African Private Equity and Venture Capital Association

Industry Quarterly Review

Q2, 2022

Foreword

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

What's Next For Private Capital in Africa?

Current global news headlines tell tales of rising inflation, whisper of an imminent global recession, and narrate the currency volatility, food security and political instability transcending borders and sending shock waves the world over. As overlapping crises ricochet throughout the international political economy, the next question for sideliners watching these unfolding events is simple: **what does this mean for us?** The effect of global inter-dependence is such that hyperinflation in the United States, containment measures in China and the Russia-Ukraine war will all have effects in various African countries. How, therefore, will recent developments in the global marketplace affect private capital in Africa?

The first two sections of this *Review* attempt to contextualise global macroeconomic indicators to the African context, drawing on intelligence from the *African Private Capital Activity* and the *Venture Capital in Africa* reports, both published in April 2022, to offer insights on the question on everyone's minds: What's Next For The Industry?

A Spotlight on Diversity and Inclusion

Diversity, equity, and inclusion (DEI) play an important role in the growth of private equity and venture capital in Africa. While investor interest in DEI continues to gain traction globally, many female fund managers and entrepreneurs still face barriers which limit their access to capital.

The theme for this inaugural edition of the *Industry Quarterly Review* is Gender Lens Investing, where we highlight the depth of Africa's gender financing gap problem, celebrate the industry's strides thus far towards diversity and inclusion, and call for further commitment towards parity in the ecosystem.

AVCA's mission remains to support and enable sustainable private capital on the continent and, in doing so, provides data and intelligence that supports investors to execute on the continent. We are confident that this new publication series, which adopts an exploratory lens with each new edition, will provide routine and relevant insight into wide-ranging themes topical in African private capital at present.

Abi Mustapha-Maduakor
Chief Executive Officer, AVCA

Private Capital in Africa: What's Next?

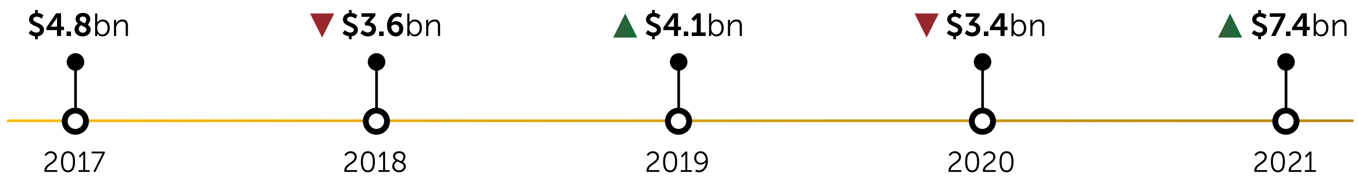
2021 was a monumental year for the African Private Capital Industry. US$7.4bn was invested across all deal strategies, sectors and regions; a level that more than doubled 2020's total of US$3.4bn and surpassed the previous record of US$4.8bn reached in 2017. Some of the megatrends from previous years pursued in 2021 and are likely to continue over the next years, in this case:

Upward trajectory of venture capital investments and Africa emerging as one of the fastest growing start-up ecosystems.

Big 4 (Nigeria, South Africa, Egypt and Kenya) maintained their position as the leading force in Africa, attracting a larger share of deal volume and value.

Predominance by deal volume of Financials, Consumers Discretionary and Technology sectors – which benefit directly from Africa's growing consumer market and increasing level of digitalisation across the continent.

Private capital investment in Africa, 2017-2021

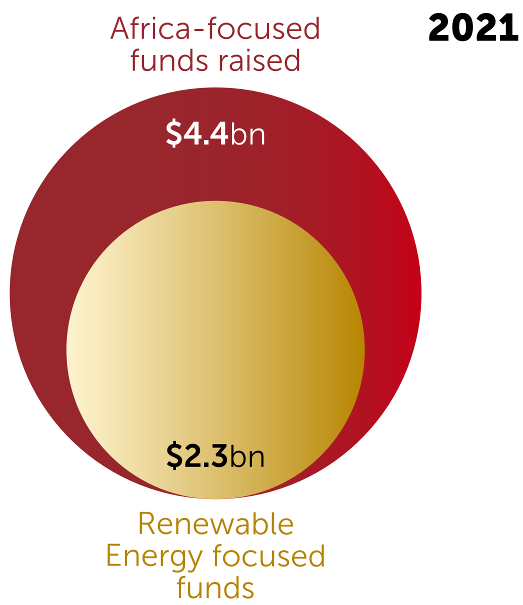


There were also some new trends that emerged and are expected to accelerate in the private capital investment market in 2022 and beyond.

