The Bridgespan Group

Closing the Capital Gap on Impact Investment in Africa

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Collaborating to accelerate social impact

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Introduction

When Polo Leteka, an experienced South African private equity investor, traveled to the United States and Europe in 2014 to raise capital to invest in African-led, women-owned firms, ironically, she ran into funder resistance on two key fronts: Africa and women.

"We found ourselves having to do a lot of education, demystifying Africa as a dark, scary continent mired in poverty and plagued by political instability, corruption, and collapsing economies," says Leteka, founder and chairman of IDF Capital, a Johannesburg-based investment and advisory firm. On top of trying to persuade investors to put money into a continent they feared, Leteka continues, "backing women-owned and -led African businesses was just not even an idea that had occurred to anybody as a possibility."

Undeterred, she worked for several years to educate American and European investors about the unmet financial needs of women-led African enterprises. The effort ultimately paid off. The Alitheia IDF Fund, a gender-lens investment fund co-founded with Nigeria-based Alitheia Capital, reached its first close in 2019 with $75 million and its second and final close in 2021 with $101 million for private equity investment in small- and medium-sized firms led by majority-women teams. Success, however, came at a cost. "I don't know how many fund managers can take six years to raise a fund and still be able to feed their families," Leteka says, who drew upon her personal resources to keep the IDF team intact.

Leteka's experience is painfully familiar to Africa-based and -led fund managers (whom we refer to below as African general partners, or GPs), particularly those who are first-time fund managers. In the research that led to this report, The Bridgespan Group set out to understand the obstacles faced specifically by impact fund managers. The perspective we heard led us back to a set of challenges endemic to asset management more broadly in sub-Saharan Africa, and especially for those GPs who wish to prioritise social impact as a key part of their investment strategies.

Across sub-Saharan Africa, encompassing 48 countries and more than 1.2 billion[1] people, African GPs work overtime to secure capital, an especially difficult task for those who put social purpose alongside financial reward. "It's hurdle, after hurdle, after hurdle, after hurdle," Leteka says. "And that's what makes it prohibitive for a lot of fund managers, or potential fund managers, to get into this [impact investing] space."

> "It's hurdle, after hurdle, after hurdle, after hurdle. ... That's what makes it prohibitive for a lot of fund managers, or potential fund managers, to get into this [impact investing] space.
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> POLO LETEKA, FOUNDER AND CHAIRMAN, IDF CAPITAL

One important influence to state upfront is bias, which manifests in different ways to distort investment globally and restrict flows to Africa. For example, the Knight Foundation in 2019

1 Country information from 2022 World Bank data on sub-Saharan Africa, accessed July 3, 2023.

found that just 1.3 percent of US assets across four asset classes were managed by women and people of color.[2] In Africa, capital flows are weighted towards those with ties to the Global North. For example, a 2017 report by Village Capital found of East Africa, "where the majority of early-stage investors are foreign, investors tend to rely even more on in-group bias. Ninety percent of disclosed investments in 2015 and 2016 went to start-ups with one or more European or North American founder."[3]

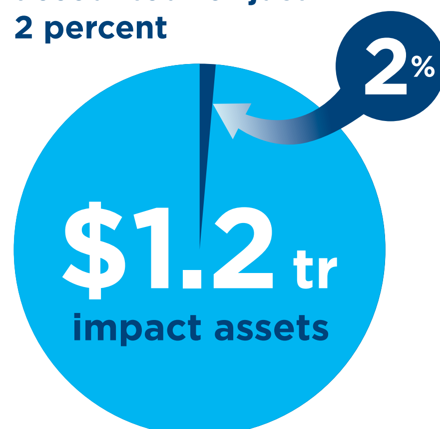
For Berhane Demissie, cofounder and managing partner at Cepheus Growth Capital Partners, location and networks matter in accessing capital. "For someone like me in Ethiopia, it's very difficult to find the network of impact investors [to fundraise from], to have visibility of who would be interested," Demissie says. "It's all about trying to build your network through who you know and how you reach them."

The on-the-ground experiences of African GPs such as Leteka and Demissie have received less attention than the African impact investing industry's need to scale.[4] We believe African GPs can and should play a prominent role in impact investing, whereby their proximity, lived experience, networks, and leadership can inform how impact capital shapes the continent. To bring their views to light, we interviewed 25 stakeholders, including African GPs, private investors in limited partner (LP) roles, philanthropists, development finance institution professionals, field experts, and other impact investing intermediaries.[5] (See "What Are GPs and LPs?")

