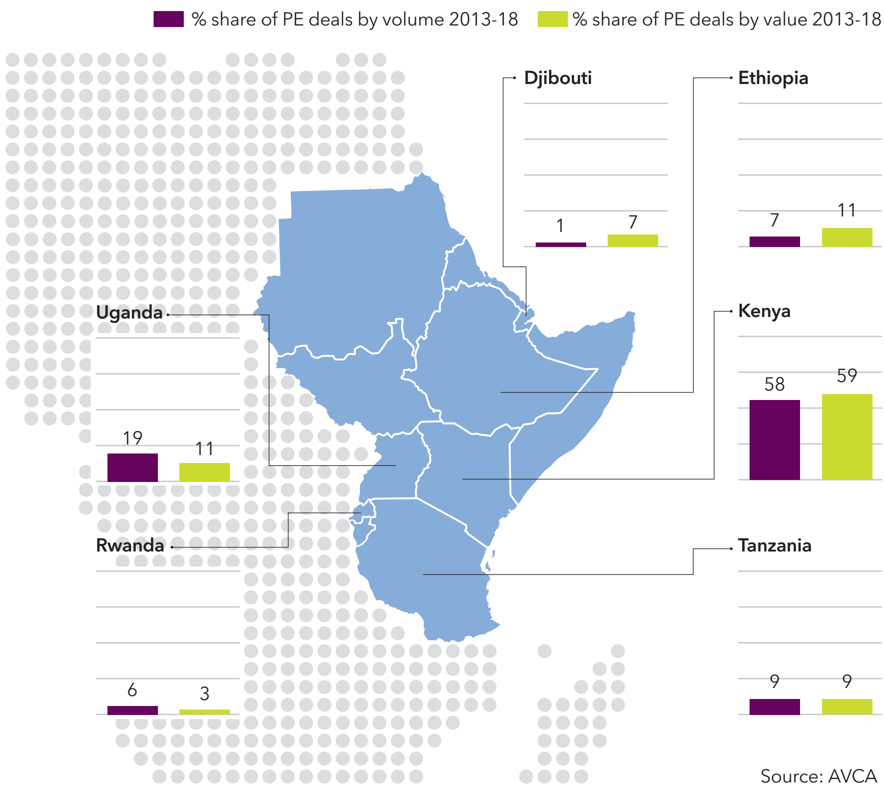
East Africa

Activity in the region is holding steady

Ethiopia may be East Africa's rising star, with Uganda also recording stable deal activity over the last three years and establishing itself as a promising investor destination – GDP growth reached 6.9 percentage points in 2018 from a low of 3.8 in 2017 – but East African activity is largely concentrated on Kenya, which EMPEA figures show accounted for 17 of the region's 40 investments last year. The region's overall figures were very similar to 2017, with the number and share of deals little changed.

$285m

Value of reported PE deals in 2018, according to EMPEA data



Source: AVCA

KEY SECTORS

The most active sector in East Africa over the last five years has been Consumer Staples, which has accounted for 22 percent of private equity investment. Consumer Discretionary comes next a full 10 percentage points lower, followed by Financials, Information Technology and Utilities.

GROWTH AREAS

Between 2013 and 2018, Uganda and Ethiopia each accounted for 11 percent by value, while Tanzania accounted for 9 percent. Kenya had 58 percent of East African deals by volume and 59 percent by value. While other markets are expected to grow, it will continue to be Kenya which dominates regional activity.

FUTURE PROSPECTS

The African Development Bank expects East Africa to achieve 5.9 percent growth this year and 6.1 percent in 2020. It is one of the fastest-growing regions within Africa and is experiencing some of the most rapid economic growth in the world.

"Between 2010 and 2018, growth averaged almost 6 percent, with Djibouti, Ethiopia, Rwanda and Tanzania recording above-average rates. Positive macroeconomic fundamentals associated with the region's relatively strong economic growth, an emerging middle class and increasing levels of urbanisation, along with increasing harmonisation among the East African Community members have all contributed to a strong PE environment," says Obasanjo-Adeleye.

RISING STAR

Three deals closed in Ethiopia last year, after there had been none the year before. This jump has been attributed to the growing network of country-focused funds, which have dedicated funding to the growing Ethiopian market, notes Obasanjo-Adeleye. Cepheus Growth Capital Partners, a fund dedicated to exclusively investing in Ethiopia, has achieved a second close of its maiden fund at $100 million, while Zoscales Partners, another Ethiopia focused firm, has closed two deals in the manufacturing and consumer sectors in Ethiopia.