1. Climate Investing Opportunity

2021 saw an increasing number of climate-related fundraising, which we expect to be deployed over the next years to finance climate related solutions and projects. 53% of the total fundraising value reported in 2021 originated from sector specific funds in the Renewable Energy sector. Not only does this illustrate the role private capital can play in supporting Africa's pathway to net zero, it is also evidence of the increasing adoption of specialised investment strategies by fund managers in sectors presenting significant opportunities for private capital investors in Africa.

Moreover, Africa will undoubtedly benefit from the investment potential in the Renewable Energy sector. Electrification is an essential first step towards achieving net zero objectives. For a continent whose rate of access to electricity is the lowest in the world and considering most forms of renewable energy are now cheaper than fossil fuels, we anticipate a growing interest from investors. An example is *Actis Energy 5*, managed by Actis, which represents US$6 billion of investable capital to invest in energy transition opportunities through investments in power generation and distribution businesses.

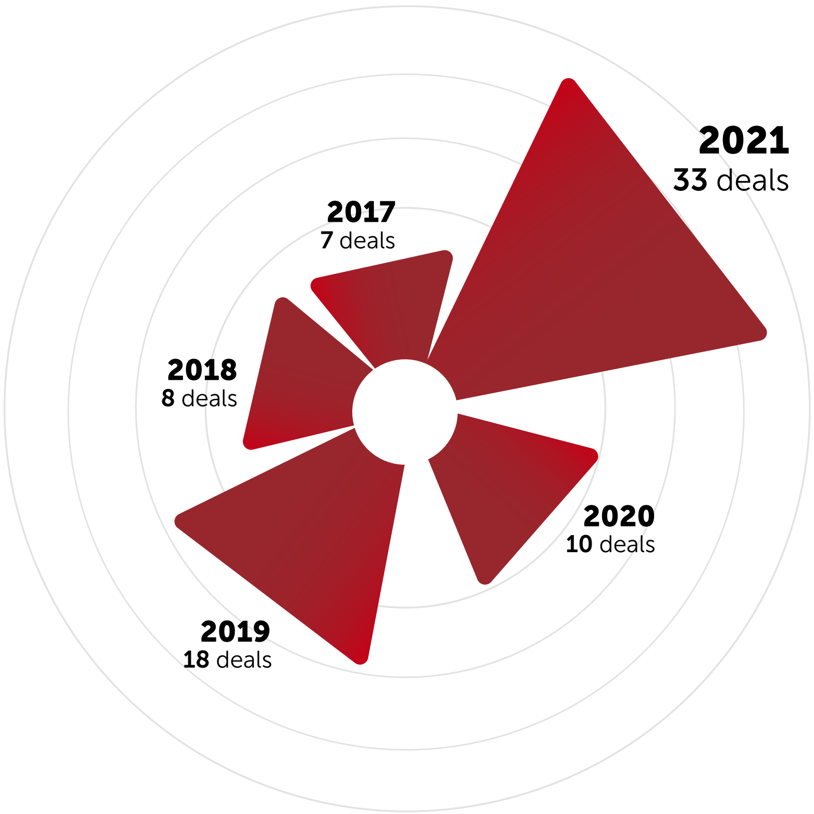


Private Capital in Africa: What's Next?

2. Transports and Logistics

We expect increased deal activity in the Industrials sector in 2022, driven specifically by rising private investment in the Transportation and Logistics industries. This is due to the marginal but noticeable growth in the number of Transportation and Logistics deals witnessed in 2021, increasing from an annual average of 11 deals over the period 2017-2020 to 33 deals in 2021. This trend will continue as **more investments will be needed to support the development and modernisation of transportation infrastructure and logistics,** in a context where Africa is reinforcing its global trade position with the implementation of the African Continental Free Trade Area (AfCFTA). An example is Meridiam's investment in Gabon's Transgabonais Railway, the only railway available to the industrial sector.

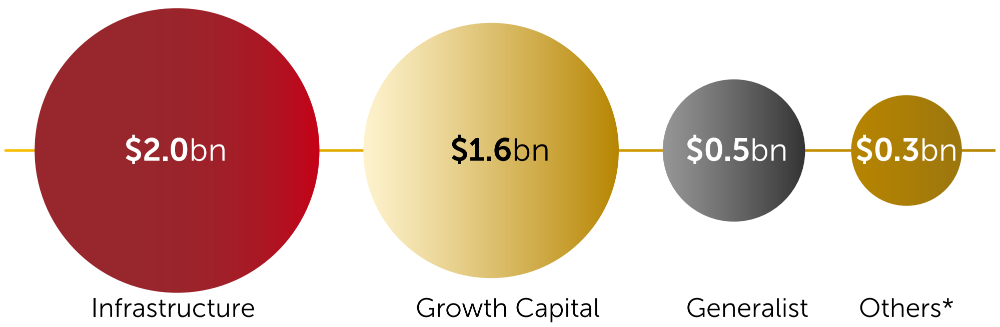
Deal Volume in Transport & Logistics, 2017-2021



