



Q3
2023

Private Capital Activity in Africa

Q3 2023: A QUARTER IN REVIEW

The Dust is Far from Settled

The confluence of multiple shocks which began in 2022 - surging high inflation, exchange rate pressures, foreign exchange shortages and poor export performance - persisted into the third quarter of 2023, putting further strain on the private capital industry in Africa. As Central banks across major economies in the continent such as South Africa¹, Kenya², and Ghana³ maintained their interest rates in September for the first time in a year, there was shared optimism that Q3 2023 would usher in a period of relative economic reprieve. However, despite the stabilized interest rates, inflation remains stubbornly high across many African countries, and the forecast for African GDP growth rate is expected to slow to 3.3% by the end of 2023⁴. Meanwhile, the dynamics within the private capital landscape in Africa also confirm that the dust is far from settled. Private capital activity continued to contract in the first nine months of 2023, in the face of the general uncertainty that agitate the global markets. Investments, exits, and fundraising have all decelerated since the second half of last year.

Investment Downturn Permeated all Corners of the Industry

Despite the uptick quarter over quarter (QoQ), Africa's private capital deal volume in Q3 2023 was down 34% compared to the same period in 2022 (see Investment - Figure 1b). Although this is the second-lowest quarter since funding began to decline in 2022, it is still higher than pre-2021 figures, thus placing 2023 year to date (YTD) on track to become the third record year historically. This also indicates that there is still some appetite for dealmaking even if the climate is far from favourable.

The downturn in investments permeated all corners of the industry, as the pace of dealmaking slowed across all asset classes. However, the steepest decline, that of venture capital activity, had a knock-on effect on the total deal volume in Q3 2023. The number of venture capital deals (operated by fund managers) shrank by 36% compared to Q3 2022 and represented more than three quarters of the decrease in the total deal volume for that quarter. During this period, fund managers scaled back their participation in seed and early-stage investments.

Regarding the value of investments, African focused fund managers generated US\$1.2bn in deal value during the third quarter of 2023, experiencing a more tempered setback of 16% drop from the same period last year. Contrary to the first

1 <https://www.reuters.com/world/africa/safrican-reserve-bank-kick-off-easing-cycle-early-next-year-economists-2023-08-22/>

2 <https://www.bloomberg.com/news/articles/2023-10-03/kenya-central-bank-maintains-key-interest-rate-at-10-5>

3 <https://www.reuters.com/markets/rates-bonds/ghana-central-bank-holds-main-interest-rate-expected-2023-09-25/>

4 [IMF Regional Economic Outlook, Sub-Saharan Africa, October 2023](#)

two quarters of the year where venture capital drove down the value of investments, this third quarter was mainly impacted by the absence of large private debt deals (deals sized above US\$100mn), which dominated private debt investments in Q3 2022 (totalling US\$425mn, and accounting for 73% of private debt deal values and 30% of private capital deal values). As the environment of high interest rates and deteriorating growth continues to swirl through African markets, it is weighing on companies' free cash flows and is of concern to all equity and debt investors. Africa private debt deal value decreased substantially, going from US\$580mn in Q3 2022 to US\$38mn in Q3 2023, further exhibiting the challenges faced by the asset class. However, it should be noted that although the number of private debt deals dipped in Q3 2023 to its lowest quarterly rate since Q1 2022, the demand for private debt since the beginning of the year stayed relatively stable (25 deals in 2023 YTD compared to 27 deals in same period last year).

Investors Shift Away from Large Deals

Notwithstanding that the decline in total deal value in Q3 2023 was less significant compared to that of the total deal volume, it placed the quarterly average of 2023 (US\$1.1bn) close to the quarterly average pre-2021 (US\$1bn) and well below that of the record years 2021-2022 (US\$1.9bn). Since the beginning of the year, fund managers were riddled with caution, evidenced by the decline in the total deal value across all ticket sizes. Both deals sized below US\$100mn and above US\$100mn recorded a significant drop in the total deal value in the first nine months of 2023, compared to 2022 (see Investment - Figure 6). They respectively declined by 49% and 63% for different reasons. Venture capital has influenced activity levels of deals below US\$100mn due to the retreat in seed and early-stage investments, in particular on deals below US\$10mn and those comprised between US\$50mn and US\$99mn. On the other side of the spectrum, the sharp decline in deals above US\$100mn was mainly the result of the absence of large private debt deals, which were concentrated on smaller deals below US\$50mn. It is also worth noting that the absence of upper-middle market private equity deals (US\$250mn+) and the decrease in private equity deals sized between US\$100mn and US\$250mn, contributed to the decline of deals above US\$100mn to a lesser extent. These middle and large market deals (i.e. deals with a value of US\$100mn and above) have contributed to 39% of private capital total deal values in 2023 to date, tracking to be the lowest year in a decade. Comparatively, those deals accounted for 64% in 2021 and 45% in 2022, further revealing that upper mid-market deal flow has given way to lower mid-market deals. However, we are seeing

some positive notes such as the increase in the average deal sizes in 2023 YTD compared to 2022, which can be attributed to the near 2x surge in the average deal size of infrastructure deals, from US\$45mn in 2022 to US\$88mn in 2023 YTD.

Decline in Venture Capital Triggers Slowdown in West Africa

The current macroeconomic environment negatively impacted private capital industry across every region. The pace of dealmaking has slowed significantly across every region in Africa in Q3 2023 when compared to Q3 2022. This decline was similarly observed in 2023 YTD compared to the corresponding period in 2022. Across both periods, however, deal activity in West Africa experienced the greatest decline (a 59% drop YoY in Q3 2023, and a 59% drop in 2023 YTD compared to same period in 2022), weighing heavily on the balance of activity observed on a continental scale. The slowdown in West Africa is a direct consequence of the decline in venture capital investments, which has historically driven deal activity in the region. This decrease in funding (by fund managers) towards venture capital in the region, during the first nine months of 2023 has indeed led to a 50% and 59% decrease in the total deal volume and total deal value respectively over the same period in 2022. More specifically, capital allocations towards portfolio companies providing services that support the financial services sector have dried up, dealing a significant blow to venture capital investments in West Africa. However, this more muted investment environment does not signal the end of the golden era for venture capital investments in West Africa. Despite the ongoing slowdown, the region nevertheless managed to attract the largest share (36%) of the total volume of venture capital deals in Africa in Q3 2023.

Investors' Appetite for Private Debt Funds Continues to Soar while Interim Fundraising Defies Headwinds

The fundraising depression has settled in Africa's private capital landscape. Fundraising continued to be challenging in 2023 as factors such as the declining rate of exits, concerns about valuations and potential returns, the denominator effect, which is still relevant for some LPs, exacerbated these dynamics. The total value of African private capital fundraising in the first nine months of 2023 declined to US\$1.2bn in final closes, representing a 40% decrease compared to 2022. Along this retreat in capital allocated to final closes, we saw a modest decline in the average fund size, and a concentration in fundraising, with the two large funds

closed accounting for half of the total capital raised. One of these funds was the Convergence Partners Digital Infrastructure Fund, which attracted US\$296mn.