In addition to bias and noting the opportunities and challenges endemic to the market, African GPs shared with us experiences that highlight three constraints to their access to impact capital:

- The traditional "rules" of due diligence work against African GPs receiving capital.
- The "impact" label deters, rather than spurs, investor engagement with African GPs.
- Impact-first capital is not reaching the African GPs who need it.

Of some $1.2 trillion in impact assets under management worldwide in 2022, fund managers in sub-Saharan Africa accounted for just 2 percent



Source: GIIN survey

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2 Josh Lerner and Bella Research Group, *Diversifying Investments: A Study of Ownership Diversity and Performance in the Asset Management Industry*, Knight Foundation, January 2019.

3 Heather Strachan Matranga, Bidisha Bhattacharyya, and Ross Baird, *Breaking the Pattern: Getting Digital Financial Services Entrepreneurs to Scale in India and East Africa*, Village Capital, June 2017.

4 Select sources include *An Untold Story: The Evolution of Responsible Investing in Africa*, African Private Equity and Venture Capital Association, April 2018; Michael Kubzansky, Ansulie Cooper, and Victoria Barbary, *Promise and Progress: Market-Based Solutions to Poverty in Africa*, Monitor Group, May 2011; and *The Landscape for Impact Investing in West Africa*, Global Impact Investing Network and Dalberg, December 2015.

5 The Bridgespan Group shares insights gleaned from our consulting projects and additional research for the benefit of the social sector. Some of the organizations or individuals described in this article may be current or former Bridgespan clients.

What Are GPs and LPs?

In this report, we focus specifically on the experiences of Africa-based and -led investment fund managers whose portfolios are primarily or exclusively focused on the continent. We refer to these fund managers as “African GPs.” What’s a GP and its counterpart, an LP?

- A **general partner (GP)** is the firm that manages a private equity fund, responsible for making investment decisions and managing the day-to-day operations of the fund, the most important of which is successful investing. The GP team works to source, evaluate, and execute investment opportunities on behalf of the fund’s investors. For their effort, GPs earn a management fee from their LPs and a percentage of any investment profits.
- A **limited partner (LP)** provides capital to the GP for investment purposes. Unlike the GP, the LP has limited involvement in the management of the fund and is not responsible for day-to-day operations or investment decisions. The LP typically receives a share of the profits generated by the fund. LPs active in global markets include development finance institutions, sovereign wealth funds, pension funds, endowments, high-net-worth individuals, family offices, and foundations.

Africa’s Need for African Impact Investing

“Across the world, there has never been a better time to be an impact player — but, even more importantly, an impact player in Africa,” says Frank Aswani, CEO of the African Venture Philanthropy Alliance (AVPA). Investors are starting to get the message. For instance, a 2020 Global Impact Investing Network (GIIN) survey found that 52 percent of respondents planned to increase their allocations to sub-Saharan Africa.[6] To be sure, others shared muted enthusiasm for investing on the continent. (See “Investing in Africa: Market Drivers and Headwinds” for more contrast between bullish and bearish sentiments on the investment environment.)

Yet, by several measures, Africa lags in attracting capital to meet pressing social challenges. The United Nations estimates that African countries face an annual $200 billion funding gap to meet Sustainable Development Goal (SDG) targets by 2030.[7] Of some $1.2 trillion in impact assets under management worldwide in 2022, fund managers in sub-Saharan Africa accounted for just 2 percent, according to another GIIN survey.[8] Major African capital pools, such as pension funds, largely avoid African fund managers because of restrictions on investing in private equity or reluctance to invest outside the country where the pension fund is based.[9]

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6 Dean Hand, Hannah Dithrich, Sophia Sunderji, and Noshin Nova, *2020 Annual Impact Investor Survey*, Global Impact Investing Network, June 2020.

7 Estherine Lisinge-Fotabong, “Funding Those with the Greatest Need,” SDG Action, 22 April 2022.

8 Dean Hand, Ben Ringel, and Alexander Danel, *Sizing the Impact Investing Market 2022*, Global Impact Investing Network, October 2022. GIIN drew on data from 1,013 organisations to make assumptions about the size of the global market.