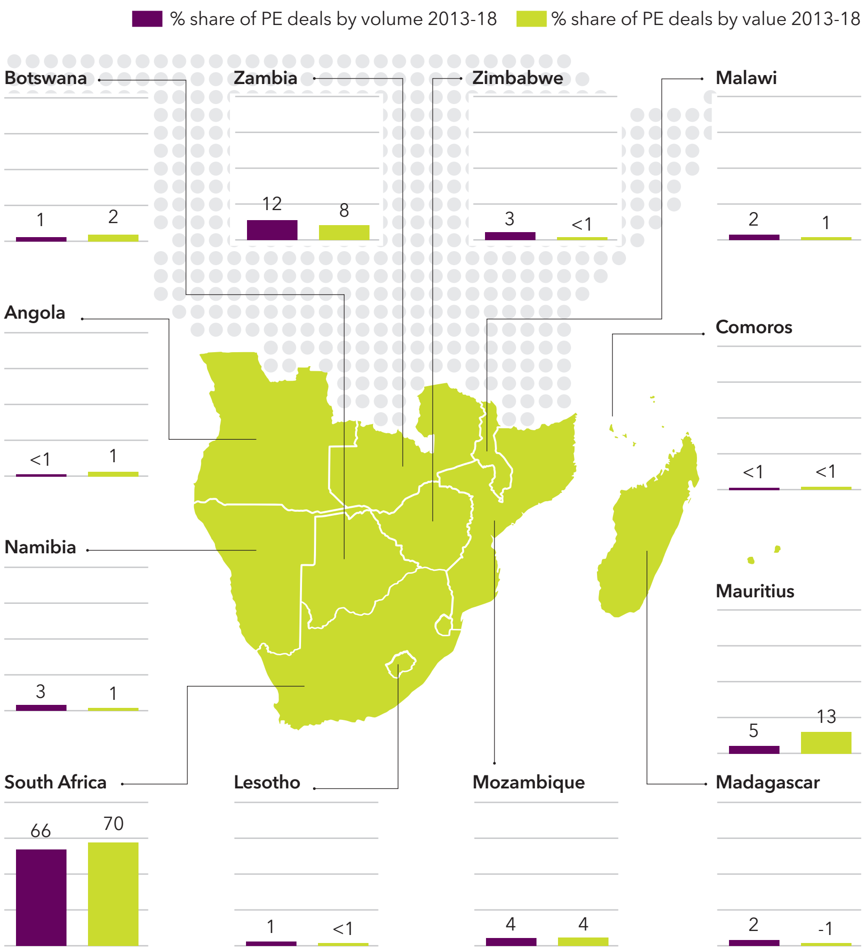
Southern Africa

South Africa's quiet year has affected the whole region

EMPEA figures show that South Africa accounted for 31 of Southern Africa's 33 investments last year, and for $243 million of the region's $246 million of disclosed capital invested. With regional activity so concentrated on South Africa, the nation's low GDP growth (less than 1 percent) and high unemployment, as well as the depreciation of the South African rand, weighed on activity. The nation's travails affected not just southern Africa, but the whole continent, with a slump in the number of exits in the country playing a key role in holding African exits back from surpassing the total recorded a year before.

$246m

Value of reported PE deals in 2018, according to EMPEA



Source: AVCA

KEY SECTORS

The top five sectors over the last five years have been Industrials (15 percent of activity), Real Estate (13 percent), Consumer Discretionary (13 percent), Consumer Staples (12 percent) and Financials (12 percent) between 2013 and 2018.

GROWTH AREAS

While South Africa's regional dominance – it accounted for 66 percent of deal volume and 70 percent of deal value from 2013 to 2018 – is not news, it is not a one-nation region. Zambia accounted for 12 percent in the region, while some relatively chunky deals in Mauritius saw that nation account for just 5 percent of volume but 13 percent of deal value.

FUTURE PROSPECTS

"Even though the market beyond South Africa, covering countries such as Botswana, Zambia and Zimbabwe, is still very much in the early stages of its development, we see a rise in terms of private equity activity in Zambia and Mauritius," says Obasanjo-Adeleye.

RISING STAR

Zambia climbed from accounting for only 2 percent of regional activity in 2017 to 6 percent in 2018. While the weak recovery in copper prices weighed on economic growth last year, investment in the tourism industry was strong. Growth of 4.2 percent is expected this year, with 4.3 percent next year. ■

KEYNOTE INTERVIEW

Creative investors thrive in Africa

Africa brings its challenges, but other markets just would not be as rewarding, says Tope Lawani, managing partner at Helios Investment Partners

Q What is the mindset you need to be successful investing in Africa?
When you operate in a developed economy with mature capital markets and a robust private equity industry, you can focus on what is for sale and whether you want to buy it. When you are operating in a less developed economy with far less developed capital markets and a more nascent private equity industry, you cannot do that.

Instead of focusing on finding what is for sale, you need to focus on identifying the challenges you can solve in order to make money. That is the starting point and then putting a corporate deal around that comes next. That requires a truly entrepreneurial mindset.

You have to think as a business person first and foremost, with an investor's overlay. You have to be prepared to think creatively, make observations about the environment you are operating in and be able to come up with the ideas that might make profitable businesses.

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Q Why not pick a less challenging market to invest in?
From a pure investment standpoint, Africa has most of the world's fastest growing economies, driven by demographics, by urbanisation and technological innovation. It is not growth stimulated by monetary policy, such as we have been seeing in the developed West. There has also been significant economic and political liberalisation, which we believe will continue.

It is also the least developed continent and the one where capital is most scarce. As a result, asset prices are much lower than elsewhere and the prices you are paying relative to growth are dramatically lower than you would get in the developed markets.

But it is more than that. Africa is a market where you can really see the value private equity creates. In more developed markets private equity is still creating value, but it feels marginal compared to the value you can create in Africa.

Africa is also a more intellectually challenging environment. There are more gaps in information so you need to be much more of a first principles investor, because even in the absence of information you still need to come up with an answer. You need to be a better investor to work in these markets and you need to be better at breaking problems down into their bare essence.

Q How do you do that?

You need to reinvent each and every element of the investing process from buying to building to selling. You need to rethink the approach to origination, again focusing on identifying where capital and expertise can be used to profitably solve significant challenges. Of course, the notion of applying a very hands-on, operationally intensive value-creation methodology to the ownership process is well established, but the process of how you do that in Africa is very different. We have had to be pioneers there because no other firm had done it.

We have learnt a lot on exits as well. There are global investment banks that are very experienced in listing or selling portfolio companies for private equity firms but even the very best are not experts at doing this for African companies.

With Vivo Energy, which is a petrol stations business that we listed on the London Stock Exchange last year, and with others, we have had to blaze a trail in getting these companies to market. It is hard but exciting. We are business builders by nature.

Q In a continent as vast as Africa, how do you choose which markets to invest in?

We are pan-African in our mandate and our exposure, with portfolio companies in more than 30 countries across the continent. Within Africa the capital markets of the different countries are themselves not very correlated, so being pan-African is itself very diversifying.