Strategy-wise, investors showed the greatest interest in funds pursuing private debt and growth capital strategies, which each attracted US\$0.4bn in final closes, as well as venture capital funds which cumulated US\$0.3bn. Despite having attracted the same proportion of funds raised, the underlying dynamic of the first two assets is mixed. There is a structural shift towards private debt as a diversification strategy that is becoming more popular among investors, while growth capital funds are down compared to last year. Private debt funds managed to raise 3.2x more funds in 2023 YTD compared to 2022, meanwhile growth capital funds retreated by 65%.

Despite a difficult year mired by tightening monetary policies, other macroeconomic and geopolitical pressures, and constrained LPs' allocation, the interim fundraising has defied the headwinds faced by many fund managers. African focused fund managers managed to raise US\$1.8bn in interim closes in the first nine months of 2023, surpassing the US\$1.7bn raised in the entire year of 2022. Further inspiring optimism was the homogeneous growth in the total capital raised across all funds size, resulting in the increase of the average interim closes from US\$46mn in 2022 to US\$73mn in 2023 YTD.

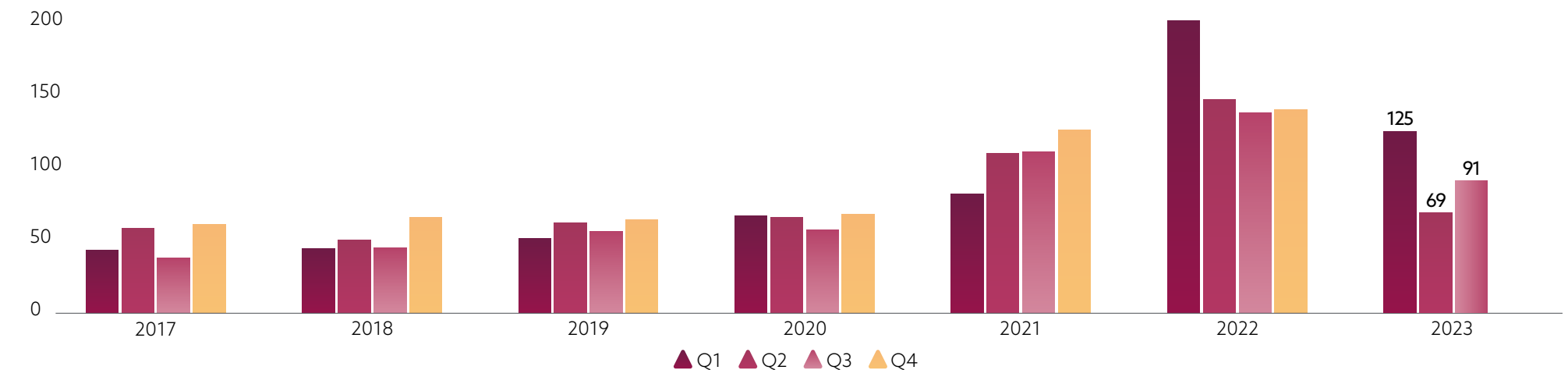
Exit Activity Battered by Market Pressures

The trend in investment decline over the past 15 months is even more exacerbated in exits as fund managers are feeling more pressure on the sell side and may have delayed exits given volatile markets pressured by uncertainty. Over the first nine months of 2023, African private capital exit volumes fell to 25 (from 82 in 2022), a sharp decline of 73% compared to 2022 (see Exit - Figure 1b). Although all exit routes have suffered, this impressive drop was mainly driven by a dizzying decline in sales to trade buyers and sales to PE firms and other financial buyers, which barely reached 14 and 8 in 2023, compared to 39 and 19, respectively in 2022. Notwithstanding the retreat of sales to trade buyers and other PE firms, these two exit routes continued to attract the largest shares of exit volume. Trade Buyers now concentrate more than half of the total number of exits (56% in 2023 YTD, from 41% on average between 2017-2022), while sale to PE firms and other financial buyers cumulate one-third (32% in 2023 YTD, from 31% on average between 2017-2022). Examples of exits successfully completed in Q3 2023 include AfricInvest's exit from InstaDeep, a leading global technology company, to BioNTech and Verod Capital Management's exit from CSCS plc, a financial market infrastructure platform, to trade buyers FMDQ Group.

INVESTMENTS

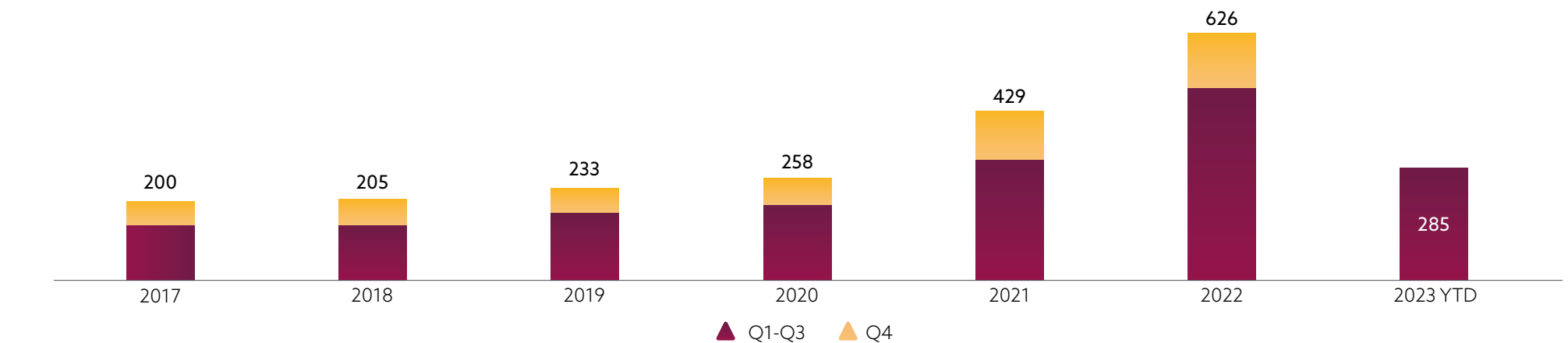
Investment Downturn Permeated all Corners of the Industry

