INNOVATION IN FINANCE

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SUMMARY

The primary purpose of this paper is to explore innovative solutions in finance, primarily in sub-Saharan Africa, through conversations with founders of businesses and practitioners. The paper draws on conversations between the author and different stakeholders (including entrepreneurs, consultants and academics) during his time at INSEAD and his travels to the region, and concludes with an appendix containing management summaries written by the author on different innovations in finance that have broadly had or seek to have significant developmental impact on the continent.

This Independent Study Project (ISP) was authored by Eihorere Wesigye (INSEAD MBA Candidate, Class of July 2019) under the supervision of Luk Van Wassenhove, Professor of Technology and Operations Management, The Henry Ford Chaired Professor of Manufacturing at INSEAD and Director, INSEAD Humanitarian Research Group.

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Executive Summary

Sub-Saharan Africa, a region endowed with significant resources and one of the world's youngest populations, is not traditionally considered a conduit for innovation in finance. However, as capital markets across the region have continued to deepen, and as the region has undergone significant change driven by political and economic reforms, financial solutions have had to adapt to address not only pressing social needs but also to respond to the opportunities created by the current wave of political and economic change within the region. The role of capital is evolving, and with the vast potential on the continent, the role of finance in driving this change remains critical.

This paper represents a summary of the authors thoughts and experiences during his time at INSEAD exploring innovative solutions in finance in the region, with an emphasis on both the creative process undertaken by the entrepreneurs who have founded businesses that fill particular market niches but also summarizing some recent developments around sustainability (which is broadly considered to include environmental, social and governance considerations). Four case studies of firms that met with or were interviewed by the author are discussed, with the conversation split to cover the innovation aspect and then how each of these businesses thinks about and incorporates sustainability into their business model. These companies were both innovative in their offering in the markets they target, with for example Vantage Capital launching Africa's first mezzanine debt fund and Value Capital Partners South Africa's first dedicated "activist" investment manager.

A key takeaway from the case studies is the role of 'localising' international approaches to suit the domestic context, as cultural nuances and socialization impact the ability to simply replicate external financial solutions in Africa. The paper then concludes by providing management summaries of innovations in finance that have had a strong development impact on the continent prepared by the author during the past two months, drawing on readings and research. The author is grateful for the guidance and supervision provided by Professor Luk van Wassenhove at INSEAD and the time and insights shared by all the individuals and companies who made this paper possible.

Case Study I: Vantage Capital

Meeting with Luc Albinski, INSEAD MBA 95' (Managing Director)

(a) Company Overview

Vantage Capital Fund Management ("Vantage Capital") is Africa's largest mezzanine debt fund manager with assets under management that exceed R8 billion (over US$500 million). The firm was launched in 2001 with the Vantage Technology Fund which invested in small startups to larger companies. In early 2005, driven by changes in the South African macro-economic environment the company sought to raise its first mezzanine debt fund, which was finalized in 2007 with approximately US$150 million raised from a combination of local and international investors. The firm has subsequently raised commitments for two other mezzanine debt funds (approximately US$240 million for fund II in 2012 and US$280 million for fund III in 2017). Furthermore, the fund in 2013 launched its first South African focused renewable energy fund (GreenX), raising approx. US$220 million at the time. In 2017, the firm raised its second renewable energy focused fund with a similar investment fund size.

(b) Innovation at Vantage

Having been at the forefront of mezzanine debt[1] finance in sub-Saharan Africa, Vantage Capital's shift into the space was driven by an evolution in the market at the time. Luc Albinski, having been hired into Standard Banks' Business Banking division, focused during his time with the bank on funding mid-market companies (defined as companies with needing between R50 million and R500 million in funding). Initially, these were primarily debt financings but after careful consideration the bank considered expanding into the mid-market private equity space in South Africa. However, given the challenges in managing equity stakes (which include arranging exits and board representation, aspects a bank would generally prefer to avoid without a dedicated private equity team), the bank concluded that mezzanine debt may be a better solution in the South African market.

Consequently, Luc Albinski was tasked with developing a separate mezzanine debt fund for the bank. He therefore undertook extensive research, including developing a thorough understanding of the differences between the US mezzanine debt model (where the lead sponsor on the deal is the mezzanine investor who drives the negotiations and structuring) and the European debt model (where the mezzanine investor is less 'active', with a 'slice' approach taken where an allocation of the mezzanine tranche is simply marketed to mezzanine funds). After gaining an understanding of this market, he was approached at that stage by Vantage (which during that time was primarily an investor in technology companies). He decided to leave

[1] https://www.investopedia.com/terms/m/mezzaninefinancing.asp

banking and together with Vantage, they launched the first mezzanine debt fund. As of writing, Vantage Capital manages approximately R5 billion in mezzanine debt assets and R5 billion in GreenX (infrastructure) assets.

Critical to the initial receptiveness and uptake of the first fund in South Africa has been attributed to:

i. The significant decline in nominal interest rates in South Africa (from the late 1990s into the mid-2000s)
ii. The pre-financial crisis growth in the leveraged buyout (LBO) market (in South Africa but ultimately globally), which saw the first fund close exceed targets significantly

Vantage, as new entrants into the market, sought to adopt the US model described above, playing an active role in the sourcing, structuring and execution of deals (i.e. generally in a key sponsor role). Today, the company has continued to evolve its business model with changes in the market, pivoting away from large private equity sponsor led financings towards smaller entrepreneurs, Black Economic Empowerment (BEE) firms, medium-sized corporates and investment holding companies. Although initially led by Vantages need to generate higher returns (that in some cases have matched private equity returns in the market), this shift was gradual but necessary driven by the increasing opportunities available in the market and the investment firms goal to play a more active role in its investee companies.

(c) Sustainability at Vantage

Vantage considers environmental, social and governance (ESG) factors as part of its investment process. To this end, the firm undertakes an ESG review for all deals, and has full-time ESG analysts who specifically focus on the identification and review of ESG risks prior to and post investment. In addition to this, the firm follows International Finance Corporation (IFC) performance standards[2], with the firm publishing an annual ESG report for its investors which include international development finance institutions such as the German Investment Corporation (DEG), Obviam (a Switzerland based investment advisor for high impact investments), the European Investment Bank (EIB), Norfund (Norway's Development Finance Institution), FMO (Netherland's Development Finance Company) and the United Kingdom's Commonwealth Development Corporation (CDC).

A few highlights from investments undertaken by the firm that subsequently led to significant developmental impact include investments such as:

[2] https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards

i. **Vumatel** (fibre-to-the-home operator in South Africa): saw revenues grow from approx. R14 million to R250 million, with customers increasing from 3,500 to 140,000 as the adoption of fibre-to-the-home took off and Vumatel's value offering was well received. This investment was made at the time in a company that was barely profitable, and today commands a strong position within its market with extensive network coverage.

ii. **Tsebo Outsourcing Group** (a catering and facilities management company in South Africa): with over 40,000 employees and operations in over 20 African countries.

iii. **Cap Tamarin** (a mixed-use "smart" city in Mauritius): which will see the creation of a residential, commercial and retail real estate development that will also house an 'innovation' centre to be used by startups, Small and Medium Enterprises (SMEs) and research-based activities.