9 Clara Barby, David Barley, Nishita Dewan, and Ponmile Osibo, *Investing for Impact: A Strategy of Choice for African Policymakers*, Bridges Ventures, April 2014.

"We need African asset owners," says Heather Sherwin, director of impact investments for South Africa-based ELMA Philanthropies. Fund managers "are going to North Americans and Europeans and saying, 'Please put money in Africa,' yet wealthy African pension funds and African development finance institutions aren't doing it themselves. There needs to be a change."

In our interviews, we sought to further understand the three constraints African impact fund managers face in raising and deploying capital and to elevate the solutions they believe are most needed. We heard promising approaches that could inspire some LPs — in particular, philanthropists, family offices, and high-net-worth individuals. Asset managers and owners with longer investment horizons and more flexible mandates might also fit in this category. These "first-mover" LPs have more autonomy to shift their investment practices than pension funds, development finance institutions (including bilateral development agencies such as the US International Development Finance Corporation as well as multilateral development banks such as the African Development Bank), or other sources of capital.

Traditional Due Diligence Works Against African Fund Managers

Our discussions with African GPs, particularly first-time fund managers, revealed a common, painful experience: time-honoured due diligence criteria effectively bar African GPs from receiving capital. Those criteria, designed to identify strong fund managers, include a track record of successful investments, an experienced and motivated team, and an attractively sized fund target.

Track record

LPs see a track record of financial returns as an important indicator of future success, which can present a challenge. "A key barrier is finding strong, credible [African] GPs with a decent-enough track record and experience to execute on their strategy," says Johannesburg-based Joe Mate, investment director at British International Investment.

LPs are particularly wary of first-time fund managers. "There's a large group of investors that just won't go into first-time funds," says Sherwin of ELMA Philanthropies. In addition, investors look not just at experience, but what they view as the *right* experience. "Given that the private fund ecosystem is still in its early days and rapidly growing, it is difficult to find fund managers with a realised track record that is exactly relevant for the fund that they're raising," says Eva Abel, partner, head of investments at Oryx Impact, a fund-of-funds with a focus on women-led and emerging fund managers in Africa.

African GPs view this approach as shortsighted and indicative of a structural flaw. "There are systemic barriers for first-time funds, such as the lack of a track record," says Adesuwa Okunbo Rhodes, who in 2019 founded Aruwa Capital Management, a Lagos-based growth equity impact investment firm. Rhodes came to the role with more than a decade of investment banking experience at J.P. Morgan and other leading global organisations. However, as a first-time private equity fund manager, the firm did not have the track record of returns sought by LPs. Speaking from personal experience, she adds: "The system is designed to exclude women and minorities who are traditionally not from spinouts from setting up a fund."[10]

10 *Moving Toward Gender Balance in Private Equity and Venture Capital*, International Finance Corporation, Oliver Wyman, and RockCreek, March 2019.

Rhodes's experience reflects the "Which came first, the chicken or the egg?" dilemma faced by many African GPs. What they need is "a champion on the investor side," says Andia Chakava, investment director for Afrishela, a $30 million gender-lens investment fund sponsored by the Graça Machel Trusts. "It really just depends on [which LP] is willing to stick their neck out, and who has the funding and the allowance in their mandate to make those kinds of bets."

Team

Investors want to see evidence that a GP's team has worked together successfully. Prior individual experience in private equity, venture capital, or corporate finance, for example, isn't enough. Leteka, the cofounder and chair of IDF Capital, ran into that issue. Of her cofounding partners, "two of us were already running our own separate private equity funds for at least eight years," she explains. "When you add that experience, plus other investment jobs we had worked, we offered probably one of the most experienced private equity teams on the African continent. … But because we'd never worked together as a team, that was a big issue for most investors."

> "The challenge in fundraising for emerging managers is being perceived as very risky, especially if they don't have the same kind of background as somebody that may have come out of a very established private equity fund.
>
> ANDIA CHAKAVA, INVESTMENT DIRECTOR, AFRISHELA

Moreover, African GPs observe that without Global-North-based degrees or professional experience, they undergo an extra measure of scrutiny by global investors, resulting in less capital coming their way. "The challenge in fundraising for emerging managers is being perceived as very risky, especially if they don't have the same kind of background as somebody that may have come out of a very established private equity fund," says Chakava.