Figure 1a: Total Volume of Private Capital Deals in Africa, by Year and Quarter



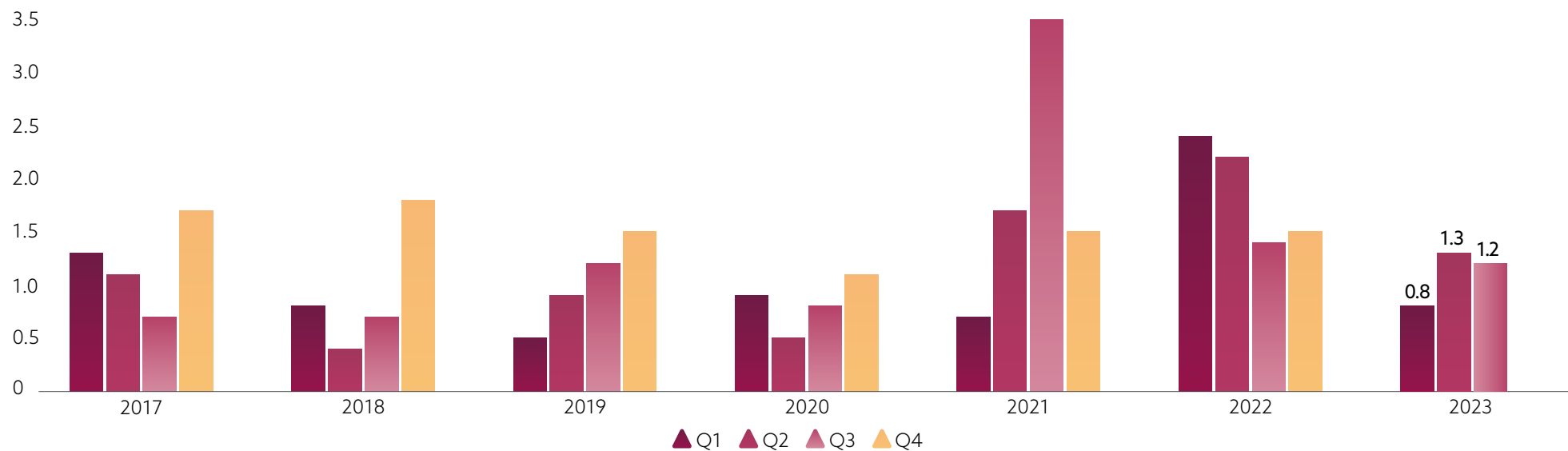
Source: AVCA

Figure 1b: Total Volume of Private Capital Deals in Africa, by Year, Q1-Q3 vs Q4



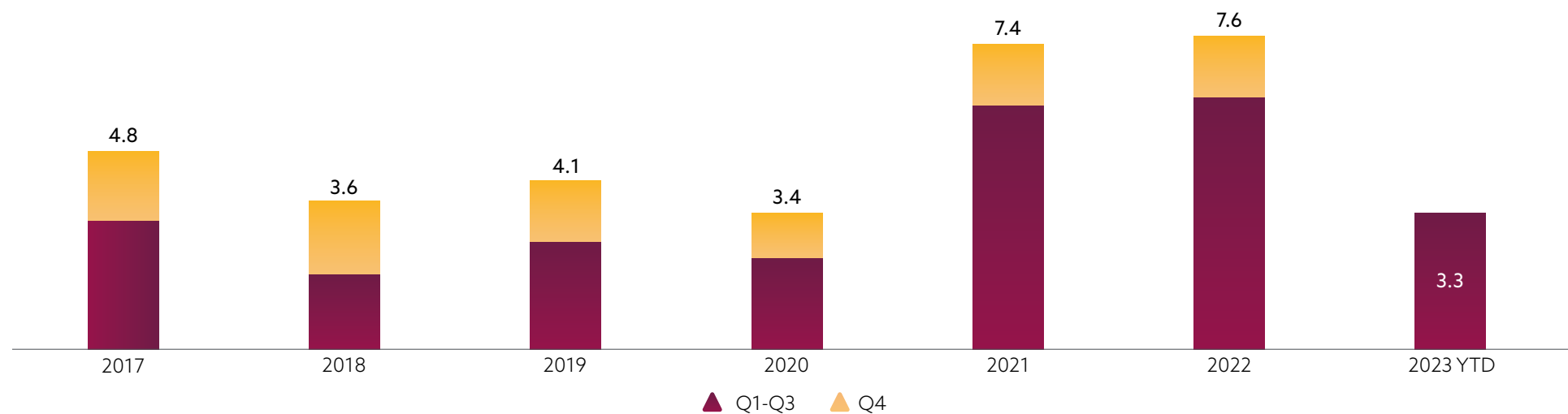
Source: AVCA

Figure 2a: Total Value of Private Capital Deals in Africa, by Year and Quarter, US\$bn



Source: AVCA

Figure 2b: Total Value of Private Capital Deals in Africa, by Year, Q1-Q3 vs Q4, US\$bn