A big change highlighted during my interview with the firm is the evolution of the role of Development Finance Institutions (DFIs) in driving the ESG process. Historically, it was noted that the pressure to consider ESG was driven by the DFIs, given their explicit mandates and pressure from the governments that ultimately fund their objectives. However, this has evolved today where ESG pressures are felt more broadly, with pension fund consultants more conscious and aware of the risks. Furthermore, in South Africa specifically, Black Economic Empowerment (BEE) and gender equality have become more pressing considerations, driven both by the legal and social pressures to have companies more representative of the country's demographics. This has led to an increased emphasis on diversity to remain sustainable as an organization, with pressure not only felt at an investment firm level but also across investee companies. Given the importance of risk and reputation management, a focus on governance has remained consistently a priority throughout the years.

Case Study II: Value Capital Partners

Meeting with Sam Sithole (co-founder and Chief Executive Officer)

(a) Company Overview

Value Capital Partners (VCP), founded in 2016, is an investment management firm in South Africa that seeks to be an engaged shareholder, taking minority positions in listed businesses and working to drive value creation through active ownership. The firm's investment strategy is based on the tenets of value investing[3], with the aim of identifying undervalued businesses with an attractive business model which it can partner with to drive change and 'unlock' value. A key principle for the firm underlying its investment decision-making is the protection of capital.

(a) Innovation at VCP

VCP was founded by Antony Ball and Sam Sithole after extensive careers in private equity in South Africa. Having noticed 'errors' in corporate South Africa (across not only private companies but also public companies), they set out to investigate whether an opportunity existed to create a more engaged institutional shareholder given the generally "passive" nature of most large public equity investment funds in South Africa. Effectively, they sought to bring a private equity mindset into the listed equity space, where corporates seemed to have less 'respect' for capital and limited accountability by executives given the fragmented nature of the shareholder base.

In order to test their thesis, the founders spent a significant amount of time in the United States and Europe investigating different investment firm models and philosophies to identify if there was scope to learn from existing processes that could subsequently be adjusted to the local context. Previously, the founders had attended events such as the Annual General Meeting (AGM) of Berkshire Hathaway in Omaha, Nebraska (which is famous for the insights and views shared by Warren Buffett, CEO of Berkshire Hathaway). Consequently, they met with leading activist investors in the United States such as ValueAct Capital and Cevian Capital in Europe, both of whom they still engage with today, seeking their advice as and when necessary. However, upon deeper introspection the founders decided that the model applied in the United States in particular (e.g. as popularized by Carl Icahn and Bill Ackman) tended to lead to litigation and public disputes, with a 'showmanship' culture (and in some cases public shaming of executives). This contrasted with the British approach, which was more moderate and partnership driven with investment firms seeking to collaborate and work with management teams behind the scenes.

[3] http://lexicon.ft.com/Term?term=value-investing

Consequently, VCP was established with a revised model that embraced and adopted for the cultural nuances and differences between the American, British and 'African' context. VCP sought to replicate the partnership and collaboration approach developed by ValueAct Capital and Cevian, avoiding a confrontation and litigation based approach. The firm retained the value investment philosophy and focus on getting a deep understanding of business models, but elevated the importance of identifying the right talent at a firm level and working with investee companies to drive value creation (within the context of local cultural and commercial realities). With a focus on the long-term and having an engaged shareholding, the firm has grown to occupy a unique space within the South African investment management industry.

(b) Sustainability at VCP

As an engaged long-term shareholder, VCPs business model is deeply linked to ensuring that investee companies develop and generate sustainable returns. To undertake this, the firm has a deep focus on ensuring the governance structure at firms it invests in make sense, with it almost always having a senior member of its investment team appointed as a non-executive director on the boards of the companies in which it takes a minority stake.

To drive organizational change, the firm tasks its investment professionals with identifying sustainability issues upfront and works with investee companies to develop an implementation plan. Occasionally, this does require changes to the executive team and organizational design and incentives. As a firm, VCP seeks to avoid being a transient shareholder, and hence works with other asset managers and large shareholders to develop a long-term strategy for the company and to make changes when necessary. To the extent that the firm believes it cannot act as a "change agent" within an investee company, it refrains from investing given the underlying importance it places on the partnership model.

Given the history of South Africa, the firm seeks to attract and retain exceptional talent that is in line with the demographics of South Africa and therefore be a transformation agent not only through pushing for diversity within its investee companies. However, the firm has found it challenging achieving equal representation from a gender perspective at a firm level, a challenge that is not isolated to the company. To continue developing in the space, VCP has developed a comprehensive Corporate Social Investment (CSI) policy that guides the firm (and how it operates) in addition to its investment decision-making.

Key lessons experienced at some of its initial investments include:

i. **Altron** (telecommunications and integrated technology solutions provider): from a small initial minority position, VCP has grown to a significant minority stake that effectively makes it the largest shareholder in Altron. The firm has worked extensively with the founding family to effect executive

management changes, hire new people and drive change at the company which has so far proved successful. Key to the firms' success was identifying the right talent, engaging early with the founder (and his family) and introducing appropriate incentive structures.

ii. **PPC** (a leading supplier of cement, lime and related products in Southern Africa): this has been a more challenging investment experience, with the firm realizing the importance of critically identifying the right management team early on. Consequently, an appreciation of the importance of quality management team remains a consistent theme.

In conclusion, VCP continues to grow through a partnership-led model. As South African corporates continue to engage with a challenging macro-economic landscape and increasing competition domestically (and internationally), the importance of finding and attracting a "patient" long-term shareholder will continue to grow in order to make the changes necessary to truly achieve long-term sustainable returns. For the firm, given the significant equity contribution by the founders, the importance of getting it right long-term are shaped not only by stated but also clear economic objectives.

Case Study III: TOTAL Impact Capital

Meeting with Arthur Wood (Founding Partner)

(a) Company Overview

TOTAL Impact Capital, founded in 2010 by Arthur Wood, focuses on identifying and developing social impact investments that deliver superior returns. The company works with various stakeholders (from both the public and private sector), seeking to bridge the gap between investors looking for impact investment opportunities and entrepreneurs.

(b) Innovation at TOTAL Impact Capital

TOTAL Impact Capital, based in Washington but with offices in various locations globally, was founded on the premise of developing market based solutions that shift the dialogue around impact investment. The firm was founded by Arthur Wood, who spent over 20 years working in banking focusing on product development and ecommerce. Having advised governments and private sector players in the impact investment space, the founding of the company was premised on the belief that to solve some of the world's most challenging problems (e.g. the Sustainable Development Goals identified by the United Nations and discussed in more detail in the management summaries below) requires inter, intra and cross section collaboration.

Underlying this belief is a strong conviction that the current structures for foundations and large investors in the impact space are inefficient primarily due to:

- An inability to monetize externalities
- Regulation and tax laws that are globally complex and lead to inefficient processes
- Incentives that do not align with meeting social goals

Consequently, the firm believes that in order to meet the Sustainable Development Goals set by the UN, inefficient markets need to be aggregated in a way that drives innovative solutions that solve systemic problems. An example of this was the development of 'segmentation' in the financial services sector in the United Kingdom (and many other developed countries) in the early 1990s, which allowed banks to reduce risk and offer new products to customers (e.g. customization and personalization of offerings based on data mining, with an aim of tracking the data to the point where predictive offerings could be made to customers).