3. Infrastructure Opportunity

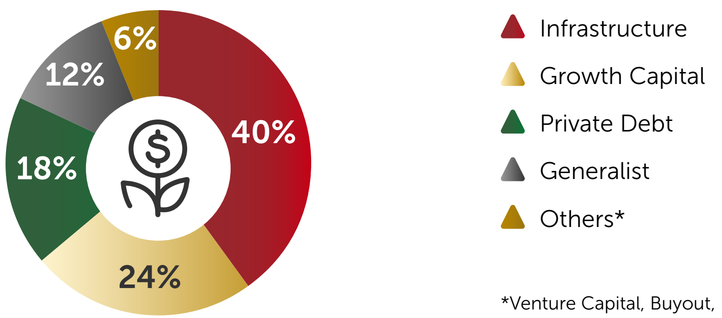
The fast rise of Infrastructure funds activity relative to their last five-year average contributed to the resurgence of fundraising in 2021. Infrastructure funds raised US$2bn, accounting for 45% of the total value of final closed funds in 2021. In addition, the interim fundraising in 2021 was also driven by infrastructure vehicles, which accounted for 40% of the total value of interim fundraising, and were largely focused on renewable energy, information and communication technologies, and transportation. An example includes the *Convergence Partners Digital Infrastructure Fund*, which reached a first close of US$120mn last year to invest in digital infrastructure in Africa. **Infrastructure funds addressing the dual challenges of Africa's large infrastructure financing gap and climate adaptation financing are likely to gain more interest from investors** who have increased their demand for funds' specialised expertise.