Source: AVCA

Venture Capital Decline Drives Down Deal Volume as Private Debt Values Plummet

Figure 3: Total Volume of Private Capital Deals in Africa, by Year & Asset class

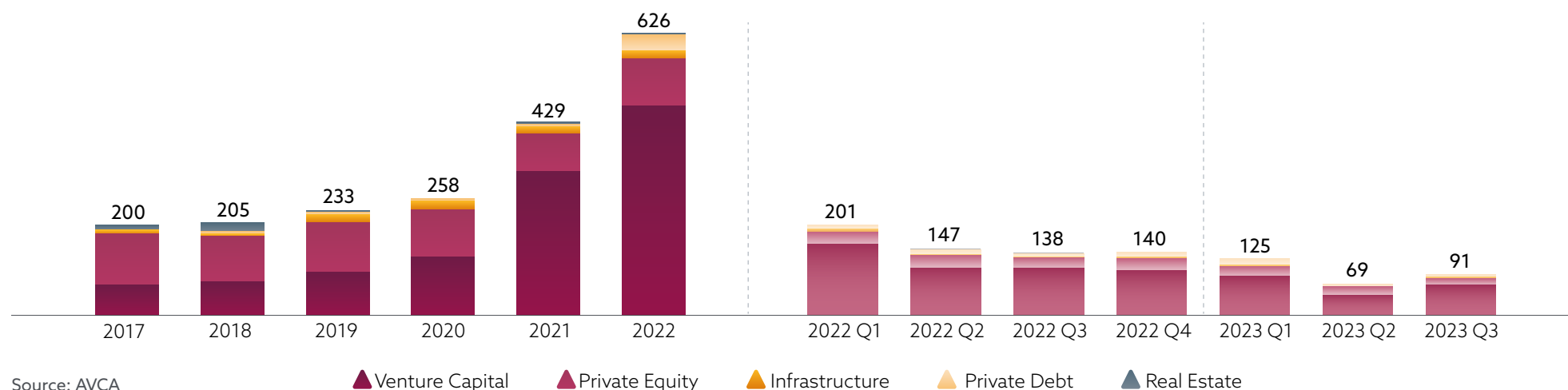
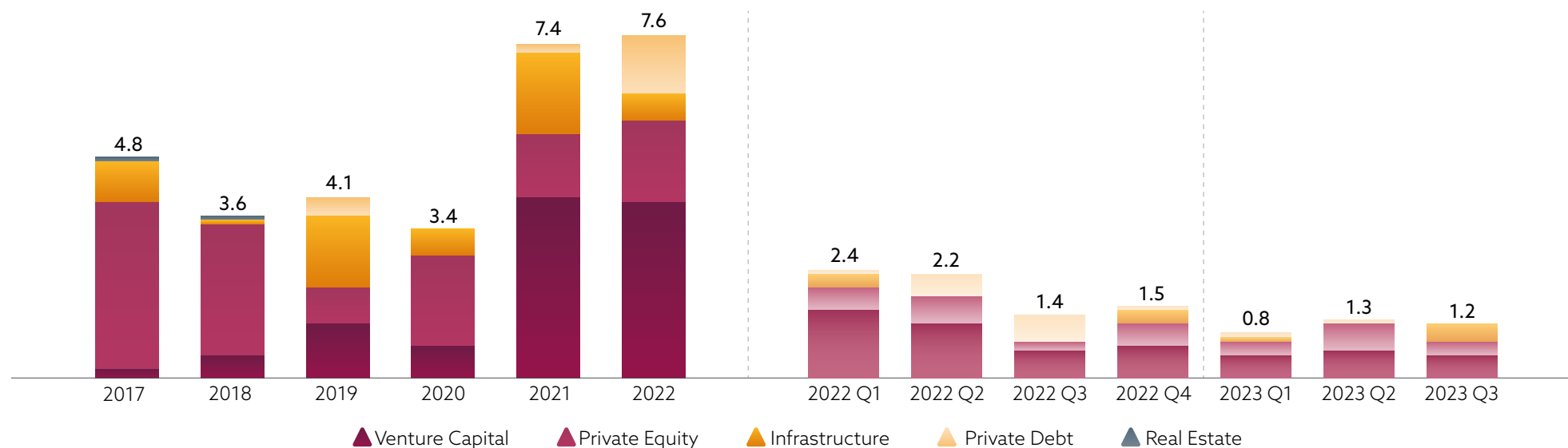
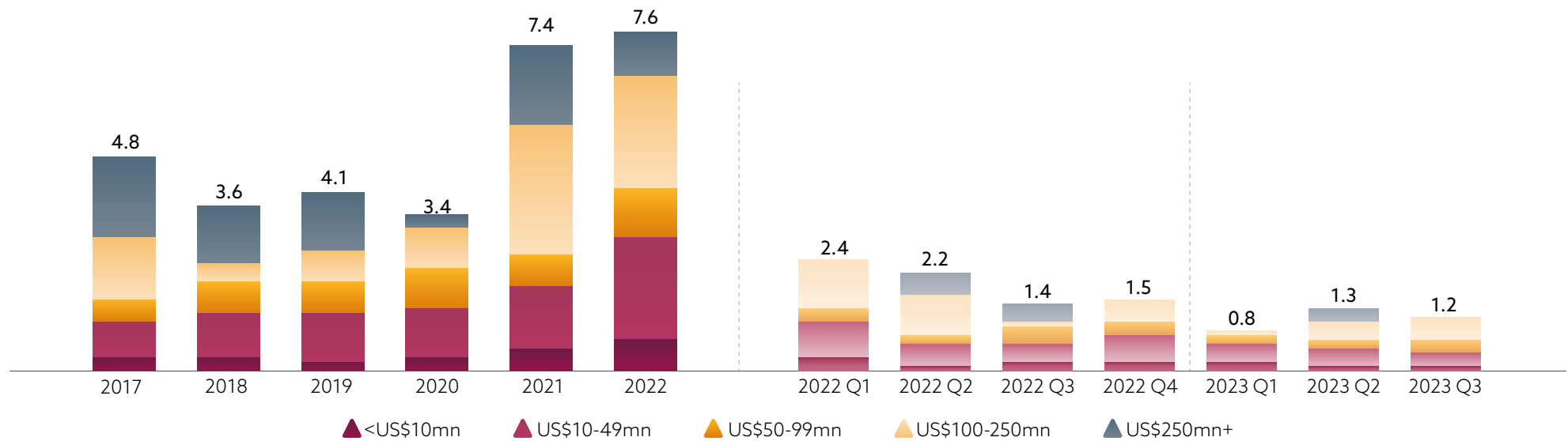


Figure 4: Total Value of Private Capital Deals in Africa, by Year & Asset class, US\$bn



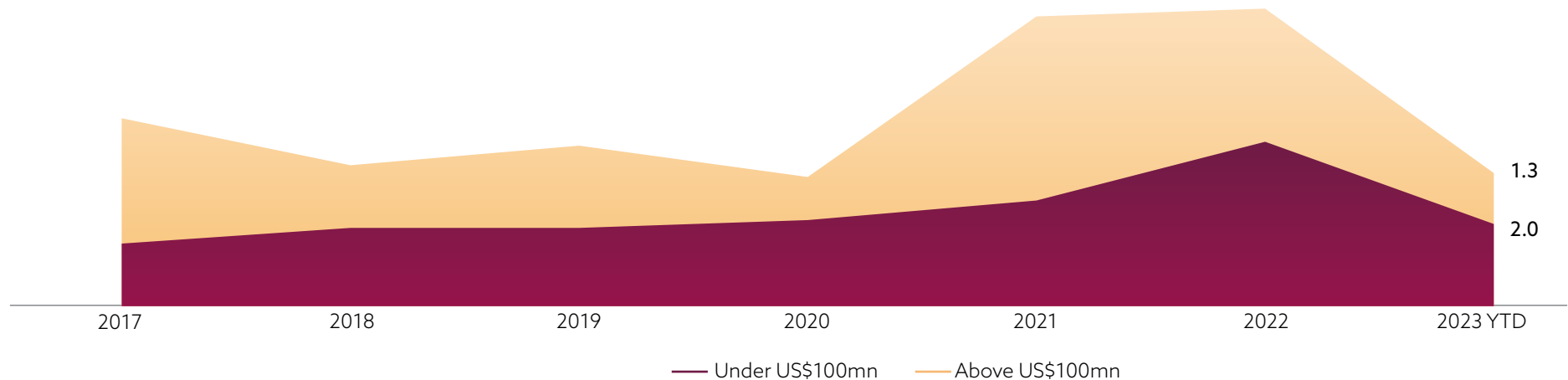
Investors Shift Away from Large Deals

Figure 5: Total Value of Private Capital Deals in Africa, by Year & Ticket Size, US\$bn