Key questions the firm has sought to tackle include:

- How do you take a developed economy model and apply it to the developing world?

- How do you create a financial and legal product that works on a system basis and has appropriate incentives?

(c) Sustainability at TOTAL Impact Capital

Consequently, TOTAL Impact Capital has been working on developing models beyond the traditional Venture & Private Equity models to try scale impact investing (whilst still using capital markets). This is due to the large pool of funding that remains captive in global foundations, developing world government budgets etc. that is either currently not allocated to social investments or would benefit from trading externalities. Currently, the externalities with the highest social costs (e.g. Water, Sanitation and Hygiene) have attracted limited funding (refer to Management Summary II – Project 1800). TOTAL Impact Capital has consequently been working on creating a tradeable market for the costs attributed to externalities (which would require an appreciation of the future cash flows foregone due to the *lack* of investment to address the externality). Following from this, further incentives could be developed including tax incentives or contingent liabilities based on success (creating synthetic cash flows). Taken further, a securitization market could be developed that allows a firm to pool these instruments and sell a portfolio to institutional investors.

Fundamentally, solving the global developmental goals requires a shift in how social and commercial returns are measured and the incentives that drive the lack of investment in projects that have significant social outcomes but fail to meet 'traditional' commercial targets. TOTAL Impact Capital consequently has developed 5 core values that are deemed critical to developing a solution that is scalable and tradeable:

- Financial innovation;
- Aggregation of social and commercial objectives (i.e. a blended product);
- Cost consciousness;
- Contingent payments wrapped in an equity instrument and
- The development of a distribution mechanism (to enable global trading)

Given the significant development in this space, these are discussed in further detail in Management Summaries II and III which focus on Project 1800, an undertaking that sought to test a proposed model developed by Arthur Wood and his team to address the challenges presented by one of the key Sustainable Development Goals.

Case Study IV: Fineazy

Interview with Monique Baars (Founder and CEO)

(a) Company Overview

Fineazy's core business model is delivering financial education through an artificial intelligence ("AI") chat bot which is marketed and sold Business to Business ("B2B"). Institutions pay a fee for Fineazy to educate their customers and employees with basic financial literacy. Financial Service Providers ("FSPs") are the primary customers, as they have a proven willingness to pay and benefit from higher quality customers, reduced cost of acquisition, and improved customer insights for targeted sales and credit scoring. Additional revenue comes from add-on content packages including Insurance, Small and Medium Enterprise ("SME") finance and complex finance. In time, Fineazy will generate Business to Consumer ("B2C") revenue by providing product comparison, application and aggregation services.

(a) Innovation at Fineazy

Fineazy was co-founded by Monique Baars, a former Boston Consulting Group ("BCG") consultant who previously worked on developing strategies with financial services companies in sub Saharan Africa after completing her Masters in Finance at the University of Cape Town. She initially formulated the idea of the business 6 months after commencing her MBA at London Business School (LBS) in 2016, where she sought to explore the role and potential scope of financial technology ("fintech") in solving some of the key problems in Africa that inhibited financial inclusion. Having drawn inspiration from the local fintech ecosystem in the United Kingdom, her main conclusion was that the biggest challenge for financial institutions in Africa was ultimately addressing the large degree of financial illiteracy that leads to significant social costs such unnecessary defaults, selling inappropriate products, poor levels of personal savings etc.

Her fundamental realization was driven by her experience where she believed that current financial institutions and the modern banking/insurance model struggles to monetize the low value customer. Consequently, customer acquisition is expensive, with the cost of educating the low value consumer an added cost to selling products. Accordingly, market outcomes have led to scenarios where products are occasionally incorrectly sold to consumers, drastically impacting how many of these consumers subsequently perceive financial service products and hindering financial inclusion. In addition to this, to the extent that financial inclusion has been considered, the dialogue has heavily been focused on increasing access, when by itself access does not increase activity. To drive an increase in productive activity and to truly push financial inclusion, access needs to be complemented by awareness.

Ultimately, to drive awareness you need education and a product offering that fits with the consumer. Therefore, Monique decided to pursue the launch of Fineazy during her MBA programme by seeking to tackle the social challenge of financial inclusion but at the same time addressing a key issue in reducing risk for financial institutions in sub Saharan Africa. She consequently spent a significant portion of her time at LBS crafting how the product would truly be differentiated from other tech based financial products, and having undergone variations of different prototypes and concepts settled on the following key features:

1. The company would create its own content (and has subsequently developed over 120 different content packages for its customers e.g. SME based packages, insurance packages)
2. Content would have to be local, using local language or reference to local sayings to retain relevance with consumers
3. The technology would have to be cheap and interactive, with Fineazy using a low cost chat bot as its primarily tool for communication and avoiding data intensive applications as a platform for distribution
4. Businesses would be the target, paying customer: with financial service providers targeted (banks, insurance companies, fintech businesses, moneylending providers) rather than retail consumers for reasons explored further on

Having then travelled to a few countries on the continent (she previously lived in South Africa), she settled on Ghana as the ideal location to launch the initial business given the country had:

a) a predominantly English speaking population
b) a young, vibrant population and very supportive demographics
c) a relatively high literacy rate (> 70% according to the World Bank)
d) a relatively stable political environment and
e) a society with a historically strong degree of receptiveness to new technologies

Furthermore, as an individual Monique had networked and developed a community of professionals (in and outside of Ghana) who could help her more easily enter the market and establish credibility fast. In addition to this, Fineazy is not regulated in Ghana as it neither meets the technical definitions of a school nor a financial service provider, enabling it to operate with maximum operating flexibility. Consequently, she believed as a platform to test out her product Ghana was a highly attractive market given the need for simplicity and receptiveness before seeking to expand into more challenging countries on the continent from a social, regulation and technological adoption perspective. In contrast, South Africa for example remains a long-term opportunity for Fineazy, but given the size of the population and the operating complexity, the idea has been to focus on fully developing the product in an English-speaking country (with a smaller population) before pursuing geographic expansion.

As alluded to earlier, a key decision for the business was deliberately deciding to have a B2B based business model rather than a B2C business model for 2 main reasons:

- The retail consumer perspective: from Monique's experience, B2C requires a lot of marketing expenditure and when dealing with low value clients, consumers tend not to have too much to pay (particularly those who are likely to need financial literacy). B2B marketing in contrast is generally cheaper and willingness to pay in this context higher (refer to the next point)
- The business perspective: financial institutions receive economic benefits (and regulatory benefits) by paying and supporting educational programmes that improve the financial health and security of their employees and customers. Furthermore, from a payment collection perspective it would be easier to have a few large customers (i.e. banks, insurance companies etc.) rather than multiple individuals

Consequently, Fineazy is able to both reduce its marketing expenditure, reduce its risk of collecting payments whilst enabling financial institutions to address a common problem of developing a better educated consumer at the low value entry point (potentially enhancing customer lifetime value).