Private capital fundraising in Africa, 2021



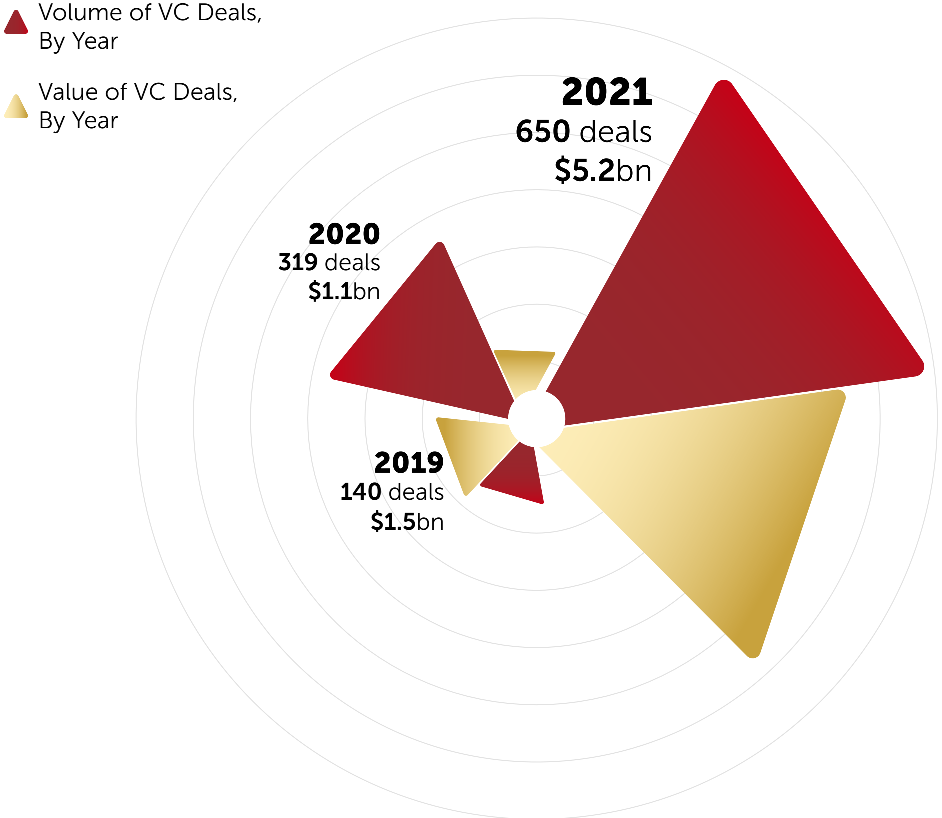
*Venture Capital, Private Debt

Private capital interim closings in Africa, 2021



*Venture Capital, Buyout, Real Estate

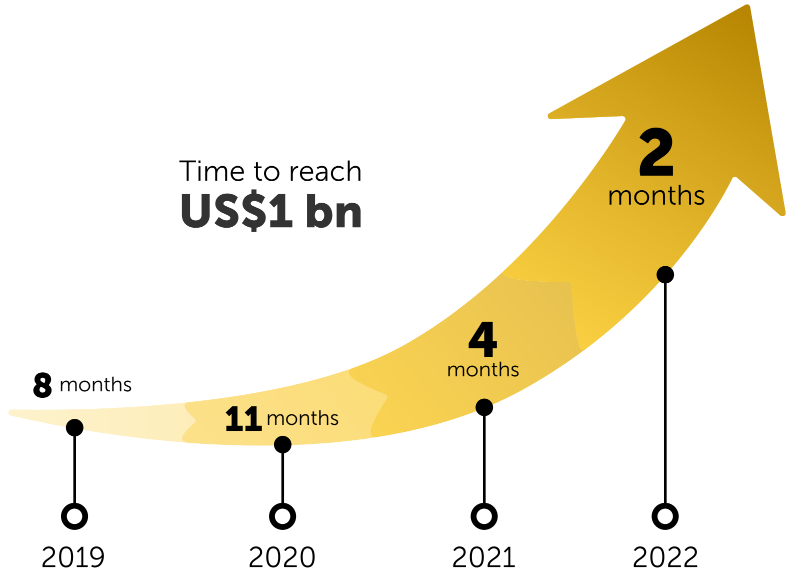
Venture Capital in Africa: What's Next?



Preliminary analysis of VC deal activity in 2022 H1 indicates that the cumulative value of VC deals reported in Africa has reached US$3.1 billion in 2022 H1[1], compared to the US$1.6 billion raised in the first six months of 2021. This equates to a 2.4x YoY increase and far outstrips the global average, which saw a YoY decline of -3%[2]. This decline in funding globally can be attributed to pronounced contractions in developed markets in Q2. European startup funding dropped by 38% from the previous year, while North American startup funding dropped by 25%. While balancing the conflicting considerations of record growth for the asset class in 2022 with wider contractions to the global venture market, the question we now ask ourselves is: **what's next?** What can we expect from Africa's venture ecosystem, whose pace of investment acceleration is being achieved nowhere else in the world? Our view is highlighted in the following three trends.

1. A Herculean Task No More: Time Taken by Year to Reach US$ 1 Billion on a Downward Trend

Each year, African entrepreneurs are halving the time taken to raise US$1 billion[3]. What was unheard of five years ago, when the total value of reported VC deals in Africa was in the low hundreds of thousands, has now become an industry norm.



So, what's next?

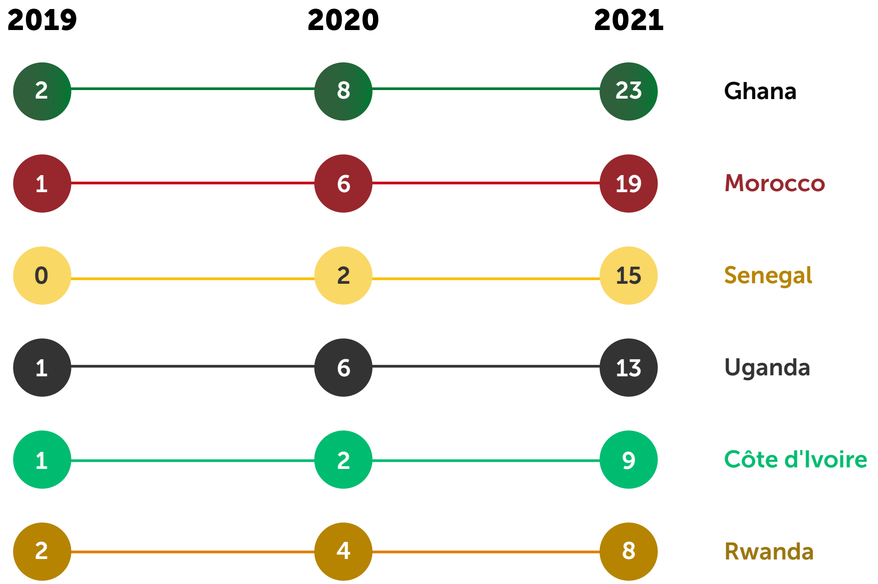
Industry benchmarks and metrics for success require upward revision. Reaching a cumulative US$1 billion in venture financing was once an elusive milestone, but is now a relatively common occurrence. As the shoe pinches with the triple digit growth of 2021 carrying forward into 2022, we need to expand the thresholds by which we analyse the industry's success and hold ourselves to higher standards.