Source: AVCA

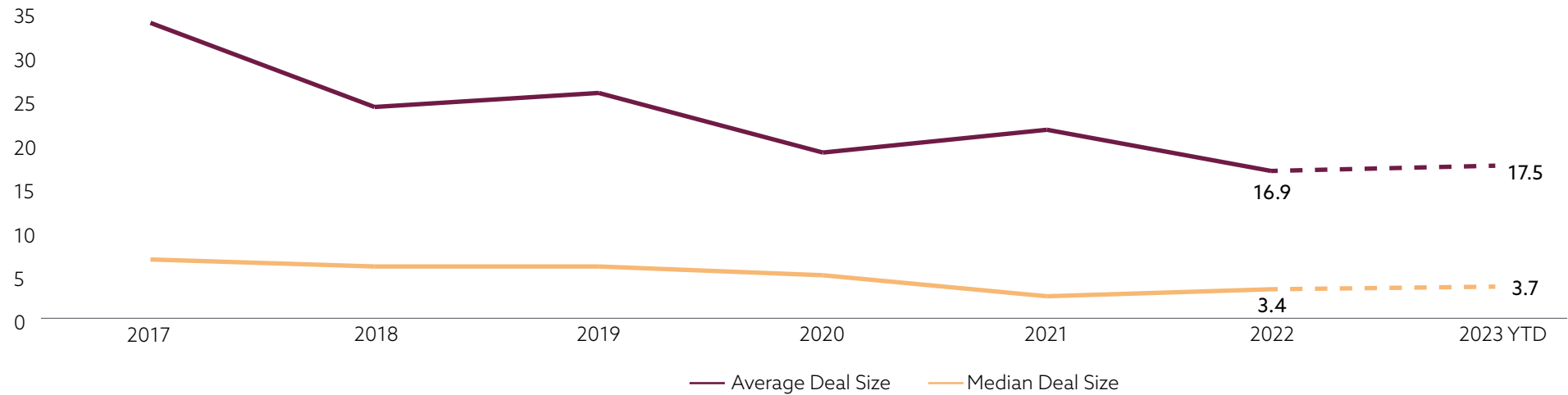
Figure 6: Evolution of Private Capital Deals in Africa Below and Above US\$100mn by Year, US\$bn



Source: AVCA

Average and Median Deal Sizes Edge Upward

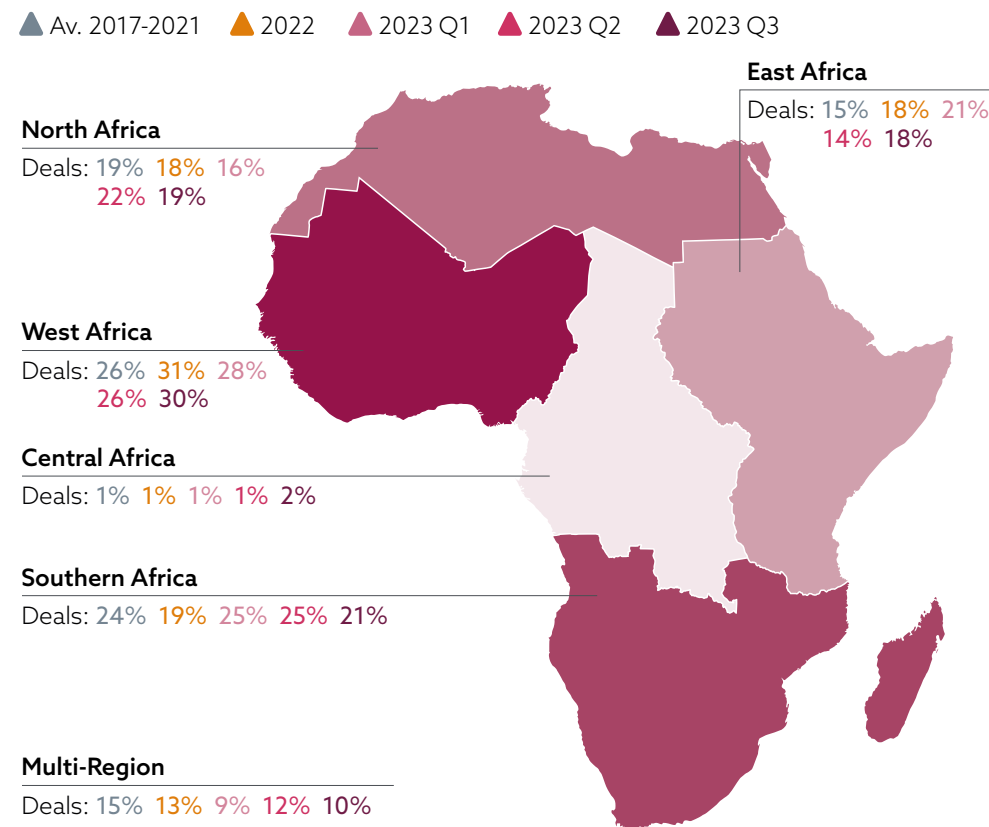
Figure 7: Evolution of Average and Median Deal Size in Africa, by Year, US\$mn



Source: AVCA

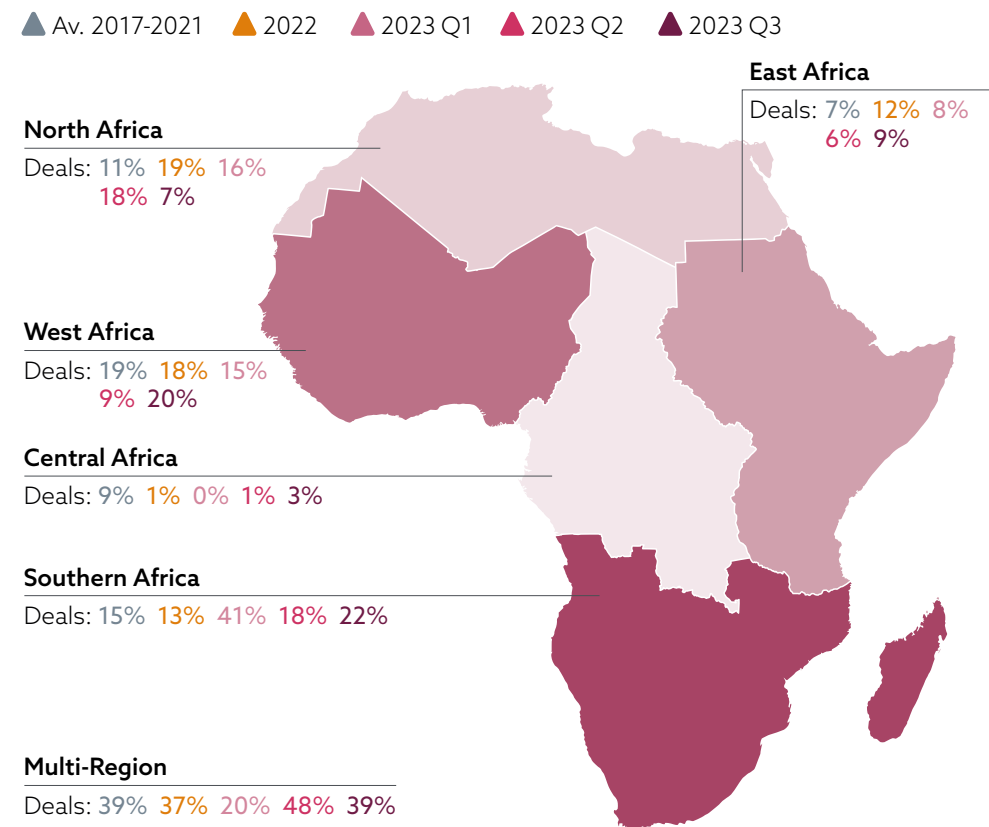
West Africa Dominates Deal Volume Despite Decline