One of the challenges in Africa is that the size of the individual national economies can be a limiting factor. Scale allows for better management teams, better financing, better control over your value chain and better exit options, but you cannot get that staying within smaller markets.

Equity Bank, the largest bank in East Africa, is a case in point. We invested in 2007 when it was operational only in Kenya. It was well-managed and successful, serving an underbanked population. It had pretty much covered the market and was running out of scope to expand domestically.

We expanded Equity Bank into Uganda, Rwanda, Tanzania and South Sudan.

Case study: Axxela

Sub-Saharan Africa still lacks access to reliable power supply, a necessity for economic development.

Electrification rates in Nigeria are less than 50 percent, with even lower electricity supply levels due to the poor state of the transmission and distribution infrastructure. Industrial activity is dependent on self-generated power utilising either imported liquid fuels or domestic gas where accessible. Nigeria has abundant domestic gas resources (the largest in Africa and ninth largest in the world) and utilising domestic gas is a means to provide power in a more cost-effective, cleaner and sustainable way compared with the liquid fuel alternatives.

Helios acquired 100 percent ownership of Axxela through a series of transactions between 2016 and 2019. It is a leader in facilitating an efficient, more sustainable path to industrialisation in Nigeria by making energy more accessible and affordable for industries and operates the largest private sector gas distribution network in the country, delivering around 70 million standard cubic feet per day of gas to over 180 industrial and commercial customers.

Axxela is:

- **Building capacity:** Axxela's over 180 industrial customers employ over 50,000 people in industrial, skilled jobs
- **Powering communities:** Over 60 percent of the gas supplied by Axxela is used to power businesses, generating over 170 MW of power
- **Lowering costs and increasing reliability:** Gas has a significant cost advantage over heavy fuel oil, the most competitively priced alternative liquid fuel, and is a more reliable alternative than the grid
- **Replacing dirtier fuels:** As customers switch from liquid fuel sources (primarily diesel and heavy fuel oil) to gas, there is a positive impact on the environment. Customers switching from diesel to gas generation reduce CO_2 emission by 32 percent on average and virtually eliminate sulphur oxide emissions

We went from being close to saturation in a small market to having a lower market share in a much larger market. That gives a lot more headroom to achieve greater scale than it ever could have done if it had remained just in Kenya.

Q Where are you seeing the greatest opportunities?

We buy or build market-leading businesses in core economic sectors of the key economies in Africa and leverage our portfolio operations ability as the primary creator of value. Those core sectors are the ones that are integrally linked to the functioning of the economy. Financial services – be they banks, asset managers or insurance companies – would be one example, but also fintech, where we own the largest electronic payments businesses in Nigeria and in Egypt. If you believe that those economies are going to grow, then it makes sense to invest in the key parts of them.

Q What else will be key to these economies?

Rental property targeting specific demographics is an area of interest. We see pockets of opportunity for students, young people and the elderly. In Kenya we are building Acorn Group to offer high quality, affordable rental accommodation to university students. But beyond students the lesson we have taken from Kenya is that when students experience this accommodation in university they do not want to step down in quality when they leave.

Student housing is attractive, but renters who are just entering the workforce are probably an even greater opportunity.

Telecoms and energy access are both really important. We pioneered the telecom infrastructure investment space in Africa, building Helios Towers, the first towers business in Africa – first in Nigeria and then in Ghana and in the Democratic Republic of the Congo as well – and that has spawned a very large industry.

Energy access matters because Africa is energy-starved. Many people still cook with kerosene and firewood or other biomass, and many industrial applications still rely on diesel and heavy fuel oils as their primary energy sources. All this is bad for health, for the environment, and expensive. In residential, commercial and industrial settings we can substitute high-priced, dirty fuels for cleaner and less expensive ones.

"You need to reinvent each and every element of the investing process from buying to building to selling"

Q What opportunities does energy provide?

Axxela, a gas distribution business with intra-city pipelines distributing gas to industrial users in Nigeria, is a great example of the entrepreneurial, business-building approach that is vital in Africa.

We acquired Axxela in 2016 at a time when the Nigerian economy was in turmoil. The oil price had crashed and the country's badly judged currency management policies had created a massive disconnect between the official exchange rate and the true market rate – a spread of about 40 percent.

The seller, a local oil and gas conglomerate, was facing significant challenges in their business as a result.

They had a problem that they needed to address and they needed a reliable counterparty that could deal with the complexity of the transaction, in a complex environment at a complex time.

One impediment to the company's growth has been that demand outstrips supply, so customers fill the gap with diesel and other fuels. Developing alternative sources of supply is a priority for us. One solution is to import gas.

Not so long ago, LNG regasification facilities were the size of a city block. The minimum effective scale was huge and so were capital costs, making it prohibitively expensive in smaller emerging countries.

Now, innovation has shrunk the minimum effective scale so that you can site regasification facilities even within relatively small markets.

Regasification facilities can now be built on floating infrastructure. We are contemplating doing this in Lagos; buying liquefied natural gas from global markets, bringing it to floating docks in Lagos where it can be regasified and pushed through the Axxela grid.

By creating LNG access not only do we take advantage of the latent demand among our customers, but those customers have the confidence to keep investing in more and more facilities.

This is cleaner energy and it is less expensive. In the medium term, this is how you achieve growth in your customer base.

It also allows us to build virtual networks for new customers. When Axxela takes on a new customer it is hard to gauge how successful that new relationship is going to be, so investing capex building a pipeline extension to their premises right away would be a significant risk.

A lower risk approach would be to truck compressed gas from the LNG regasification site to the customer site. If the company goes under, Axxela simply cancels the trucks; if it thrives, we can build a pipeline.