1 Source: The Big Deal Database
2 Calculations of global industry growth averages are obtained using data from the *Crunchbase 2022 Global Funding Report*.
3 Please note that 2020 has been excluded as an outlier in this analysis, due the global economic downturn that depressed the value of venture capital investments.

Venture Capital in Africa: What's Next?

2. Beyond the Big 4

The Big 4 (Nigeria, South Africa, Egypt, Kenya) remain the giants of Africa's silicon savannah, continually attracting the lion's share of both deal volume and value. While this trend shows no sign of future dilution, what is interesting to observe are the emerging markets outside of Africa's leading quartet showing marginal, but steady year-on-year growth in aggregate deal volume.

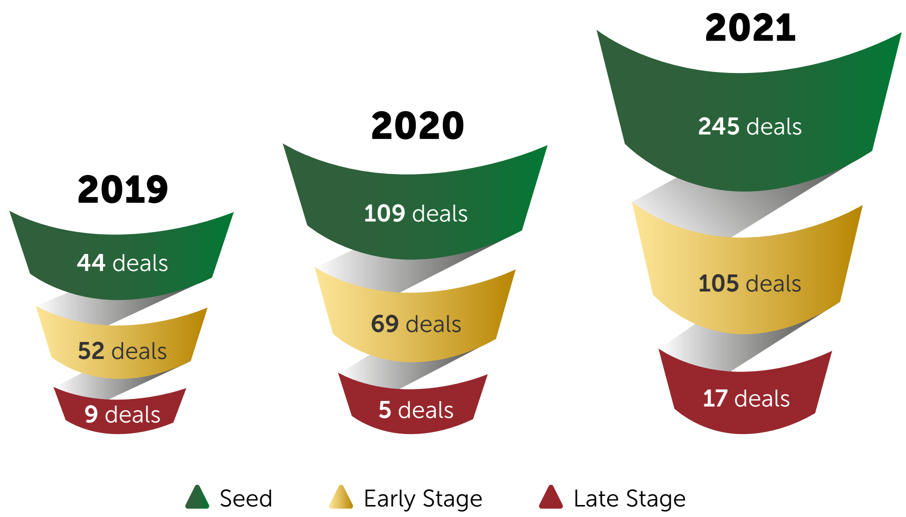


So, what's next?

Francophone Africa will continue making a name for itself in the ecosystem. Francophone Africa has been the subject of increasing deal and fundraising activity in recent years, with the region welcoming its first unicorn last year via FinTech startup *Wave's* US$200 million Series A round. Considering half of the emerging markets listed above are French speaking, we can expect a more varied geographical distribution of venture financing towards Francophone Africa as investors awaken to the depth of entrepreneurial talent and economic opportunity the region has to offer.

3. Shifting Gears From Infancy to Adolescence

The majority of venture financing directed to startups in Africa remains concentrated in seed and early-stage funding rounds. Early stage (Series A and B) deals accounted for 16% of deal volume in 2021, with an average ticket size of US$19.4 million and a median ticket size of US$7.5 million.



So, what's next?

Larger and more frequent late-stage deals. Given the historic predominance of seed and early-stage funding rounds, and to keep pace with soaring entrepreneurial activity, we anticipate more VC funds targeting the early-stages to come to market in future. However, as startups progress in their business lifecycle, we also expect the natural maturation of the industry to shift towards more late-stage deals. Moreover, as Africa's entrepreneurial space matures and more startups maintain investor confidence to secure later-stage venture financing, we expect the ticket sizes of these rounds to also increase. There is already evidence of this anticipated expansion of the later stages. In 2021, late-stage deals (Series C-F) showed a 3.4x YoY increase by volume, and a remarkable 20.4x YoY increase by value.

Market Activity

Deals

Every month, AVCA publishes a roundup of the latest developments in African Private Capital, highlighting the month's notable deal activity as well as industry news, events, and research to look out for. **Catch up on the latest deal activity that took place in Q2 2022 here:**

AVCA Newsletter
April 2022 →

AVCA Newsletter
May 2022 →

AVCA Newsletter
June 2022 →

Exits

29 publicly disclosed exits (partial and full) were announced in 2022 H1, with an average of 4 exits per month[4]. Heralding a positive start to Q2, April saw the highest concentration of exit activity, with 7 exits occurring. **Notable exits that were announced in Africa's private capital landscape this year include:**