Fund target size

Considering the time and cost of constructing a deal, many LPs favour larger funds of $50 million or more — effectively ruling out many emerging African GPs because their fund target sizes are too small for LP consideration. "When bigger [LPs] want to enter Ethiopia, they can't because their ticket size is too big," explains Demissie of Cepheus Growth Capital. "They want to invest $50-100 million, not $10-15 million. Most US investors consider us too small," she continues.

> "As a large pan-African investor [in LP positions], it's difficult to spend time evaluating a small fund manager because you have so much money you need to deploy with limited resources. The level of disinterest starts to climb exponentially with smaller deal sizes."
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> TSEGA GEBREYES, FOUNDING PARTNER, SATYA CAPITAL

"As a large pan-African investor [in LP positions], it's difficult to spend time evaluating a small fund manager because you have so much money you need to deploy with limited resources," agrees Tsega Gebreyes, a founding partner of London-based Satya Capital, a private equity firm with a focus on Africa. "The level of disinterest starts to climb exponentially with smaller deal sizes."

To African GPs, however, it's a matter of perspective: what looks small to global LPs is what they consider right-sized to the market. Many of the African GPs we interviewed relayed experiences raising for fund target sizes of $10 million to $50 million, in contrast to the $100-million-plus fund target sizes common in the United States and Europe.

Investment deals are scaled accordingly. Afrishela looks at deal sizes between $20,000 and $500,000, according to Chakava. Rekia Foudel, founder and managing partner of the Barka Fund, an Africa-based early-stage investment holding company supporting and investing in climate-focused enterprises, has a similar target: "We're looking at a specific profile of African founders, with revenue-generating companies, where we know our investment of $50,000 to $200,000 is needed to help them scale their activities and grow to the next level."

The capital that African GPs must bring to the table when they launch a fund also limits fund size. "To raise a fund, you have to have your own money," says Abel Boreto, associate director of Novastar Ventures, a venture capital firm in Nairobi, Kenya. "A GP might be capped on fund size because of what they can afford in contribution," typically 1-2 percent of the target fund size.

But size matters to global LPs. They typically pass on smaller, first-time funds because of the small investment ticket size. "We don't really invest below $10 million per fund, and we focus on funds larger than $50 million," says an investment funds specialist at a US development finance institution. "So that means there's a long tail of small funds that are African-led or women-led that we can't support."

The Impact Label Deters Investor Engagement with African GPs

Ironically, in their quest for investment capital, many African fund managers either downplay or avoid calling themselves "impact funds," citing that it drives LPs away. "The term 'impact' is associated with sacrificing returns. At Aruwa Capital, we don't believe this is the case at all and believe returns and impact can go hand in hand," says Rhodes, the founder. Many would-be impact investors place doing well ahead of doing good.

"Even [African] GPs that have self-identified as impact investors don't want to be perceived as do-gooders that sacrifice the performance of the fund," says Daniel Steenkamp, senior project manager at the Bertha Centre for Social Innovation and Entrepreneurship at the University of Cape Town. "Thus, many African GPs emphasise the fact that they can work on a strictly commercial basis."

"Even [African] GPs that have self-identified as impact investors don't want to be perceived as do-gooders that sacrifice the performance of the fund."

DANIEL STEENKAMP, SENIOR PROJECT MANAGER, BERTHA CENTRE FOR SOCIAL INNOVATION AND ENTREPRENEURSHIP

There's a perception in the region that impact investing is risky and low performing — essentially, a form of philanthropy. "[The market] has this idea that impact investors should be philanthropists, that they should have very, very low revenues or returns, and that they should invest only in certain activities such as education, health, or climate," says

Raphaël Reynaudi, sustainability and impact manager at Amethis, a venture capital and private equity company based in Paris with a portfolio of impact investments in Africa.

The narrative of a trade-off between impact and financial performance is a familiar — though dated — refrain. As the global impact investing market has continued to mature and mainstream, the tenor of discussion has shifted as evidence mounts that impact investors *can* do good while doing well financially. In fact, 88 percent of global impact investors surveyed by GIIN in 2020 report meeting or exceeding their financial expectations, and two-thirds of respondents report pursuing competitive, market-rate returns.[11]

For their part, African GPs say they regard their work as inherently impact-oriented. Consider, for instance, that many such investments benefit enterprises working to improve health or education, or work to create sustained employment opportunities. “We have one single purpose, which is to build a commercially successful enterprise [in Africa], and that’s how we do good,” says Gebreyes of Satya Capital. “Our passion was creating success in Africa that then gets other [investors] excited to come and do the same.”