(b) Sustainability at Fineazy

Having operated for approximately a year, relying extensively on the existing founders' funding (which has been predominantly personal savings), Fineazy has grown to a team of 4 and end-user base of over 1,500 individuals. Sustainability for the business however is deeply entrenched in its business model, with financial inclusion the key basis that has anchored its drive to help financial institutions have better educated customers who can then place more faith in the system and make better decisions. As a start-up however, a key element of future sustainability will be the business' ability to sustain its own growth, with Fineazy currently in the process of closing round 1 funding (which will hopefully provide a year of runway to do pilots, test product market fit and ultimately build a more sustainable business model and potentially fund entry into a new market).

Having been in operation for over a year, the company and its founding team have developed unique insights into what has and hasn't worked in launching a social enterprise in Ghana. A brief overview of key learnings (positive and negative) identified by Monique are described below:

Positive Surprises	Negative surprises
The power of relationships: as a non-Ghanaian, the business benefitted from the founders' on the ground network which opened doors to having conversations with key stakeholders in Ghana.	The ability to find, nurture and retain talent on the ground is incredibly challenging. This is especially the case for a startup where resources remain limited and talented employees are in high demand.

Access to regulators: having developed relationships and demonstrated a product that could add social value to the country by increasing financial literacy, the founders' were positively surprised by the receptiveness of and ease of access to key decision-makers.	The slow pace of decision-making by corporates, with business customers generally slow to embrace new products (potentially due to culture reasons and the "newness" of the product). A substantial amount of the founders' efforts are spent educating corporates as much as the end customer.
The size of the opportunity: remains immense, and playing a role in driving positive change on the continent and having an impact has been critical despite the challenges.	Fundraising has been challenging for social-based business models in Africa given both the perceived and potential real risks. This has been exacerbated by the lack of a developed venture capital ecosystem on the continent.

Going forward, the business model and core objectives remain clear. Fineazy would like to avoid selling or promoting financial institution products on its platform (e.g. selling or promoting an insurance policy of a third party provider or its own product) as this would impair its relationship with its end customers who view the offering as credible because it is not affiliated to any particular financial institution. This however does not prevent the company from using the data generated by its system (e.g. a customer's increasing levels of financial awareness) as an asset, which could potentially be sold to financial institutions (e.g. credit bureau's) who can then use the data as input into their risk and credit models, enabling them to better price risk.

In conclusion, Fineazy's value proposition will continue to be driven by the need to create a sustainable competitive advantage in a developing market, which requires spending the time to cultivate a solution that's adaptable to the local context. The company has consequently "abandoned" futuristic AI based models that require large consumption of data, are operationally complex and demand unique programming capabilities. Crafting a solution to a social product at the base of the economic period requires a simplistic product anchored around the consumer, with local story-telling and a familiar tool for communication (the mobile phone) sufficient to reach a wide audience of individuals and companies seeking to reduce the high social and economic costs of financial exclusion in Africa.

Appendix: Management Summaries

I. Social Bonds

With the launch of the Sustainable Development Goals by the United Nations, innovation in the field of sustainability and finance has seen the entry of newer, more creative offerings aimed at more consciously aligning financial outcomes with social progress. Within the development finance field, one of the biggest advancements has been in the field of social bonds, contracts offered to investors that seek to replicate traditional bonds but with returns ultimately linked to social outcomes.

Critically, a key aspect of a social bond is the delivery of public sector savings or social outcomes. Consequently, the instrument has come to have multiple names including success bond, social impact bond and social impact bond[4]. In developing countries, these have also come to be known as development impact bonds. In addition, another defining feature is the lack of a stated (or fixed) rate of return. Investors effectively provide capital, but only receive a return if pre-defined social outcomes are met. A strong link is made between the level of return to investors and the achievement of development goals. Consequently, a social bond in reality mimics a structured product and not a traditional debt instrument (where the return of interest and payment of interest are more clearly defined)[5].

More explicitly defined, social bonds are the "*use of proceeds from bonds that raise funds for new and existing projects with positive social outcomes*"[6]. The International Capital Market Association (ICMA), headquartered in Switzerland but with an international mandate (although mainly a European focus), developed the Social Bond Principles (SBPs) that seek to promote a standard within the social bond market. The latest update to these was in 2018 (and has been provided as an appendix). With the ICMAs influence and role in shaping key financing principles and rules in the international financial markets (especially with its role in the establishment of Eurobonds), its foray into Social Bond financing has been seen as critical to potential early investors in social impact bonds.

A key international investor in this space has been the International Finance Corporation, through the launch of its social bond programme in 2017[7]. The IFC, leveraging its other offerings (e.g. Banking on Women and Inclusive Business programmes) seeks to allow investors in its social bonds programme access to investments that meet certain SDGs but whilst still benefitting from the credit rating of the IFC. Furthermore, given the multiple currencies and jurisdictions that the IFC operates in, a critical differentiator is its ability to offer investors further benefits in the form of:

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[4] https://en.wikipedia.org/wiki/Social_impact_bond

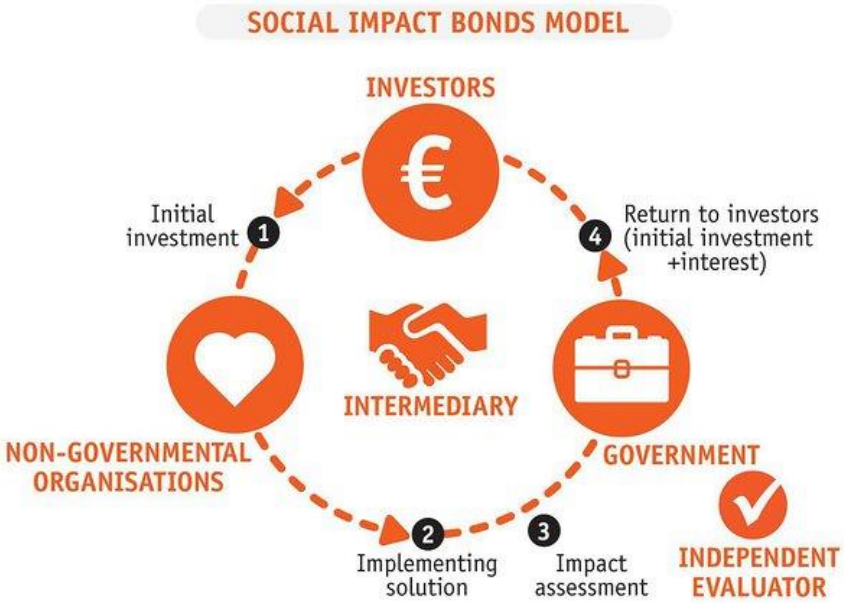
[5] http://www.socialfinance.org.uk/downloads/SIB_report_web.pdf

[6] https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/

[7] https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/about+ifc_new/ifc+governance/investor+relations/socialbonds

1. Diversification of geographic exposure and currencies
2. Diversification of customers and sectors

Historically, these bonds have been non-trade able and ultimately linked to governmental funding, with limited product offerings to the general public (although innovations in this aspect are currently underway). Social Finance Ltd., a United Kingdom based non-profit organization is seen as pioneer in the social bond space having ran a 6-year prisoner rehabilitation social impact bond pilot in partnership with the government of the UK, which is widely cited as the first social bond[8].



Source: Good Deed Foundation

[8] https://en.wikipedia.org/wiki/Social_Finance_Ltd.