Figure 8: Share of Volume of Private Capital Deals in Africa, by Region, 2017 – 2023 Q3



Source: AVCA

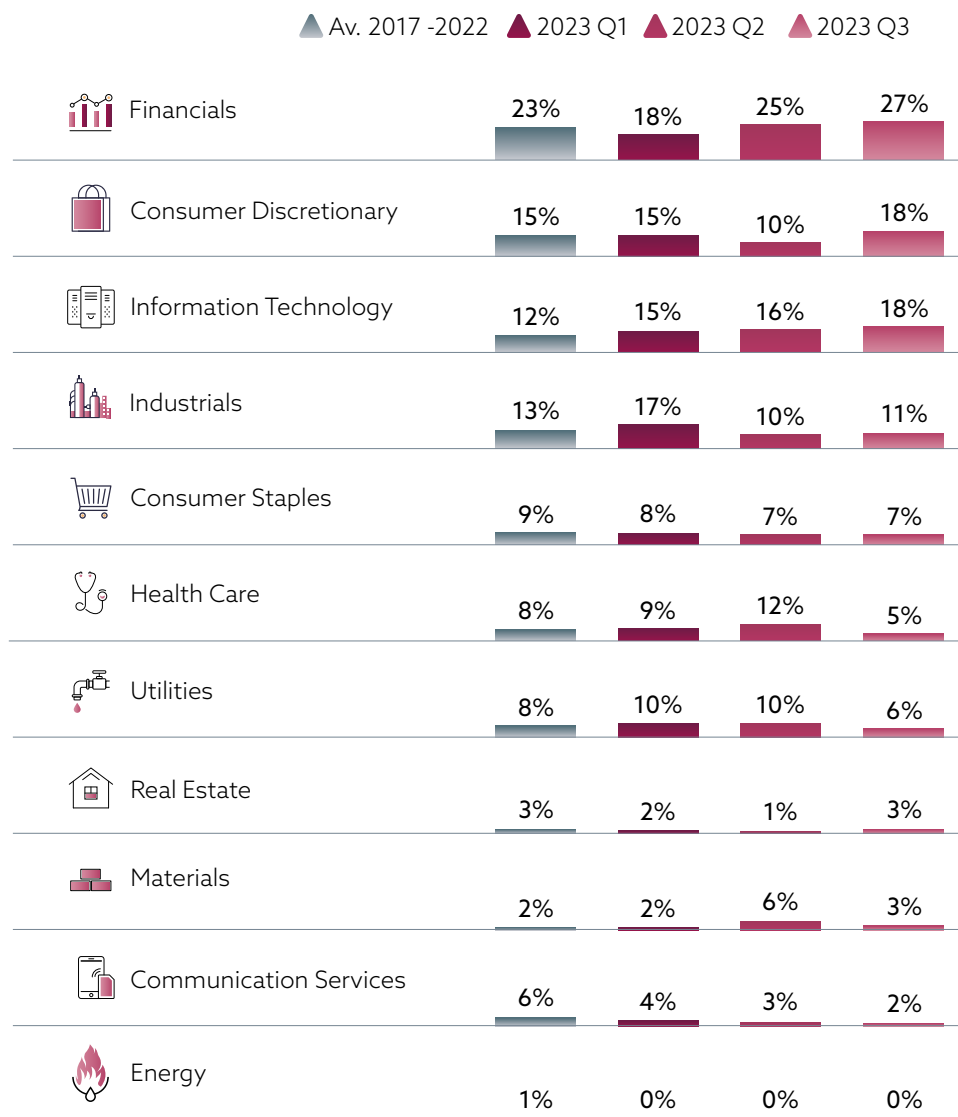
Figure 9: Share of Value of Private Capital Deals in Africa, by Region, 2017 – 2023 Q3



Source: AVCA

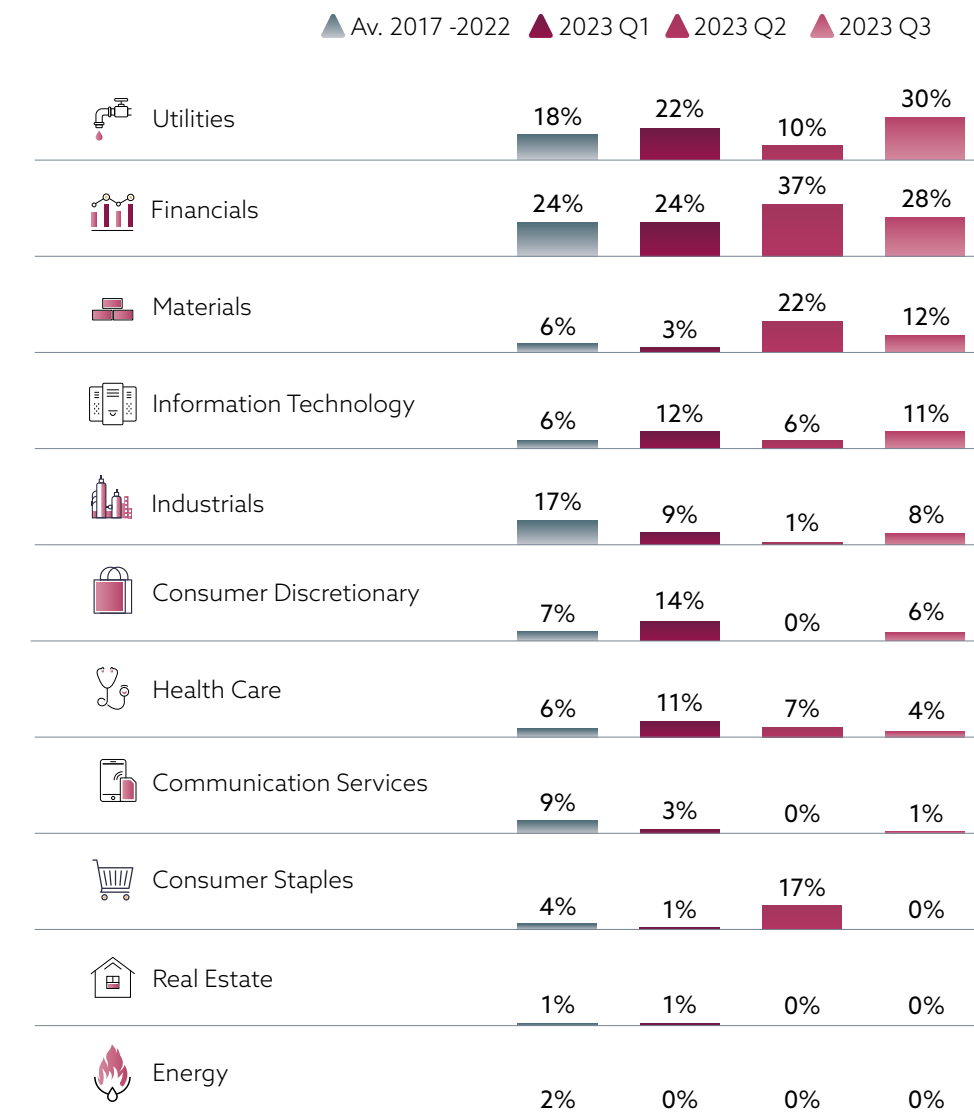
Investors Maintain Interest in Financials