“We never say we’re impact investors,” agrees Demissie of Cepheus Growth Capital. “But I think in countries like Ethiopia, if you invest consciously, naturally there’s always impact.”

We frequently heard African GPs express this view of what impact means and, given the emphasis on demonstrating commercial returns, it underscores their hesitancy to appear to narrow the aperture of their work with the impact label, lest they lose LP interest. To be sure, it’s a more expansive definition of impact investment than is commonly found in global markets, which are generally considered to be “made with the intention to generate positive, measurable social and environmental impact alongside a financial return.”[12]

For African GPs who would like to position themselves explicitly as impact investors, the costs associated with impact measurement and management (IMM) and ongoing reporting and disclosure can be prohibitive. “Implementing IMM can be seen as an obstacle [to funding] because it crowds out the ability for emerging African fund managers to be best-in-class compared to [large global private equity funds], and that’s why we are launching a technical assistance facility focused on IMM,” says Sebastian Waldburg, an Oryx Impact founding partner.

Larger funds that have already established IMM capabilities have a competitive advantage in the marketplace, says Aswani, CEO of the AVPA — where they serve as a signal to others to get on board. “In a couple of years, it’ll be a minimum requirement for every impact investor,” he predicts.

The cautious embrace of the impact label in Africa raises a fundamental question about the market conditions and timing that best enable impact investing to thrive. Less than one in five impact-investment dollars goes to developing markets.[13] “This raises a broader existential question,” observes one US-based global impact investor. “Does impact investing only exist in mature private capital markets? If that’s true, then there’s a need for the

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11 Hand et al., *2020 Annual Impact Investor Survey*.

12 “Impact Investing,” Global Impact Investing Network.

13 Ariane Volk, *Investing for Impact: The Global Impact Investing Market 2020*, International Finance Corporation, July 2021.

African private equity market to mature, thereby creating an enabling environment for scalable impact investing."

African GPs see no reason to put impact investing on hold while the private equity market matures. "I think we've got to fix this plane as we fly it. I don't think it's either/or," says Aswani.

Patient Capital Is Not Reaching the African GPs Who Need It Most

African GPs work hard to make it clear their fund performance ambitions are not concessionary even as they strive for positive social or environmental impact. One way to bolster their case, they say, is for "first-mover" LPs to kickstart their credibility amongst other LPs by providing patient, risk-tolerant "catalytic capital." This type of capital comes from impact-driven investors and supports enterprises otherwise shut out of the market. It's also called "impact-first" investing, a term that more clearly emphasises the intended social or environmental benefits alongside commercial returns.[14]

When successful, these investments serve to attract new capital from more conventional investors, a pattern famously demonstrated by the growth of microfinance. Catalytic capital is particularly appropriate for markets "that are untested, have smaller margins due to the low incomes of the people they serve, operate at limited scale, face political or economic challenges in the places where they operate, or are subject to other constraints," according to the Catalytic Capital Consortium, which is backed by the MacArthur and Rockefeller foundations and the Omidyar Network.

Philanthropists, typically regarded as the most likely supporters of catalytic capital, have been reluctant to provide it. "I wonder whether there are going to be philanthropic investors whose point is to catalyse, leverage, and crowd in more private capital, rather than act like commercial investors?" says Chakava of Afrishela. "If not, then there's nobody to bridge the gap to catalyse emerging fund managers."

To help build a stronger case for more impact-first capital, the AVPA is planning to work with a US partner to pilot the concept of catalytic pooled funds in three areas — water, sanitation, and hygiene (WASH); healthcare; and agribusiness — that will work to pool funds from local and international philanthropic funders. The aim of these funds is to support early-stage and growth-stage enterprises with risk capital in order to get them to a state of investor readiness so that they can attract more commercial follow-on capital. "Africa, and the world at large, isn't short of capital as such. We are short of risk capital," says AVPA CEO Aswani.