II. Project 1800

Given the immense challenges presented by the Sustainable Development Goals (SDGs), as identified in Management Summary 1 – Social Impact Bonds, a variety of initiatives have arisen to try creatively raise sufficient funding to meet the 2030 target for achievement of the goals set by the UN. Backed by the Swiss Development Corporation (SDC)[9] and led by Arthur Wood, Project 1800 (name derived from an estimate of the number of children under the age of 5 who die due to lack of clean drinking water per day)[10] was initially a 5 month study undertaken at the Senegal Basin River (shared by four countries: Senegal, Mali, Guinea and Mauritania) as a test case for clean water management.

Sustainable Development Goal (SDG) 6, as one of the 17 SDGs established by the United Nations has a simple objective: clean water and sanitation for all people[11]. Water, Sanitation and Hygiene (WASH) have been identified as the second most pressing SDGs. With approximately 3.4 billion people globally not having access to clean water today, meeting SDG 6 is estimated to require at least $1.5 trillion in funding, significantly above current financing available from global foundations and international development finance[12]. Project 1800 seeks to try address this significant funding challenge.

Arthur Wood, a consultant with Strategos (a boutique consulting firm based in Switzerland), working with 19 other consultants from a variety of organisations and backgrounds (technology, finance and even regulators) believes developing a solution to SDG 6 (and more broadly) the other SDGs requires private sector participation. In order to achieve private sector buy-in, Project 1800 proposes having more accurate estimates of the costs of not meeting the SDGs quantified and incorporated into governmental budgets and plans. Consequently, in the Project 1800 model, dollars invested are tracked to identify and quantify improvements in externalities[13]. By combining not only the explicit returns from undertaking the project but also incorporating the opportunity cost savings (i.e. the social and economic loss that would occur by having not undertaken the investment), the model seeks to more accurately present the *true return* on undertaking social investments. A project that may have seemed prohibitively expensive subsequently becomes far more affordable.

This is expected to have profound implications on how policymakers and investors ultimately view social investments. By more accurately tracking and quantifying social returns, private capital is likely to achieve higher returns than if the social investment was never undertaken in the first place. An extension of this is potentially creating a tradeable instrument that can capture the social value created (referred to as "blue equity"). In this case, the social benefit (once quantified) could be bought and sold on the open market,

[9] https://www.eda.admin.ch/sdc

[10] http://www.global-geneva.com/project-1800-saving-the-sdgs-and-the-world/

[11] http://www.undp.org/content/undp/en/home/sustainable-development-goals/goal-6-clean-water-and-sanitation.html

[12] http://www.global-geneva.com/project-1800-saving-the-sdgs-and-the-world/

[13] https://project1800.org/#metrics

combined in an equity instrument that captures not only the economic returns of the investment but also the economic value of "reducing all future externalities"[14]. This effectively would enable accessing private capital, which would more readily be receptive to investing in social projects to the extent that they can attach a value to that return which can ultimately be monetized.

Ultimately, the innovation in this project rests upon shifting incentives within existing capital market instruments which often fail to explicitly incorporate an economic return due to the social value created by specific investments, given the difficulty in measuring such returns. This is a fundamental shift that requires multi-party collaboration, with the overriding goal accessing pools of capital previously unavailable for impact investing[15] with a strong social orientation. To truly succeed, it eventually hopes to shift the existing development model from one where countries, agencies and donors compete to a more collaboration-driven model. Consequently, an "umbrella organisation" is proposed as an overarching legal and governance structure to drive the implementation of Project 1800's mission, with standardized legal documentation that encompasses the social mission forming the basis that can ultimately be tweaked and changed to address the needs and objectives of various funds and investors[16]. This would enable multiple funds and solution providers to all form part of the umbrella organization but still benefit from sufficient leeway to have tailored legal documentation that satisfies their individual jurisdiction, but enables general consistency and retains the "spirit" of the umbrella organizations mission.

[14] http://www.global-geneva.com/project-1800-saving-the-sdgs-and-the-world/

[15] https://thegiin.org/impact-investing/

[16] https://project1800.org/#governance

III. Project 1800 (Part II)

Project 1800, as previously discussed in "*Management Summary 2 – Project 1800*", has set out to try identify the ways and means of potentially scaling the funding model towards achieving the objectives of the UN Sustainable Development Goals (primarily SDG 6), given the pressing and existing limitations to attracting private capital to fund social investments. Consequently, having undertaken a project analysis, a detailed scoping process was developed.

This management summary seeks to highlight the key outcomes and conclusions from the report: "Results from a scoping process for a multi-stakeholder collaborative outcome model in water and sanitation: towards a market network for a water-secure world", publicly available on the Project 1800 website (https://project1800.org/wp-content/uploads/2018/04/Project-1800.pdf). Primarily, the focus is on three relatively new developments in finance, process and operation management that underpin Project 1800: (i) Blue Equity (ii) Holochains and (iii) Smart contracts. These are discussed further below:

Blue Equity: the proposal to create a tradable equity instrument that not only incorporates economic capital but social outcomes. In this regard, it is envisioned it would share the characteristics of existing equity instruments (i.e. would be fungible and tradeable, and be equal to (rank *pari passu*) any other equity instrument)[17]. Blue Equity is fundamentally the key solution under Project 1800, with the ability to identify metrics, develop a legal and governance framework and leverage technology all key to enabling the development of a tradeable financial product that combines social and economic capital.

Holochains: a digital asset that enables multiple transactions and effectively exists as a meta-currency. As an improvement on existing blockchain technology, Holochains seek to enable nested smart contracts, whilst reducing the need for computing power/energy.[18] Effectively, Holochains seek to play a meaningful role as a potential avenue to scale cryptocurrencies, which are limited due to 'hard scaling problems' such as the ability to effectively process and transfer large data across a global network[19].

Smart contracts: self-executing contracts, with terms of the agreement (between the buyer and seller) written and stored in code. This would ultimately make everyday life more efficient by automating everyday processes, and is likely to be highly valuable where the execution of contracts are generally standardized. Smart contracts effectively reduce the need for middlemen by facilitating transactions in an efficient manner, and underpin decentralized systems such as blockchain[20].

Consequently, achieving the Blue Equity instrument envisioned by Project 1800 will require the leveraging of recent innovations in financial technology (Holochains) and legal processes (Smart contracts). Although

[17] https://project1800.org/wp-content/uploads/2018/04/Project-1800.pdf (refer to Appendix)

[18] https://hacked.com/holochain-the-new-blockchain-a-look-beyond-the-hype/

[19] https://medium.com/holochain/scaling-cryptocurrencies-holo-chain-3c1745a59cc5

[20] https://blockgeeks.com/guides/smart-contracts/

the initial instrument could be an Exchange Traded Fund[21] (ETF), underpinned by digital infrastructure, scope remains to potentially consider a social impact bond that would see payments contingent on the delivery of social outcomes. ETFs do have advantages (e.g. the liquidity of the market), and would enable Blue Equity investments to trade on a public stock exchange like shares in a public company. At the time of writing, ETFs and a potential social impact bond remain the two primary avenues being explored by Project 1800 to commercialise the Blue Equity concept.