Portfolio Company	Exiting Investor	Sector	Region	Exit Route	Date
Axxela	Helios Investment Partners	Energy	West Africa	PE and other financial buyers	Mar-22
Goodlife Pharmacies	LeapFrog Investments	Consumer Staples	East Africa	Trade Buyers	Mar-22
Tapestry Home Brands	Actis & other investors	Consumer Discretionary	Southern Africa	Trade Buyers	Mar-22
AutoXpress	Actis	Consumer Discretionary	East Africa	PE and other financial buyers	Apr-22
Consol Holdings	Old Mutual Private Equity, Sanlam Private Equity & other investors	Materials	Southern, East and West Africa	Trade Buyers	Apr-22
Groupe Cofina	Mediterrania Capital Partners	Financials	West & Central Africa	PE and other financial buyers	May-22
Naivas International	Amethis Finance, DEG, IFC & other investors	Consumer Staples	East Africa	PE and other financial buyers	Jun-22

4 This is a summary of publicly disclosed exits only. Full data on exit activity will be published in the 2022 H1 African Private Capital Activity.

Market Activity

Fundraising

The first half of the year has also seen several funds in various stages of their fundraising cycle announce final and interim closes. A selection of private capital funds that **announced a close** in 2022 H1 include:

TPG Closes *Rise Climate Fund* at $7.3 Billion

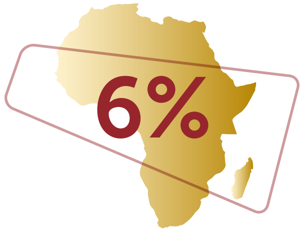
AfricInvest closes its largest African midcap-focused fund raising over US$400mn

TLcom secures first close of US$150mn *Pan-African Tech Fund*

HAVAÍC completes the third and final close of its *HAVAÍC Universum Core African Fund*

Norrsken22 announces first close of $200m fund backing Africa's future tech giants

Highlight: Diversity, Equality, and Inclusion (DEI)



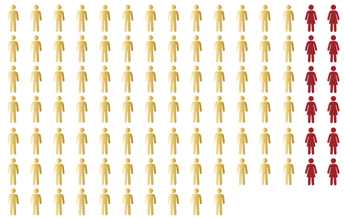
of startups that secured more than US$1 million in funding in 2019 were led by indigenous founders[5]

Startups led by African-educated CEOs raised less

CEOs educated on the continent raised less by both volume (44%) and value (28%) than their foreign-educated counterparts in 2021[7]

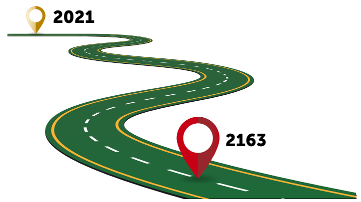
Funding is not a gender-neutral space. Less than 7% of the over US$800 billion that has been allocated to emerging markets to date is invested in women-led companies[9]. **Neither is it an unbiased space.** Africa's venture capital industry is plagued with widespread perceptions of venture bias, where expatriate or foreign educated founders are considered more likely to successfully raise capital than their indigenous counterparts.

Recognising the importance of DEI as a strategic objective in private capital, the African Private Equity and Venture Capital Association, in partnership with the 2X Collaborative and Kuramo Capital, hosted a Diversity, Equality and Inclusion Roundtable at the AVCA 2022 Annual Conference in Dakar, Senegal. The Roundtable highlighted the moral and business case for championing diversity in private capital, illustrating how **integrating DEI principles at both the firm and portfolio levels contributes positively to performance and long-term sustainability.**



12%

of senior investment professionals within fund management firms in sub-Saharan Africa were women (2017)[6]



142 Years

For Africa to reach gender parity, if the continent continues at the current rate of progress[8]

US$150 million

raised by startups with women in senior leadership roles in 2021. That's US$1 in every US$35 raised

5 Launch Africa, 2022. *African Venture Funding Landscape*
6 IFC, Oliver Wyman and RockCreek, 2019. *Moving Toward Gender Balance in Private Equity Markets*
7 Africa: The Big Deal, 2022. *Homegrown Talent Still Has It Harder*
8 McKinsey Global Institute, 2019. *The Power of Parity: Advancing Women's Equality in Africa*
9 IFC, 2019. *Moving Toward Gender Balance in Private Equity and Venture Capital*

Highlight: Diversity, Equality, and Inclusion (DEI)

"There is a US$42 billion gender funding gap between male and female entrepreneurs, according to the African Development Bank. **This gap exists because we don't have enough women capital allocators making those critical investment decisions.** As the number of women allocating capital increases, either by owning and running their own funds, or by becoming Partners in PE and VC Funds, I think we'll see more funding trickle down to female entrepreneurs."