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FRANK ASWANI, CEO, AVPA

14 A small number of funders have declared their support for an "impact-first" approach to investing in impact-focused enterprises. Impact-first investing means being clear up front that the returns that matter most are measured in lives changed, not solely financial gain. See Michael Etzel, Matt Bannick, Mariah Collins, Jordana Fremed, and Roger Thompson, *Back to the Frontier: Investing that Puts Impact First*, The Bridgespan Group, 2 April 2021.

"I want to invite African grantmakers to contribute to these specific pooled funds, get a seat at the table, and learn how they work so that tomorrow we can set up and run our own pooled funds."

How "First-Mover" LPs Can Expand Investment in African Fund Managers

LPs have an opportunity to close the African funds capital gap, and the continent's SDGs finance gap, if they are willing to try new approaches and lean in at a grander scale and volume.

The African fund managers we spoke with pointed to three actionable approaches: seeding African GPs directly, building African GPs' track records, and reevaluating due diligence approaches. The first-mover LPs that have the flexibility to adopt these approaches include philanthropists, family offices, and high-net-worth individuals, as well as select asset managers and owners with longer investment horizons. If enough join in, they can start to tip the scales to put more capital in the hands of African GPs.

Seed GPs directly

First-mover LPs can seed African GPs directly, serving as an important source of capital, especially for new funds. For example, the Mastercard Foundation launched the $200 million Africa Growth Fund with a consortium of partners in late 2022.[15] The fund seeks to invest in African-owned and -led investment fund managers, particularly those focused on youth and women's employment. (An early investment went to Aruwa Capital.) The fund has developed a pipeline of 180 GPs, including early-stage, growth, debt, and seed VC funds. In addition to providing capital, the fund will offer business-development services for the fund managers and their respective portfolio companies.

In a similar fashion, Oryx Impact seeks to launch a $250-million fund-of-funds to invest in African GPs, with a focus on women-led and emerging fund managers. "By creating a diversified gender-lens portfolio across asset classes, across geographies, and across sectors, we can catalyse more private capital for African impact funds," says Teresa Guardans, an Oryx Capital founding partner.

Oryx views its strategy as a way to de-risk investments in emerging fund managers, making them more attractive to investors with less risk tolerance. But Oryx is also realistic about their need for technical and advisory support. "That's why we're launching the technical assistance facility parallel to our fund," says Abel, Oryx Impact's head of investments. "It's focused on [increasing the capacity for] environment, social, and governance investing and impact measurement and management for fund managers."

Build GPs' track record

We heard examples of two types of approaches to break the "What came first, the chicken or the egg?" cycle around building a track record: enabling GPs to "warehouse" deals and positioning GPs to manage a portion of another fund's investment pool and thereby build a track record.

15 African Media Agency, "$200 Million (USD) Mastercard Foundation Africa Growth Fund Launched for Investment Vehicles to Catalyze Job Opportunities," Africa.com, 1 December 2022.

Warehousing is a practice GPs pursue to invest in a handful of deals before a fund reaches its first close — the first fundraising goal. The US-based Lemelson Foundation is supporting first-time fund managers by helping them line up these deals and exploring ways to provide them with low-interest loans during the fundraising period. "Warehousing gives GPs the ability to have tangible companies, to demonstrate their 'thesis in motion,'" says Maggie Flanagan, a Lemelson Foundation programme officer who leads the organisation's Developing Country Entrepreneurship Initiative.

Low-interest loans can also provide access to liquidity to cover administrative expenses as GPs continue to work towards fundraising close. "GPs need their operating expenses covered, otherwise they'll never come up the curve, and we'll continue to have inequitable fund distribution, where only fund managers from mass personal wealth and networks [will succeed]," notes Flanagan. This is an approach within the reach of other foundations seeking ways to invest in African impact funds.

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>
> MAGGIE FLANAGAN, PROGRAMME OFFICER, LEMELSON FOUNDATION

Barka Fund is building its investment track record by managing a mandate — a fund allocation managed to a specific purpose or style — on behalf of philanthropic investors. Barka manages a portion of the TerraFund for AFR100, a fund and project consortium supported by the Bezos Earth Fund, World Resources Institute, and others. Barka oversees a $3 million carveout to lend to African environmental start-ups. "We didn't raise the funding. Our partner at the World Resources Institute did," explains Barka's managing partner Foudel. "But this has allowed us to build our credibility and our track record, and be able to demonstrate to LPs that we can do this work."