Ultimately, achieving the objectives of Project 1800 will require the integration of:

- Metrics – creating, defining and measuring a standard social cost of capital[22]
- Finance – developing a credible means to integrate social and economic returns and equity[23]
- Legal – aggregating partners, capital and processes to have a coordinated legal regime[24]
- Technology – leveraging developments in the technology space in development finance[25]

[21] https://www.investopedia.com/terms/e/etf.asp

[22] file:///C:/Users/f5135982/Downloads/Project-1800.pdf

[23] https://project1800.org/wp-content/uploads/2018/04/Project-1800.pdf

[24] https://project1800.org/wp-content/uploads/2018/04/Project-1800.pdf

[25] https://project1800.org/wp-content/uploads/2018/04/Project-1800.pdf

IV. Infrastructure and Blended Finance

With the huge infrastructure backlog prevalent in most of Africa, efforts have been made to raise capital to meet this critical funding gap. According to the Africa Development Bank (AfDB), Africa's infrastructure financing needs could be up to approximately US$170 billion per annum, with a financing gap of approximately US$68 to US$108 billion[26]. As articulated in a 2016 Brookings institute article, achieving structural transformation and market integration on the continent will require addressing the huge infrastructure deficit on the continent[27]. Into this space has entered international developmental finance institutions (DFIs), ultimately funded by multilateral institutions (e.g. the World Bank) with the objective of funding attractive project finance opportunities that generate not only a reasonable return but meet developmental objectives. This has not been limited to multilateral organizations however, with some developed nations creating their own development finance institutions set up separately, for example the Commonwealth Development Corporation (CDC) in the United Kingdom and Proparco in France. These vehicles all share similar characteristics, including providing mostly debt (and occasionally equity funding) with long tenures and occasionally pre-feasibility finance (in many cases in the form of a grant).

However, a more recent phenomenon has been the emergence of African government funded investment vehicles, with a recent notable example Africa50, an infrastructure investment platform established by the Africa Development Bank[28]. Africa50 was designed to focus on "high-impact" national and regional projects, with a clear sector bias (preference for mostly energy and transportation related projects). In this context, Africa50 (given its strong relations to African governments as its primary funders and through its link to the AfDB) seeks to leverage its ownership and funding network to assist investee projects to succeed whilst concurrently becoming a leading Africa infrastructure investor. Despite this, the fund does mobilize funds from external capital providers from outside Africa (e.g. pension and sovereign wealth funds, insurance companies and private sector entities). Upon launch in 2015, the fund had raised US$700 million in initial capital subscriptions from 20 African states and the AfDB, with a medium term aim of reaching US$3 billion in capital by 2019 (despite being funded by governments, the fund retains a commercial objective and seeks to compete with other private sector funds)[29]. As of writing, the fund is owned by 27 African governments, two central banks and the AfDB, with headquarters in Casablanca, Morocco.

Consequently, although infrastructure and project finance in Africa is not new, the development of newer investment vehicles which mobilize public and private capital in joint pools is a trend that will likely see further developments in the sector and potentially shift the nature of projects that will qualify for funding. Furthermore, given the divergence of objectives (with the public sector predominantly seeking to meet

[26] https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/2018AEO/African_Economic_Outlook_2018_-_EN_Chapter4.pdf

[27] https://www.brookings.edu/research/financing-africas-infrastructure-deficit-from-development-banking-to-long-term-investing/

[28] https://www.africa50.com/about-us/

[29] https://www.africa50.com/about-us/financials/

social objectives and private sector capital chasing commercial returns), an interesting dynamic is likely to develop in the identification, selection and approval of future investments. Please refer below for an example of recent DFI funded infrastructure project in sub Saharan Africa:

Kigali Water: *Private Public Partnerships (PPPs) and blended finance*

Due for completion in 2020 (with financing secured in 2018), Kigali Water is one of sub Saharan Africa's first water PPPs, with the construction of a large scale water treatment plant expected to provide 40 megaliters of clean water per day (equivalent to approximately one-third of Kigali's water supply) to approximately 500,000 domestic, commercial and industrial customers[30]. The project benefited from blended finance, with the US$61 million total financing including:

1) Equity finance provided by the developer Metito (a global provider of water management solutions with over 60 years' experience developing and managing water facilities in emerging markets)[31];
2) A US$40 million, 18 year loan provided by the Emerging Africa Infrastructure Fund (a Private Infrastructure Development Group company) and the African Development Bank and
3) US$6.5 million in viability gap funding to reduce upfront costs that enabled the government to increase the number of people connected to reliable water supply without increasing the projects tariff (which was provided by the Technical Assistance Facility of the Private Infrastructure Development Group)

Critically, the project aimed to provide a strong demonstration effect in a key area of infrastructure finance (private sector financing of commercial water projects) that has so far proved extremely challenging in sub Saharan Africa where a majority of deals attracting private capital remain in the power sector.

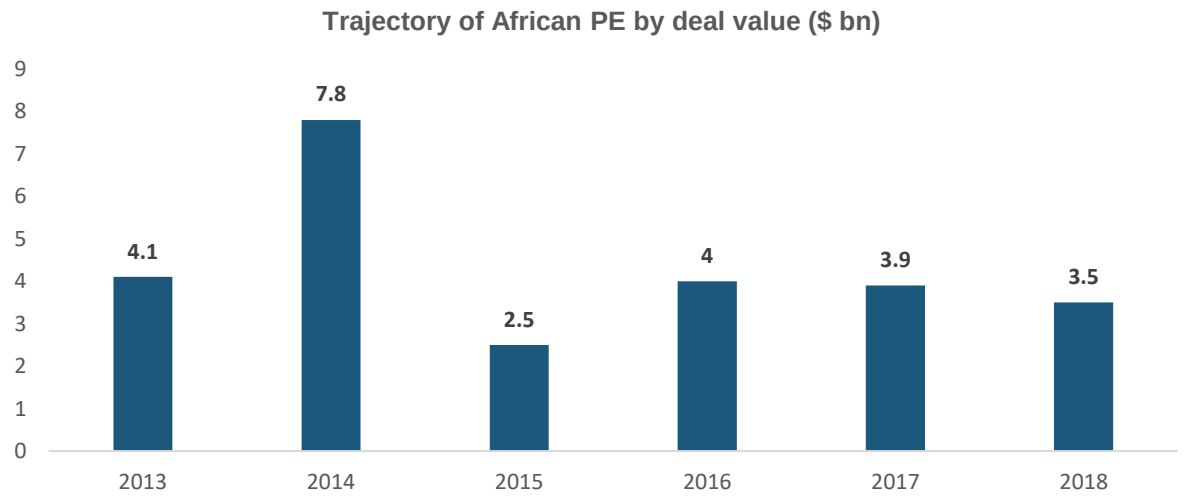
[30] https://blogs.worldbank.org/ppps/kigali-water-lessons-one-sub-saharan-africa-s-first-water-ppps

[31] http://www.metito.com/

V. Private Equity

Given the increasing need for capital to grow and scale businesses in Africa, recent headlines and focus have emphasised the growth and challenges of investing in private equity on the continent. What is clear from information and research in recent years is that the asset class has had inconsistent fundraising results, driven by the difficulty to not only find deals but also execute deals. As evidence of this, traditional giants of private equity globally are slowly exiting the continent[32], with more nimble and smaller players emerging as the engine of deal making. As recently stated by Matteo Stefanel (Managing Partner at Apis Partners), "global buyout firms brought large buyout models to a part of the world that is more focused on growth. But what you actually want, is to put new capital into companies".