We are doing something similar in Ghana and we see more opportunities for this. This could be done anywhere across the coast that has a shortage of gas.

Other private equity firms in Africa are not doing this, but it is a multi-billion-dollar opportunity. That is not to say it is easy. It requires deep sector expertise, control of some key assets and the trust of public sector players and regulators to know you will deliver.

In a market where charlatans exist, being known for saying what you will do and doing what you said is crucial. ■

The African outlook after Abraaj

The collapse of the emerging markets private equity investor is already having far-reaching repercussions. Vicky Meek looks at what it will mean for the continent's GPs, LPs and management teams

As the ink dries on Actis's acquisition of two funds previously managed by the now-defunct Abraaj Group, there will be sighs of relief from limited partners that had commitments to the vehicles. The acquisitions, completed in July, of Abraaj Private Equity Fund IV, a global buyout vehicle, and Abraaj Africa Fund III, which focuses on sub-Saharan Africa, were the culmination of months of complex and sometimes difficult negotiations. They followed TPG's agreement in May to manage Abraaj's $1 billion healthcare fund, which includes investments in hospitals and clinics across Africa and South Asia.

The fact there has been a relatively orderly transfer of funds and assets following such a major collapse should provide some comfort that emerging markets private equity now has enough capacity to deal with difficult situations. The relief will be felt particularly in Africa, where there is often a perception that the private equity market remains relatively immature and thin.

"The positive outcome of this is that it has demonstrated that there is enough depth in the market to deal with the issue," says Alison Klein, manager, private equity, at FMO. "There are numerous fund managers with the capability to take on the Abraaj portfolios, and there were a number of options presented to LPs. These were good GPs with strong track records in operational and governance matters."

Nevertheless, emerging economies in general, and Africa's in particular, face an uphill struggle to restore investor confidence, even though the Abraaj saga could have played out anywhere in the world and in any segment of the investment market.

Drawing unfair conclusions?

"What happened with Abraaj is unfortunate and has been difficult for investors," says Klein. "A number of large institutional investors committed some significant sums to what had become a large firm with large funds. But it is not an issue with emerging markets – it's a lesson in what can go wrong no matter where you invest. Just look at what happened with Bernie Madoff. This can happen in any market when an investment manager runs amok with its governance structures."

Nevertheless, *Private Equity International* figures suggest Africa-focused vehicles have found it significantly challenging to raise funds over the past year. The average time taken to raise a fund rose to 29 months during the first half of 2019, up from just eight months in 2017. Some have questioned whether this is purely down to the fall of Abraaj.

"The fundraising environment for African private equity has been difficult," says IFC director Kevin Njiraini. He believes that one of the key challenges has come from those investors that are not development finance institutions shifting their capital allocations outside Africa because of macroeconomic trends such as currency depreciation: "This causes local currency performance to translate poorly into US dollar returns and is hurting African PE performance."

Yet while devaluations in markets such as Egypt and Nigeria have inevitably dented investor appetite for Africa's private equity markets, Abraaj has clearly made a mark on sentiment.

"Africa has been disproportionately affected by what happened at Abraaj, even though a lot of what went on didn't involve the African portfolio," says Clarisa De Franco, managing director, funds and capital partnerships, at CDC. "It's hard to judge whether this is because many investors had only just started investing in Africa, and they're now standing back. But the DFIs will now need to take time to understand what investors' concerns are."

What will have to follow now, she says, is a greater effort from development finance institutions to help other investors get to grips with the risks of investing in emerging markets such as Africa's. "The DFIs have an important role to play in helping educate investors about what the real challenges are for African GPs and what the perceived challenges are," says De Franco.

"There is a belief that there is no appropriate regulatory structure and that it's hard to get to know managers on an individual basis because they are so dispersed. Neither of these is true. You can go to three conferences a year and meet all the GPs in one go; you don't need to travel to each country, for example. Everyone knows everyone else and it's easy to get references. So when something goes wrong, you should be able to get the full story."

"Africa has been disproportionately affected by what happened at Abraaj even though a lot of what went on didn't involve the African portfolio"

CLARISA DE FRANCO
CDC

Improvements to be made

For LPs, however, there are lessons to be learned. Many will now be considering how they can improve their processes for selecting and monitoring fund managers.

"In hindsight, there were some red flags, and everyone will now be reflecting on their due diligence processes," says Klein. "The clear take-away is that LPs should increase their focus on operational due diligence on firms to ensure there is a clear segmentation of duties and oversight and to determine how funds draw capital and what it is used for. Governance at a firm level will be a big focus."

LPs will also be looking much more closely at who is managing funds and whether certain individuals have undue control in an organisation. As De Franco says: "LPs will be asking, who's in the deal team? Is there someone who is a dominant force? Who has influence in the organisation? What mechanisms are in place to make sure individuals don't take over?"

For GPs, confidence building will require comprehensive reviews of systems and procedures. It will also, crucially, involve more timely reporting. "Transparency will need to improve," says De Franco. "When LPs ask about a GP's financial position, managers will need to respond quickly – it should be a given that LPs want to understand a GP's financial stability and know where fees are going.

"Overall, GPs will need to be more upfront with their investors about what is working and what isn't. The DFIs can support GPs when they are trying to work through issues. For their part, DFIs have had a tendency to support certain GPs and not others, and I think we should work towards supporting all GPs that need help with processes and systems."

Njiraini agrees that GPs "need to strengthen their investment, governance and administration functions in a manner that is transparent, adheres to global best practice, and addresses investor concerns". He adds that a focus on good investments and generating strong risk-adjusted returns has the potential to make the greatest positive impact on the region's private equity industry. The need for increased transparency is a point duly noted by Actis private equity partner Rick Phillips. "The level of what fund managers need to provide to LPs will be stepped up considerably," he says. "That will have an impact on smaller funds that may find it difficult to give the level of information required because they may not have the necessary resources."