Figure 10: Total Volume of Private Capital Deals in Africa, by Sector, 2017-2023 Q3



Source: AVCA

Figure 11: Total Value of Private Capital Deals in Africa, by Sector, 2017-2023 Q3, US\$bn

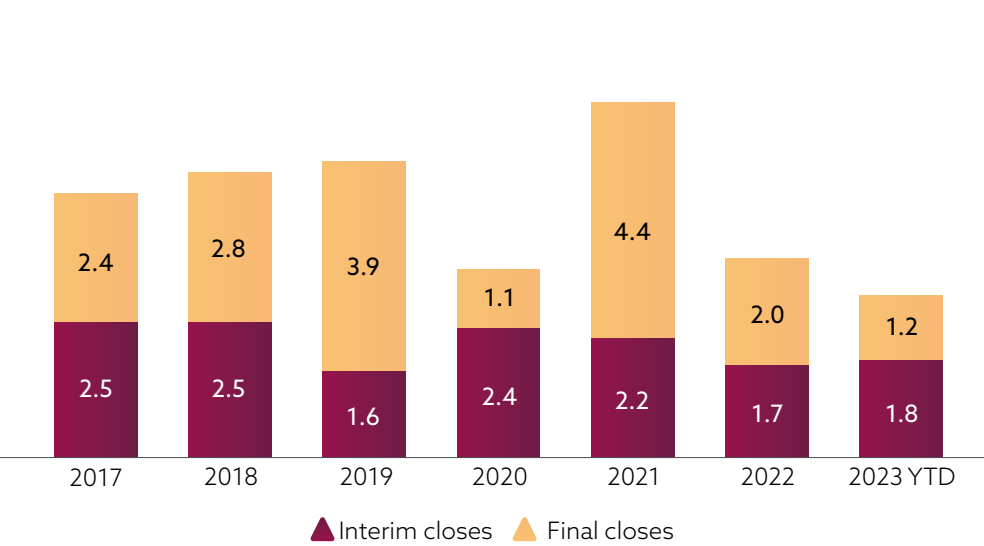


Source: AVCA

FUNDRAISING

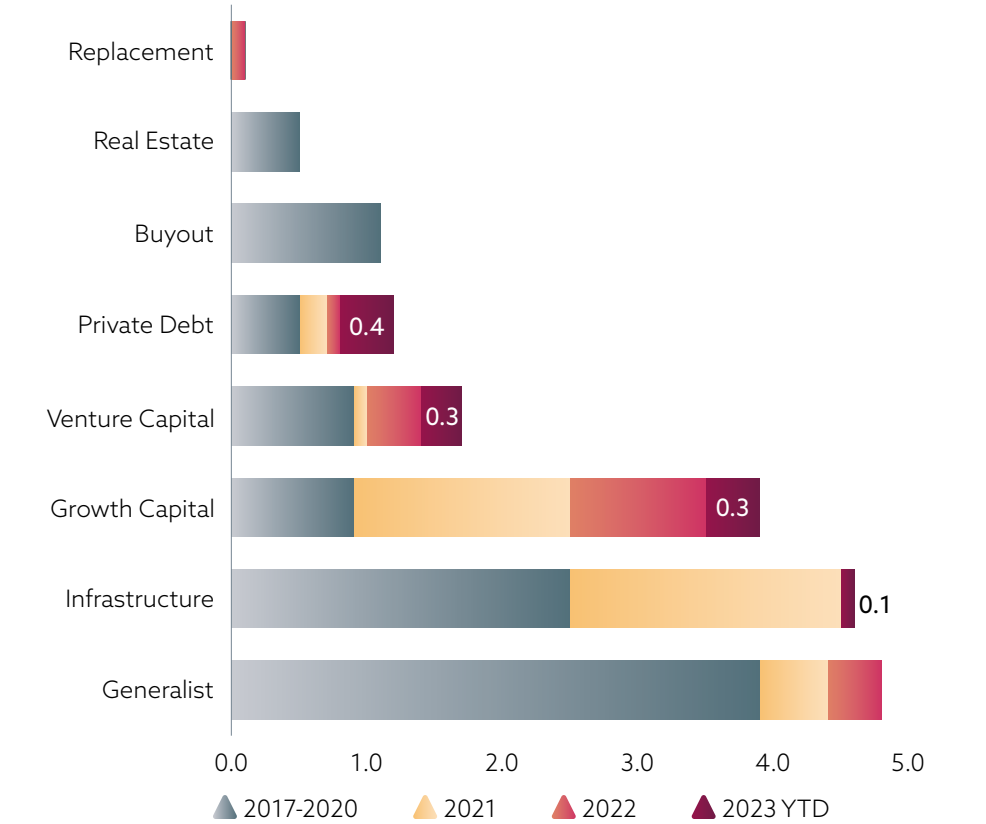
Investors' Appetite for Private Debt Funds Continues to Soar while Interim Fundraising Defies Headwinds

Figure 1: Total Value of African Private Capital Fundraising, by Type of Closing & Year, US\$bn



Source: AVCA

Figure 2: Total Value of African Private Capital Fundraising, by Fund Stage Focus & Year of Final Close, US\$bn