Reevaluate approaches to due diligence

First-mover LPs have both the position and the opportunity to rethink approaches to standard diligence criteria. For example, Oryx Impact has developed proxies for evaluating track records that take previous individual experience into account.

"Given that 70 percent of our pipeline is first-time and second-time fund managers, they do not have realised track record," says Oryx's Abel. "So, as LPs, we have to be creative about how we look at the track record. ... If the team is new [or] the fund is a first-time fund, we'll look at the previous track records of individual team members. And even if one person has a track record that might not be fully relevant, another person might have one that is complementary. We want to see that there has been a lot of traction and upwards valuations with reputable and well-performing companies." This thoughtful approach to due diligence, which breaks from traditional

> "As LPs, we have to be creative about how we look at the track record. ... If the team is new [or] the fund is a first-time fund, we'll look at the previous track records of individual team members.
>
> EVA ABEL, HEAD OF INVESTMENTS, ORYX IMPACT

practices, is most likely to happen amongst LPs that have maximum discretionary control, including philanthropy and impact-driven LPs.

The Future of African Impact Investment Funds

To critics of investment opportunities in Africa, Susana Garcia-Robles, senior partner of Capria Ventures, a long-time impact investor focused on GPs in the Global South, has a succinct response: "opportunity."

"When you have a B2B African market set to reach around $3.5 trillion, you have a real market," Garcia-Robles emphasises. "We have to develop a storyline that positions the region in a way that investors support it, presenting the opportunity without sounding like we are being too optimistic or denying challenges."

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>
> **SUSANA GARCIA-ROBLES, SENIOR PARTNER, CAPRIA VENTURES**

African GPs share Garcia-Robles's confidence in the promise of their continent. What they need most is capital to prove their ability to generate financial and social returns.

Consider that Africa is the second-largest continent worldwide, by land and population, and has abundant natural resources, vast potential for sustainable agriculture, transformative pan-African free-trade agreements, and soaring digital commerce opportunities.[16] That's not to say that Africa is absent impediments to investors. They justifiably worry about currency risks, a fragmented market, and the investment-exit environment, amongst other concerns. Yet African fund managers speak with confidence about the opportunities ahead.

First-mover LPs can help to ensure that those opportunities don't lie fallow by stepping up to expand upon one or more of the three emerging approaches to closing the capital gap. The Mastercard Foundation's African Growth Fund is a good start, but it's a drop in the bucket compared to what Africa needs to address the SDGs. The same can be said for helping GPs build their track record and reevaluating due diligence approaches. All of these approaches show promise, but more LPs will need to adopt them to make a difference. All the while, African GPs will continue to demystify their markets and educate reluctant investors by echoing Garcia-Robles: consider the opportunities.

16 Chipiwa Mukono and Sameer S. Somal, "Eight Reasons Why Africa Is Primed for Impact Investing," CFA Institute, 14 October 2022.

Why Invest in Africa?

Source: The Bridgespan Group; AfCFTA: African Continental Free Trade Area.

1 Acha Leke, Paul Jacobson, and Susan Lund, "These 6 Sectors of Africa's Economy Are Poised for Growth," *Harvard Business Review*, 20 September 2016.
2 *The African Continental Free Trade Area: Economic and Distributional Effects*, World Bank, July 2020.
3 "The African Continental Free Trade Area (AfCFTA): What's in It for Africa's Youth?," Mo Ibrahim Foundation, 6 June 2019.
4 *2022 African Private Capital Activity Report*, African Private Capital Association, April 2023.

Investing in Africa: Market Drivers and Headwinds

As we interviewed experienced investment professionals in Africa, we quickly realised that we weren't going to hear a consensus view on the prospects for investing in Africa. The table below presents some of the feedback we heard from both sides — bearish and bullish — regarding the complex investment environment on the continent.