This is further exacerbated by the sheer differences in deal sizes that ordinarily occur in Africa versus the rest of the world. According to the African Private Equity and Venture Capital Association (AVCA), the median Private Equity (PE) transaction across its key African sub-regions was $6 million to $8 million[33]. As noted though, deal making activity has been inconsistent, with an increase in deals done (from 171 deals in 2017 to 186 deals in 2018) masking a decrease in total value of deals over the 12 month period (which decreased from US$3.9 billion to US$3.5 billion). Please refer below for a graphical depiction of deal flow activity during the 2013 - 2018 period:

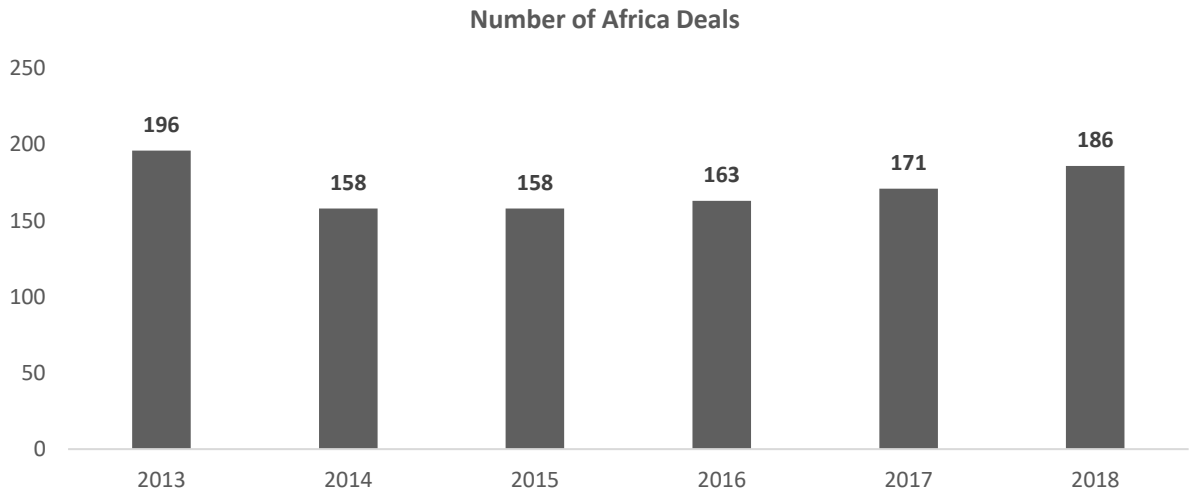


Source: AVCA, 2019

This variation in deal value contrasts with the more steady progression in number of deals executed in the region, which since 2015 has seen consistent (although moderate) growth as depicted below:

[32] https://www.bloomberg.com/news/articles/2019-02-05/blackstone-pulls-back-from-africa-on-planned-sale-of-black-rhino

[33] https://qz.com/africa/1579333/african-private-equity-deals-numbers-rose-in-2018/



Source: AVCA, 2019

A key reason attributed to the struggle for large, buyout funds to succeed on the continent has been the nature and stage of growth most companies in Africa currently find themselves in. In developing markets, a key feature of an attractive PE investment would be an established business with strong cash flow generating capabilities[34]. Although such businesses do exist in Africa, a significant proportion of them are family owned, with large, liquid public equity markets limited to a few geographies (e.g. South Africa, Egypt and in more recent years Nigeria).

Furthermore, the challenges experienced by larger buyout funds could be due to structural differences compared to their operating models in more developed markets, which could be summarised as follows:

1. ***Challenges on entry:*** undertaking buyout investments of large, listed companies in most of sub Saharan Africa is challenging, given the limited number of large companies listed on stock exchanges across the continent. This compares to research in 2016 by the Boston Consulting Group that identified nearly 11,000 companies in Africa with revenues of US$ 10 to US$ 100 million, assets of US$ 20 to US$ 200 million and staff of at least 150 people, a significant majority of which are private[35]. This challenge however is further exacerbated by the confined nature of networks on the continent, both geographically and socially[36]. This makes deal making challenging for newer, international entrants into the region, where even the few truly successful local investors tend to have a concentration in a particular region or geography.
2. ***Challenges on exit:*** furthermore, once investments are made a significant challenge is that Initial Public Offerings (IPOs) are effectively a limited avenue to realise value for private equity investors

[34] http://www.askivy.net/articles/private-equity/interview-preparation/what-makes-a-good-private-equity-investment

[35] https://www.africanbusinesscentral.com/wp-content/uploads/2017/01/Why-Africa-Remains-Ripe-for-Private-Equity-BCG.pdf

[36] https://www.avca-africa.org/newsroom/afri-spective-an-inside-look-at-private-equity-in-africa/2018/dealmaking-in-africa-the-top-five-challenges-investors-face/

on the continent, with a significant proportion of listings (and current future listings being explored) aimed at international stock markets given the limited base of domestic public equity investors that could absorb the larger listings. A recent example of this is the listing of Jumia (an ecommerce company within significant operations primarily in Nigeria) on the New York Stock Exchange[37]. IPOs as a preferred exit avenue in Africa are likely to remain challenging, driven by the stage of development of most public equity markets in Africa. A recent PwC report found that between 2010 and 2017, PE-backed IPOs in Africa as a percentage of total IPOs averaged just 16% in terms of volume and 23% in terms of value[38] (in comparison, over the same period, PE-backed IPOs in the United States and the United Kingdom averaged 39%[39] and 36%[40] in terms of volume, respectively, and 44%[9] and 45%[10] in terms of value, respectively). Effectively, the most credible opportunities to exit investments are sales to a strategic buyer or another PE fund (of which the number of operators is growing but compared to global private equity pools remains limited).

3. ***Need for longer holding periods:*** given the nature of the investments (generally early growth) and need to undertake significant operational improvements, a desire to have a short holding period and quick exit (thereby maximizing IRR) is particularly challenging in these markets. African PE investments on average had holding periods of 7.7 years in 2017 (up from 6.5 years in 2016)[41], compared to an average holding period of 6.17 years for US buyouts in 2017[42]. To drive change and professionalise these firms requires patient capital, which naturally translates to longer holding periods.
4. ***Macroeconomic difficulties:*** in recent years, key countries (e.g. Nigeria and Egypt) have experienced significant macro-economic challenges that have led to currency shortages and restrictions on investor's ability to externalise their investments in hard currency. This has led to GPs having to factor in the increased liquidity risk that can arise at time of exit if currency controls are imposed, which could significantly impair investor appetite (despite what may have been commendable financial returns) if capital upon exit cannot be returned to LPs.
5. ***Market receptiveness and lack of data:*** getting accurate, up to speed and reliable data is incredibly challenging for African PE investments, particularly to the extent that the transactions relate to private companies. Few African countries require any disclosure around private company financials or transactions, creating unique challenges from a valuation perspective (where potential

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[37] https://www.ft.com/content/8b5024e0-5d1d-11e9-9dde-7aedca0a081a

[38] https://www.pwc.com/ng/en/assets/pdf/africa-pe-ipos-final.pdf

[39] PwC US Capital Markets Watch and Dealogic for IPOs from 2010-2017. Excludes non-US offerings, non-SEC registrants, SPVs, closed-end funds, offerings with deal values less than $25 million, and offerings that took place on OTC or pink sheet exchanges. All dual listed IPOs include the US portion only for deal value. Proceeds exclude overallotments.