This pressure could prompt consolidation. Klein suggests some functions might also be outsourced to third parties.

This has already happened in other markets, such as those in Europe, where regulatory reforms under AIFMD required alternative investment fund managers to appoint depositaries in order to prevent any repeat of the Madoff hedge fund scandal. "We may well see increased outsourcing of fund-management functions to provide LPs with comfort that the correct procedures are in place," says Klein.

Yet GPs may find that they are subject to scrutiny from other quarters. Phillips says management teams are also thoroughly examining their potential backers.

"The importance of ethics for businesspeople looking to raise capital from private equity has risen up the agenda," he says. "It's something that may not have crossed their minds previously. They are looking closely at the differences between fund managers, who will need to demonstrate clearly, if they become shareholders, how things will be done."

The Actis team in particular will be watched from all sides as it manages out the former Abraaj funds. "How Actis manages the portfolio and builds relationships will be vital to this process," says De Franco. "The portfolio will be under a lot of scrutiny – not just from the LPs concerned, but much more broadly."

Although painful in the short term, Abraaj's collapse may prove beneficial to African markets by driving improved standards across the board.

"What happened could well define African private equity for the next 10 years, and with potentially positive outcomes," says Phillips. "An increased focus on ethics and trust, combined with greater transparency, should all be welcomed. Those that can demonstrate clearly that they operate ethically and have robust checks and balances within their organisation should benefit from this." ■

KEYNOTE INTERVIEW

Quantifying impact in Africa

OMAI's Paul Boynton looks at where to make a difference and how it can be measured

The IMF's global real GDP growth rankings may surprise you. In its World Economic Outlook 2019, tied for the top spot at 8.8 percent real GDP growth are Ghana and the Republic of South Sudan.

At third, fourth and fifth place are Rwanda, Ethiopia and Cote d'Ivoire respectively with 7.8 percent, 7.7 percent and 7.5 percent.

They sit comfortably above the emerging market and developing economies average of 4.4 percent. We asked Paul Boynton, Cape Town-based chief executive officer at Old Mutual Alternative Investments, what lies ahead for the continent.

Q Across the continent as a whole, the IMF expects 3.6 percent GDP growth this year. How do these figures translate into opportunities on the ground?

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Dealflow in general has picked up recently. It's hard to know what to attribute that to specifically but it's possibly due to increasing optimism, more realistic pricing from sellers and the particular areas of the market on which we focus.

In any case, one of the spaces we see as opportune for investment is logistics: ports, road and rail, airports.

We've put money to work there over the past several years and we think there's opportunity across Africa, particularly now the African Continental Free Trade Agreement has come into play. The opportunity for African countries to trade with each other is enormous.

Q Are there any particular standout markets?

We have offices in Abidjan, Lagos, Nairobi, Cape Town and Johannesburg. Historically we haven't been present in North Africa, but lately we've been looking there. I was on a trip recently to Egypt, where there is a dynamic economy - for instance in housing development there's a lot going on - and evidently strong capacity within government departments.

The one difficulty of course is the military is very involved in the economy. It's a new space for us to look at and one we're quite interested in.

Q What about sectors?

Recently we've put money into distributed rooftop solar, both commercial and residential. Of our $4.8 billion under management, $2 billion is invested in infrastructure through our African Infrastructure Investment Managers division.

Over the next decade, Africa needs $150 billion a year of investment in new infrastructure. The availability of government and multilateral funding is no more than half of that. There's an enormous opportunity for the private sector to participate. We are stepping up against that need.

We've also invested in retail in South Africa as the economy turns a corner. Our private equity business is largely focused in South Africa and our Impact Fund business only in South Africa, although we are evaluating opportunities elsewhere. Our Impact model leverages scale and that's more difficult to achieve in the rest of Africa, certainly in the smaller countries, but we're optimistic.

Q In Africa, why is investing in private assets more attractive than in the listed or pre-IPO spaces?

First, deep liquid exchanges don't really exist other than the Johannesburg Stock Exchange and the Egyptian Stock Exchange. Second, the exchanges are not generally representative of the economies as a whole.

Large parts of the economy may not be accessible to an investor in a listed context. For instance, tourism may be a big part of the economy in a country but there aren't any listed tourism opportunities.

The third point is that private equity as an investment structure is particularly well suited to Africa because of its hands-on nature. In the listed markets the governance risk is challenging.

In the private equity world, you've got one or two team members sitting on the board, in strategy meetings and remuneration committees. They will have rights to assess and, significant circumstances; veto the executive, which affords profoundly important risk mitigation.

In listed markets the investor is much more reliant on the ecosystem working well and that directors behave properly. Peer pressure is important.

That works well in a more developed market, but in developing markets it can be a risky proposition.

And lastly, private equity provides a clear route in and out of your investment. In the listed market you can get in but at exit it's unclear whether the market can deliver a fair price and sufficient liquidity.

> *"Africa needs $150 billion a year of investment in new infrastructure. The availability of government and multilateral funding is no more than half of that"*

Q How do you make the distinction between private equity and impact investing?

Our private equity strategy has shifted from a traditional leveraged buyout model to focus on growth investments; buying medium-sized businesses and supporting bolt-on acquisitions, increasing market share and geographic expansion largely for businesses initially focused in South Africa, although many of the companies we've invested in have an Africa growth agenda. Our impact funds have a different origin. The team was set up to identify a social need and seek out opportunities where we could staple a social objective to a commercial one and generate returns commensurate with the risk. That's important. If we don't deliver returns that make sense to investors then our funds are not sustainable longer term.

South Africa has a housing deficit of around two million units. Through our affordable housing fund we intend to deliver 80,000 units.