Adesuwa Okunbo Rhodes,
Founder and Managing Partner of Aruwa Capital Management

"Before we started Kuramo, I was investing capital globally, travelling to China, India and Latin America. What I saw was indigenous fund managers running their own funds, companies and local networks incredibly successfully. When we started Kuramo, that's what we repeated. **To date, we've invested in 15 indigenous first-time funds. We have 20 funds overall, and only two are non-indigenous.**"

Wale Adeosun
Founding Partner and Chief Executive Officer of Kuramo Capital Management

"External investors cannot expect to have the same understanding of local markets as indigenous fund managers. Oftentimes, **indigenous fund managers are the ones coming up with new investment strategies because only they have seen the problems in their environment, noticed where the shoe hurts, and where solutions need to come from.** An openness to embrace diversity is critical: investors need to be intentional, open to new strategies, and understanding of the new solutions that indigenous players are bringing to the table."

'Tokunboh Ishmael
Co-Founder and Managing Director of Alitheia Capital

Highlight: Female Fund Managers

US$640 million — US$830 million

cumulative target fundraising by female fund managers in Africa[10]

53%

of female fund managers in Africa are impact investors, adopting a gender-lens strategy

85

Current portfolio investments of female fund managers in Africa[11]

Africa's economic development is inherently interlinked with the progress of its women, and thus requires the elimination of existing barriers to women's leadership and participation in economic activities. Given that African women are the backbone of their economies; producing close to 80% of the food; supporting 40% of the families; and comprising close to 90% of the informal economy[12], **any private investment initiative on the continent ought to be more inclusive in recognition of the integral role women play.**

Intentionally seeking to increase the participation of female fund managers is both a moral and economic imperative. It has the potential to correct affinity bias in investing, decrease investment risks, and drive superior innovation, decision making, financial performance and social impact. AVCA's *Female Emerging Managers Look Book* is an industry first compilation of female emerging managers currently fundraising on the continent. This Look Book highlights the breadth of capable female capital allocators active on the continent, to support investors and fund managers alike who are committed to addressing diversity and inequity in the industry.

Further investigation of the female fund managers profiled reveals that:

60%

of female fund managers in Africa are also first-time fund managers.

2/3 of female fund managers active in Africa are also first-time fund managers. This overlap highlights the need for capital allocators to adopt a multi-targeted and intersectional approach when investing in support of DEI, given that a high proportion of first time fund managers are either female or indigenous. There is a great deal of opportunity for profit and impact through several overlapping approaches: by gender, experience, and ethnicity.

58%

of female fund managers in Africa have a target fundraise between US$20 and US$50 million.

There is a broad range of target fund sizes being raised by female fund managers in Africa, the lowest of the cohort being US$5 million and the highest having a target close of US$100 million.

This mirrors the equally broad investment strategies intended for these Funds, which span the entirety of the investment lifecycle from early-stage accelerator & incubator programmes to late-stage growth capital.

Early-Stage Venture Capital

is the preferred investment strategy of female fund managers in Africa.

Just under half (42%) of female fund managers in Africa are raising venture capital funds that will invest at the seed stage; another 16% are raising funds that will invest in Venture and SME Growth; while 11% are raising hybrid Private Equity and Venture Capital Funds.

10 This figure is a range of expected capital looking to be raised cumulatively by the female emerging fund managers featured in AVCA's *Female Emerging Managers Look Book* only.
11 This figure only refers to the number of portfolio investments of female fund managers featured in AVCA's *Female Emerging Managers Look Book*.
12 African Development Bank, 2019. *Unleashing Women's Entrepreneurship Through Strategic Partnerships*

Highlight: SDG 5 – Gender Equality

The countdown to 2030 has begun. With less than eight years before the clock on the United Nations Sustainable Development Goals (SDGs) elapses, the scaling of sustainable finance is paramount to see the realisation of the targets envisioned by this development framework. In recognition of the urgency of this global priority, and to celebrate 20 years of championing private investment in Africa, AVCA launched the *Achieving the SDGs through African Private Equity and Venture Capital* series in September 2021.

The fifth of the SDGs, which aims to achieve gender equality, advocates that gender equality is not only a fundamental human right, but a necessary foundation for a peaceful, prosperous and sustainable world. The proceeding two case studies illustrate the role private capital can play in the promotion of women's leadership and participation in economic activities by adopting a gendered lens to investing.

The first showcases how **Alitheia IDF**, a pan-African gender lens investing fund, have integrated SDG 5 in their investment in *ReelFruit*, a Nigerian woman-owned agro-processing company. The second explores how **Adenia Partners** are addressing SDG 5 via their investment in *Red Lands Roses*, a Kenyan company specialising in premium rose production.