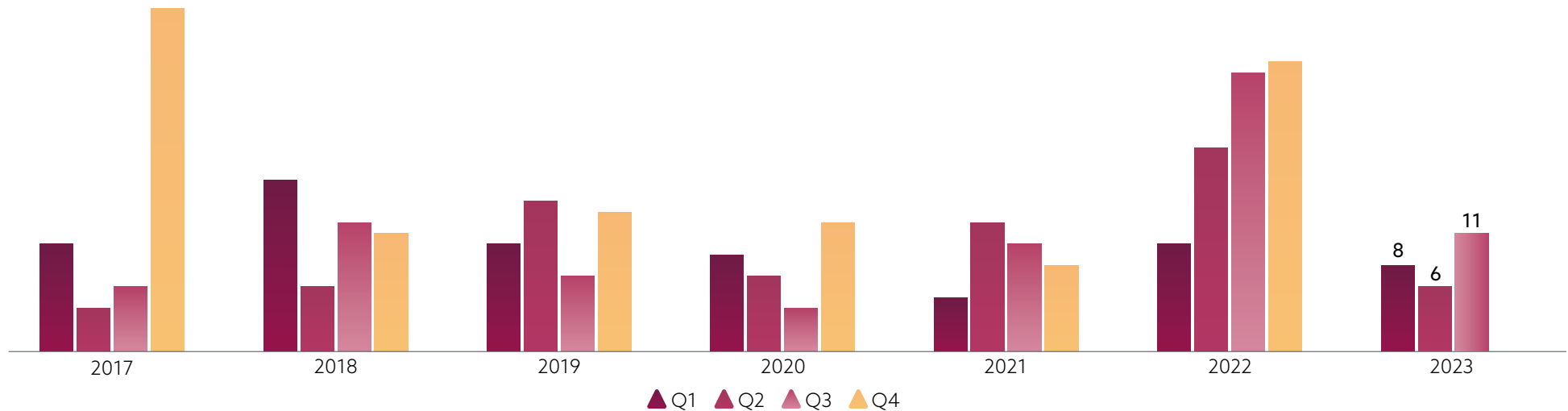


Source: AVCA

EXITS

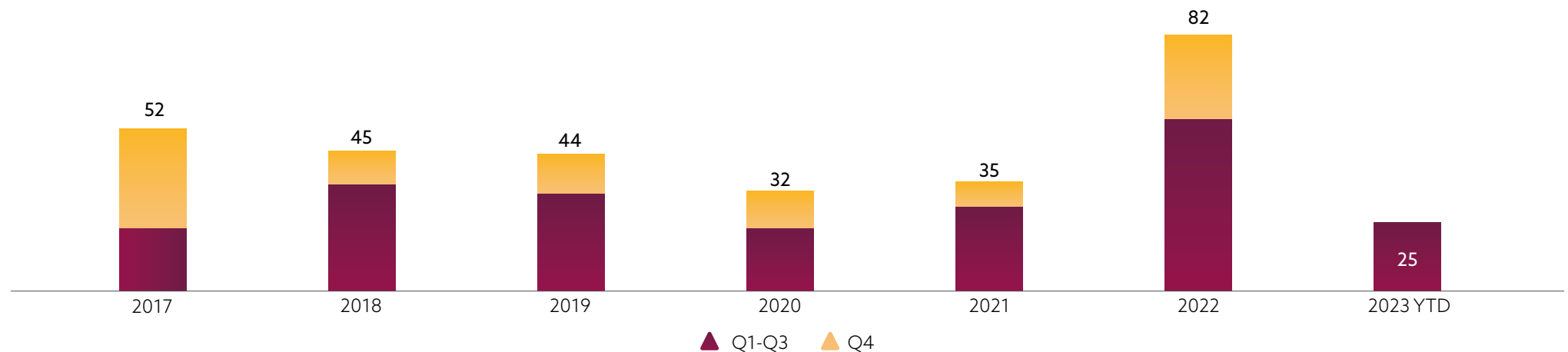
Exit Activity Battered by Market Pressures

Figure 1a: Total Volume of Private Capital Exits in Africa by Year and Quarter



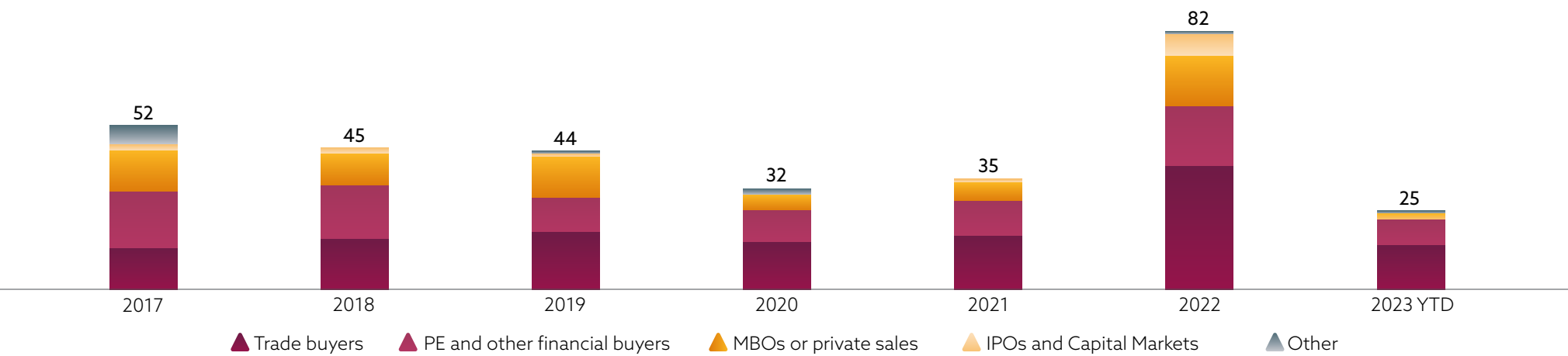
Source: AVCA

Figure 1b: Total Volume of Private Capital Exits in Africa, by Year, Q1-Q3 vs Q4



Source: AVCA

Figure 2: Total Volume of Private Capital Exits in Africa, by Exit Routes & Year



Source: AVCA

Research Methodology

This report maintains the same methodology used in the full year AVCA African Private Capital Activity Report. A detailed overview of the Research Methodology used can be accessed [here](#) on page 11.



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Championing Private Investment in Africa

The African Private Capital Association is the pan-African industry body which promotes and enables private investment in Africa.

AVCA plays an important role as a champion and effective change agent for the industry, educating, equipping and connecting members and stakeholders with independent industry research, best practice training programmes and exceptional networking opportunities.

With a global and growing member base, AVCA members span private equity and venture capital firms, institutional investors, foundations and endowments, pension funds, international development finance institutions, professional service firms, academia, and other associations.

This diverse membership is united by a common purpose: to be part of the Africa growth story.