We've invested across the value chain: taking vacant land and servicing it; taking serviced land and building apartment blocks or single residential buildings for sale; investing in rental stock; and backing alternative mortgage providers to try to mobilise capital.

We box that all together. More recently, we've developed a retirement accommodation fund that has a similar set of principles.

Our second impact vehicle was an affordable education fund. Our goal was to deliver 40,000 pupils in school by the time our investment programme completes and improve educational outcomes. We are delivering at a price point of about $150 a month; that's the cost of a child to attend school. To date, that fund has delivered end of school exam results about 20 percent above the national average.

Q How do you measure success?

If you look at our affordable education fund, we have a financial return objective of Jibar plus 4 percent. We measure ourselves against our net return and then we assess the educational outcome, for instance how many learner opportunities we have created, and the quality of the offer against a specific protocol that measures pupil performance.

Looking more broadly across our portfolio, as part of our ESG programme we run an environmental and social management system. We assess each portfolio company on up to 90 different appropriate variables specifically selected to measure progress of the UN's 17 Sustainable Development Goals.

In a particular asset, we pick only the useful ones where we can make a difference. We are building a database for each portfolio company recording what's happening over time so we can compare a particular school, for instance, with another we're invested in, and if we have the data available, against schools we're not.

That data underpins a conversation between the portfolio company management team and ourselves about how they are doing, what their competitors are doing, and what are appropriate targets, as well as how are we stepping up against them over time.

Q That means you can compare peer-to-peer but also across your portfolio?

Correct. The intent is to be able to aggregate this data at the fund level, so we can know, for instance, its carbon footprint; how many jobs it created this year; our diversity score – the gender representation at senior management or board level on average across our portfolio companies in a particular fund. As a manager we can say how we've done.

Q How do you make sure these measurements are integrated across the investment lifecycle?

The issue in this space is implementation, not aspiration. At a new portfolio company we will contract upfront around the data included in management reporting. Where we have an existing company and we're not a controlling shareholder, and that's generally the case, we will try to persuade management to collect the data and to the extent to which we're successful, we will put it into our system.

The data bank is a work in progress. It will become meaningful with a five-year history but we don't yet have that for some investments.

We haven't gone back with the data because that's obviously a very costly and time-consuming process, but every year we add another year of history.

Q With your impact investments, what kind of exits have you seen?

Our impact funds are long-dated, 13-year vehicles, not traditional 10-year funds, because this strategy takes a bit longer to see returns. The schools fund has been going for five or six years and we haven't exited anything yet.

In the housing space we are building and exiting continuously. To date, we have developed 13,000 housing opportunities and exited those.

We have 26 greenfield housing developments, across which we are continuously commissioning and building new houses or apartments as we sell down existing stock. In that fund the assets are ultimately self-liquidating.

In the impact space, because the funding is largely debt-driven, we do see a lot of cashflow in the portfolio. If it's not redeployed within the portfolio then it's coming back to investors. Investors have seen some reasonably strong cashflow in those funds already. ■

Seeing the light: BBOXX is bringing next-gen solar to West and Central Africa

Q Given the deficit in power generation across the continent, where do you see the most opportunity to invest?

There are 600 million people in Africa who are not hooked up to electricity. That's half the global total. In our infrastructure business power is a focus, both renewable and gas fired.

We're an investor in a 250MW power plant that's just been commissioned at Ghana's Tema Port. Around $1 billion in capital was invested there. It's a big project. Cenpower Generation will be delivering about 10 percent of the Ghanaian grid capacity.

More recently we've invested in a company called BBOXX, which is a rooftop solar installer that operates principally in west and central Africa. It's a next generation utility platform. They have installed around 7,000 domestic units and using new technology can manage supply to each home.

The ability to terminate access to non-payers allows the business to manage exposure to consumer payment risk. The key is economies of scale that allow management costs to be spread across lots of installations and the price per unit of energy to be kept quite tight.

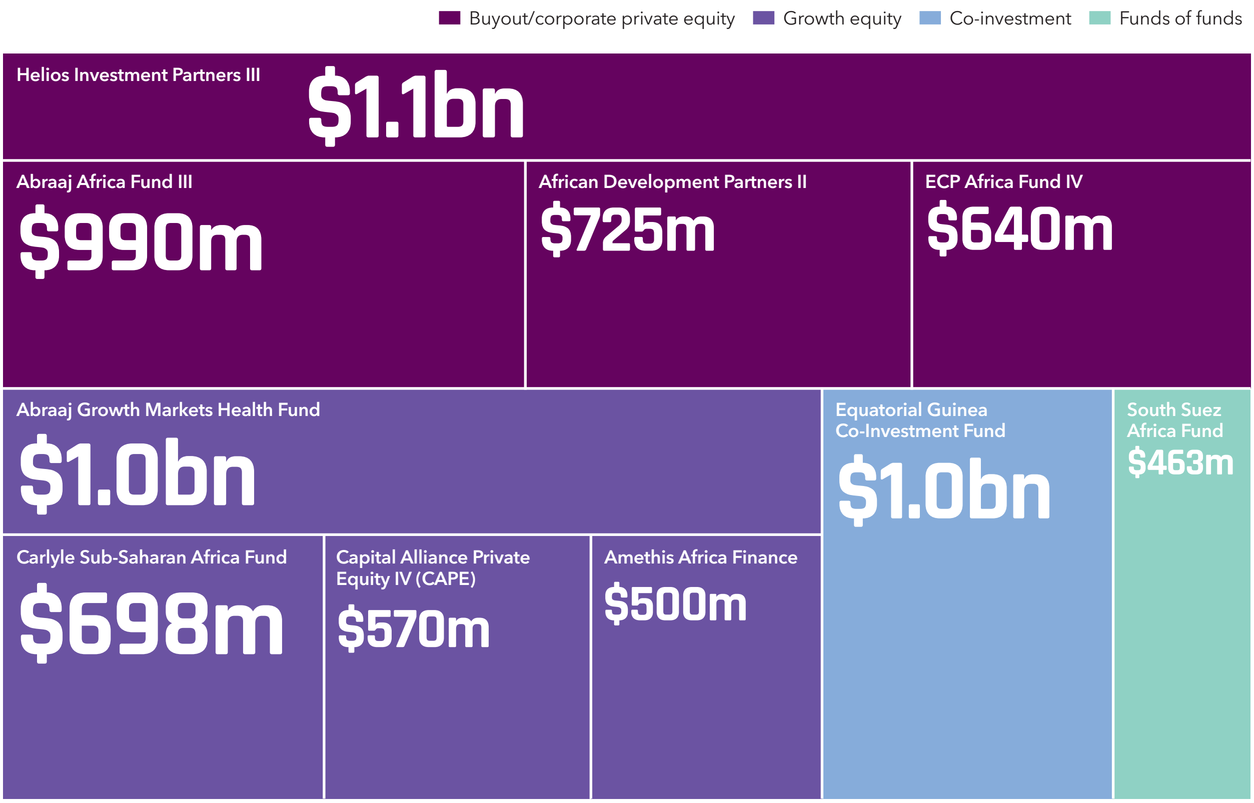
Estimates put the contribution of distributed solar to Africa's power generation capacity at 25 percent ultimately. We see it as a growth sector and are looking at a couple more opportunities in this space, including installations on commercial buildings, which carry a different credit risk.