SDG 5 INDICATORS	5.1 Presence of internal frameworks or policies to promote, enforce and monitor equality and non-discrimination on the basis of sex.	5.4 Provisions at the fund and portfolio level that support caregivers and those with responsibilities related to unpaid domestic and care work.	5.5 Proportion of women at the fund and portfolio level in senior executive or managerial positions.
Alitheia IDF Contribution (réelfruit – Always delightful)	1. Senior Management entirely **women-led**. 2. **Gender balanced** employee base (55% women).	1. Implementation of a **paternal leave policy**.	1. At portfolio level: **100% female led** 2. Fund level: **100% female led**
Adenia Contribution (Red Lands Roses)	1. Implementation of a **Gender Policy** and Grievance Mechanism. 2. **Gender balanced** Senior Management team (50%) and employee base (55%). 3. **Affirmative action recruitment processes:** where women are under-represented and qualifications are the same, Red Lands gives preference to women in appointments, professional advancement and vocational training places.	1. Red Lands runs the Gitothua **Day Care Centre** (GCC) which caters for children of employees and also serves as a rescue centre for women and girls in the community. 2. Introduction of a **scheme for payment of school fees** for employees' children with a priority focus on girls.	1. Portfolio level: creation of **a gender-balanced Board** since Adenia's acquisition, with women comprising more than 50%.

Regulatory Updates

South Africa

In February 2022 the South African Reserve Bank issued an upward revision of the maximum foreign investment exposure permitted for all retail assets from 30% to 45%. This new threshold applies to pension funds, insurance companies and investment funds, opening the door for increased geographic diversification of South African institutional capital beyond the region.

Ghana

In April 2022 the Ghanian government instituted a 1.5% tax on electronic payments, known as the "e-levy," covering mobile money payments, bank transfers, merchant payments, and inward remittances of more than 100 cedis (£10). Although the legislation could raise up to 6.9 billion Ghanaian cedi ($926 million) for the government in 2022, this potential for revenue generation is offset by the increased operation costs for MSMEs, many of whom transact using mobile money.

Nigeria

In May 2022 the Nigerian Securities and Exchange Commission released new regulation on the issuance, offering platforms and custody of digital assets in Nigeria. The proposed rules apply to all issuers seeking to raise capital in Nigeria through digital asset offerings. It also applies to Digital Assets Offering Platforms and Digital Asset Custodians. This new legislation is most applicable to FinTech Companies in the cryptocurrency and digital finance verticals.

Uganda

In June 2022, The High Court of Uganda issued an amendment to the Partnership Act (2010) enabling foreign firms and global digital businesses to transact or enforce contracts in Uganda without maintaining a physical presence in the country. This move recognises the proliferation of digital businesses with international business relations emerging in the global marketplace, and aims to suppport the development of e-commerce in Uganda.

Kenya

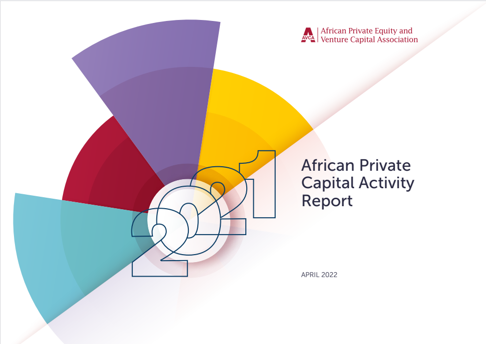
In July 2022 the Nairobi International Financial Centre (NIFC), a new business environment established to streamline financial services and incentivize investment, came into effect. The NIFC's areas of focus include Green Finance, Fintech, Investment Funds, as well as Holding Companies & Multinational HQs. Tax incentive proposals offered under this framework thus far include:

1) A 15% corporate tax for companies operating a carbon market exchange or emission trading system.
2) A fixed rate of Capital Gains Tax for companies that have invested a minimum of KES5 billion or more. The rate applicable at the time of investment will be in place for the lifetime of the investment.

South Africa

In July 2022 the National Treasury published a series of amendments to Regulation 28 of the Pension Funds Act, including:

- An increase in the upper exposure limit to infrastructure investment (from 30% to 45%).
- A split in the formerly joint upper exposure limit to hedge funds and private equity assets.
- A separate and higher permissible allocation to private equity assets (from 10% to 15%).
- A 25% maximum exposure limit to any one entity or asset class, not just infrastructure.



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About AVCA

CHAMPIONING PRIVATE INVESTMENT IN AFRICA

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

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