	Bullish sentiments	Bearish sentiments
Economic outlook	The African Continental Free Trade Area, or AfCFTA — signed in 2018 and effective 1 January 2021 — creates a single continental market for all 55 member states of the African Union. They have a combined GDP exceeding $3 trillion covering 1.3 billion people. Under the free trade agreement, removal of tariff and nontariff barriers would increase intra-Africa trade by 81 percent while exports to non-African countries would rise by 19 percent. The Mo Ibrahim Foundation estimates that consumer and business spending could reach $6.7 trillion by 2030, making African countries more competitive both regionally and globally.	With 48 countries in sub-Saharan Africa, the economies of individual African nations are relatively small compared to those in more developed markets. For instance, Nigeria, Africa's largest country by population, had a GDP in 2021 of $441 billion, compared to India's $3.15 trillion, according to the IMF. One large global institutional investor noted: "A pan-African investment strategy just won't have scale."
Investment market fundamentals	African private capital fundraising reached record levels of $4.4 billion in 2021, an increase of 63 percent above the 2016-2020 annual fundraising average. There are also bright spots in successful homegrown investors. For example, AfricInvest continues to attract investors into its generalist, financial sector and health funds from new and returning institutional investors, corporates, development finance institutions, family offices, and foundations from around the world. In addition, Nigeria, Ghana, South Africa, and Zambia have joined the Global Steering Group for Impact Investment in the past few years to continue to develop and strengthen impact investing in the region.	Capital markets across Africa are underdeveloped. Excluding South Africa, Mauritius had Africa's highest stock market capitalisation at 69 percent of GDP as of 2019. By contrast, averages in East Asia and the Pacific and in high-income countries in the same year were 83 percent of GDP and 119 percent of GDP, respectively. While African markets experienced modest recovery through 2021, overall equity capital market activity in Africa declined by more than half in the three years leading up to the pandemic.

	Bullish sentiments	Bearish sentiments
Currency and political risk	Interviewees noted that LPs outside Africa can overestimate the risks they face. Having staff on the ground with a strong understanding of local dynamics can help to mitigate this. “There is generally a gap between the real risk and the perceived risk on the ground. Having a presence in-market, like actual investment professionals that are in-market, has been hugely beneficial to us,” says a development finance institution investment officer. “The perception of political risk is exponential compared to real risk because of lack of knowledge about African investing,” says Teresa Guardans, an Oryx Capital founding partner. “I think many investors apply criteria to Africa which they do not apply to their own countries.”	Foreign exchange volatility is a major challenge when investing in Africa. “Currency is a headwind that is tough to navigate,” says Tsega Gebreyes, a founding partner of Satya Capital. The African Private Equity and Venture Capital Association found in a 2022 survey that 64 percent of LPs and 86 percent of GPs perceived currency risk as important or very important when investing in African private equity. Political risk can complicate portfolio management and valuations. Governments make decisions that impact individual businesses and industries. Amongst them are decisions affecting taxes, spending, regulation, currency valuation, trade tariffs, labour laws, and environmental regulations.
Financial returns	Mbuyu Capital’s analysis of a sample of deals over $10 million showed that returns on African private equity transactions are comparable to those in global markets.	Our interviewees expressed mixed perspectives on commercial returns. Says one global philanthropic impact investor: “If you look at historical private equity returns in Africa, relative to the risk, anyone would say that investing in Africa is a concessionary strategy.” “For the moment, African private equity doesn’t give as good of returns as the American or European private equity sector does,” adds Raphaël Reynaudi, sustainability and impact manager at Amethis.

	Bullish sentiments	Bearish sentiments
Exit opportunities	Despite a challenging exit environment after COVID-19, there are some bright spots. "Although exits slowed in 2020-21, African PE exit activity has accelerated in the past year. This is a testament to the resilience and patience of many investors," notes Aicha Zakraoui, head of impact and sustainability at AfricInvest Group, a multi-strategy asset manager which has raised almost $2.5 billion over its 30 years of experience operating across the African continent. After declines during the COVID-19 pandemic, the African Private Capital Association reports total volume of private capital exits in Africa reached new levels in 2022 — rising to a total of 82 within the year.	Three-quarters of LPs consider limited exit opportunities in Africa as the biggest challenge faced by private equity fund managers, according to the African Private Equity and Venture Capital Association. Exits tend to be through trade sales, private placements, management buyouts, or the occasional international listing. "We need to find exit mechanisms in Africa that work because the private equity market hasn't grown sufficiently in Africa," says Frank Aswani, CEO of the African Venture Philanthropy Alliance. "With the exception of the Johannesburg Stock Exchange, there are no other exchanges that provide significant liquidity."

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