We've looked at a lot of models and it's about assessing which are most likely to prevail. Our sense is there will be a couple of winners in this space but not all.

Return to growth

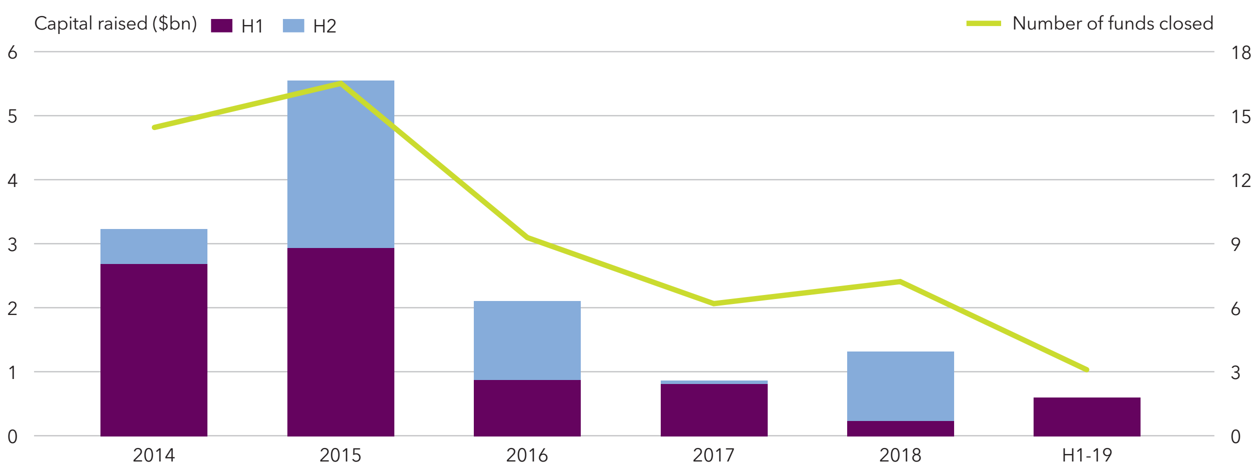
Fundraising figures are recovering after a post-'Africa Rising' dip as more, larger funds close

Ten largest Africa-focused private equity funds closed, 1 Jan 2014 to 30 June 2019



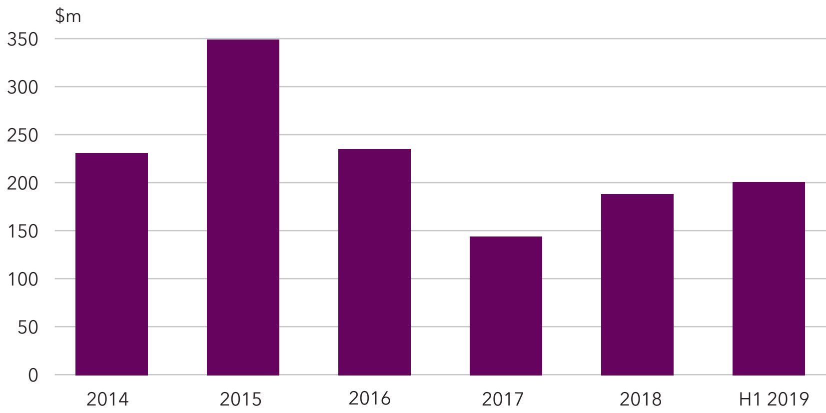
Source: PEI

Private equity fundraising focused exclusively on Africa



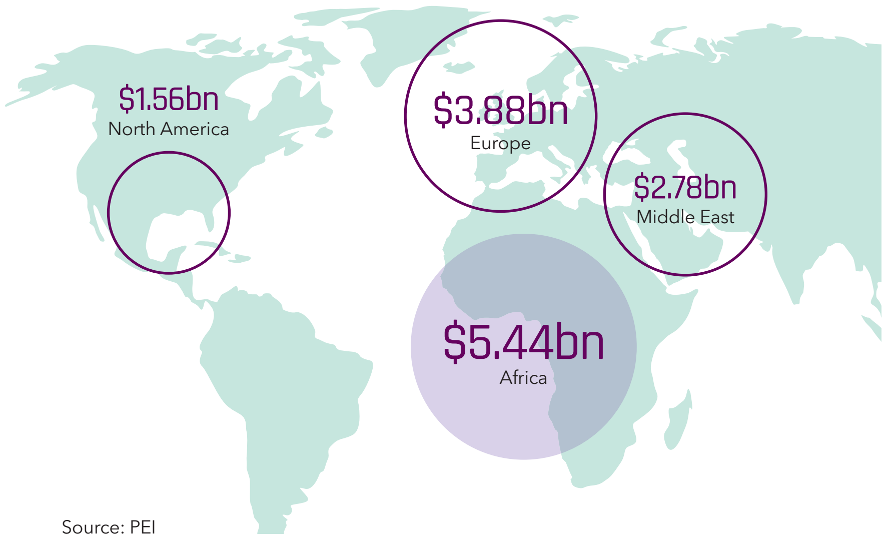
Source: PEI

Average size of Africa-focused funds that reached final close



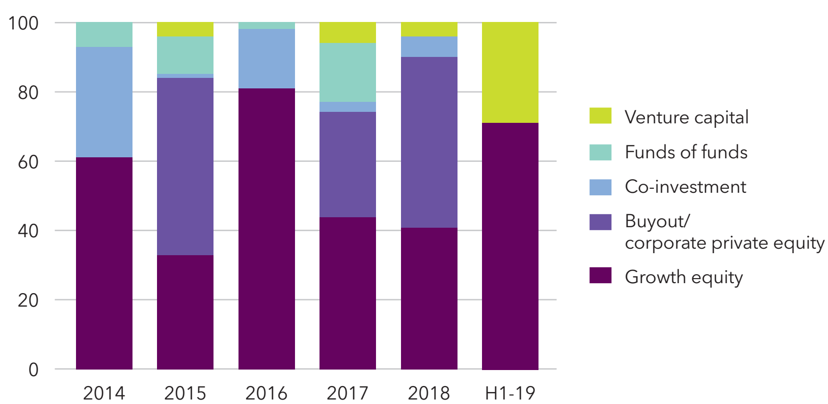
Source: PEI

Africa-focused private equity fundraising by location of managers' HQ, 2014 to H1-19



Source: PEI

Africa-focused private equity fundraising, by strategy (%)



Source: PEI

$1.25bn

Target size of Helios Investors IV, the largest fund in market

100%

Funds closed above target, H1 2019

52

Funds closed with exclusive Africa focus, 2014-18

23

Average number of months taken by Africa-focused funds from launch to close, 2018

$249m

Average size of closed funds, 2014-H1 2019

-$12.1m

Total difference between target size and current size of Africa-focused funds in 2018

Source: PEI

Out and about in… Nairobi **East Africa Venture Capital Association executive director Esther Ndeti gives her tips for first-time visitors to the Kenyan capital**

Where is the best place to stay?
The great thing about Nairobi is the many options spread across the city. I'd recommend you stay at the Nairobi Serena Hotel, on the edge of Uhuru Park in the central business district. As one of the rapidly growing districts, Westlands also hosts great accommodation options. There is the Upper Hill area or, further north in Gigiri, look out for the Tribe and Trademark hotels.

What is the best way to travel?
Kenya's Silicon Savannah is home to a bustling tech-savvy population, making ride-hailing apps extremely popular. If you download your favourite – Little Cab, Maramoja, Uber, Bolt and so on – you'll get around the city just fine.

Which restaurants would really impress a client?
Nairobi has a thriving culinary scene. The Talisman, Graze, Tamarind, Lord Erroll, Eagle's Steak House and Zen Garden's Bamboo restaurant come highly recommended for their wonderful atmosphere and cuisine.

Which building has the most jaw-dropping view?
Nothing beats the view from atop the Kenyatta International Convention Centre. The rooftop gives an unrivaled 360-degree view of the cityscape. On a clear day you can spot Uhuru Park, Central Park, City Park, the Railway Golf Club and the Nairobi National Park.

Which LPs should I visit?
Local pension funds' investments into the asset class grew at a compounded annual growth rate of 98 percent between 2016 and 2018. For local institutional capital, I'd recommend visiting the Kenya Power Pension Fund, National Social Security Fund, Central Bank of Kenya Pension and Britam Asset Managers. For the development finance initiative perspective, schedule time with the African Development Bank, International Finance Corporation, DEG, Proparco, the US Agency for International Development and the UK's Department for International Development.

> “Nairobi is the only city in the world that boasts a natural game park within its precincts”

Where's the best place for coffee?
There are wonderful coffee shops and garden cafes throughout the city: Artcaffé, Java House, Café Kaya, Spring Valley Coffee, Kesh Kesh Roastery & Café, Geco Café, Lava Latte, Connect Coffee, Wasp & Sprout or The Arbor, to mention just a few!

What's the most enjoyable day trip to take?
Nairobi is the only city in the world that boasts a natural game park within its precincts. The Nairobi National Park, which has nearly 29,000 acres of untouched wilderness offering a large and varied wildlife population, is a prime destination for a game drive on any given day.

Which local delicacy should I try?
Ugali, nyamachoma and kachumbari! It is a Kenyan cornmeal staple, with roasted meat and served with a side of salsa. Eat this at any of the local 'choma dens' or at the famed Carnivore restaurant.

Where should I head for a night out in the city?
Options are plenty in and around the Westlands area, which is surging with an urban mix of bars, high-end restaurants, and late-night coffee shops. J's Fresh Bar in Westlands is popular on Thursday nights for showcasing live Kenyan artists and bands.

Where can I go to pick up a last-minute gift?
The Maasai Market is a great place to go shopping for Kenyan branded trinkets, paintings, drawings, clothes and fabrics with East African prints, jewellery and wood carvings. Many are hand-made in Kenya by local artisans. ■