[40] Private equity-backed IPOs: 1 January 2009–31 December 2017, British Private Equity & Venture Capital Association (BVCA) in association with PwC

[41] EY and African Private Equity and Venture Capital Association's (AVCA's) sixth annual survey, *From origination to exit, how much value can your capital create?*

[42] https://pitchbook.com/news/articles/pe-hold-times-keep-going-up

sellers generally expect pricing comparable to international peers even when local factors would potentially suggest that significant adjustments need to be made).

6. ***Competition with Asia and success in developed markets:*** given where Africa and parts of Asia are today and the opportunity for investors to target opportunities with relatively similar growth potential, a potential challenge for Africa focused strategies is developing a compelling edge to incentivise investors that can allocate capital to both the region and Asia[43]. Competition for capital and high growth rates in Asia (combined with high returns in key developed markets) reduces the need to allocate capital to African Private Equity unless it provides a unique value proposition. This has potentially led to increased pressure on large, international buyout funds to justify exposure to Africa, particularly where these firms may have already developed reasonable Asian businesses and/or capabilities.

Effectively, successful private equity in Africa requires "building" and investing in new markets. For a fund seeking a well-structured investment opportunity with highly developed internal processes and finances that are well organised, the number of investable deals is likely to be limited given the significant proportion of family-owned businesses (which notoriously do not tend to have professional processes) and the nascent nature of the PE market on the continent. In addition to this is a growing consensus amongst longer term investors on the continent that investments must seek to create social-economic benefits for consumers and other key stakeholders in order to generate sustainable returns for LPs and General Partners (GPs)[44]. Consequently, *adaptability* to local realities is key to success in the African PE market.

To succeed, Private Equity firms have to embrace adoptability in both their investment strategies (expanding beyond large buyouts and embracing significant minority investments and partnerships) and operational models (build on the ground capabilities or at a minimum partner with a firm with such capabilities). Relying on a hands off approach is likely to prove fatal to realising required returns in an environment where *information asymmetry* and the cost of "*not being local*" is extremely high. Building local capabilities is also advantageous in other ways, as it could enable quicker operational improvements as the firm shares its technical expertise with the investee company, develops closer contact with key networks in the region and enables greater control in driving the investment outcome[45].

Broader investor interest however remains robust, with recent data indicating that a significant proportion of LPs aimed to increase their allocation to the asset class and region. A review of responses from 60 Limited Partners (LPs) globally, who responded to a survey from AVCA on investing in the region indicates that at least 76% of them aim to maintain or increase their allocation to African PE over the next 3 years

[43] https://knect365.com/superreturn/article/4f48cafc-dedd-4951-b482-72d0769a877c/private-equity-in-africa-a-missed-potential

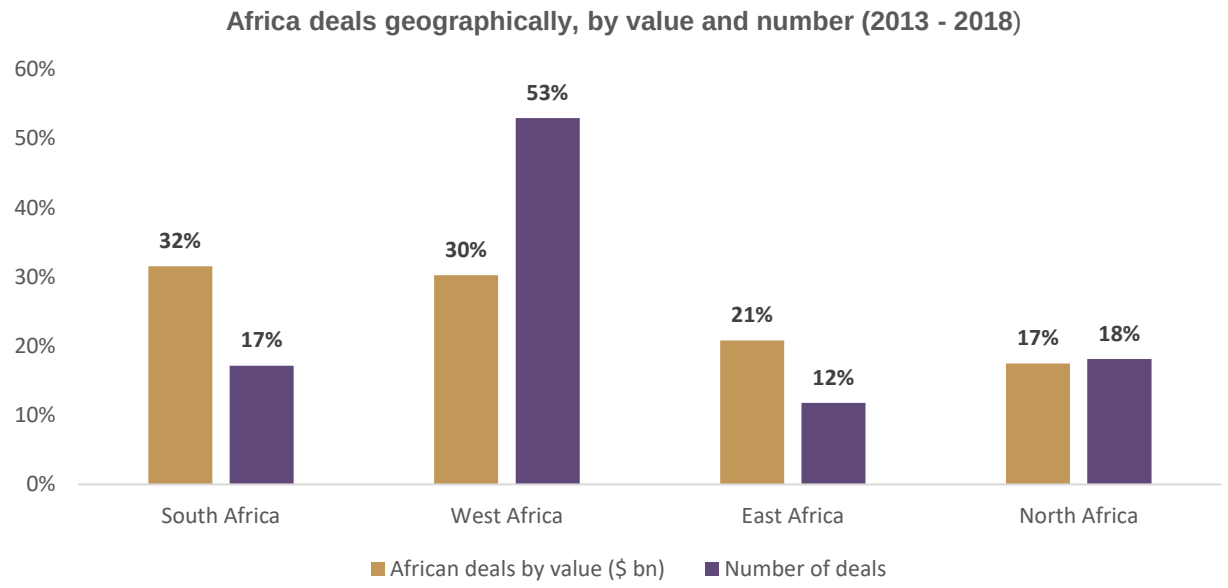
[44] http://www.blog.kpmgafrica.com/the-promise-and-obstacles-facing-private-equity-investment-in-africa/

[45] https://www.africanbusinesscentral.com/wp-content/uploads/2017/01/Why-Africa-Remains-Ripe-for-Private-Equity-BCG.pdf

(with 53% anticipating increasing their allocation to the continent)[46]. Importantly, 67% indicated they would be interested in investing in a first time Africa fund. Key drivers of this continued interest include:

1. A continued **desire for diversification** for global funds
2. An **expectation of higher returns** (relative to developed markets): with almost half of all investors expecting returns to exceed 2.5x invested capital

Key sectors targeted by investors continue to be financial services and consumer goods, with technology in more recent years emerging as the third most popular sector. Increasingly, as more capital is raised with impact investing mandates, more interest is being indicated by GPs (pushed by LPs) to invest in education, healthcare and agribusiness[47]. In terms of overall regional attractiveness, West Africa remains the most attractive region according to surveyed LPs, scoring 85% in an overall attractiveness score (East Africa: 72%, North Africa: 43% and Central Africa: 7%). This geographic attractiveness score aligns with where most of the capital has recently been deployed, with the table below showing the variation in African deals by region and the number of deals done (where West Africa, primarily due to Nigeria, commands more than half of all deals executed over the past 5 years)[48].



Source: AVCA Data Tracker, 2019

[46] https://qz.com/africa/1482214/private-equity-investors-still-view-africa-as-attractive-market/

[47] https://www.dlapiper.com/en/southafrica/insights/publications/2018/11/africa-connected-doing-business-in-africa/private-equity-as-a-catalyst-for-growth-in-africa/

[48] African Private Equity and Venture Capital Association (AVCA), *2017 Annual African Private Equity Data Tracker with Regional Spotlights*

Clearly, the African Private Equity landscape has continued to evolve from its early days where initial funds where either backed by or supported by development finance institutions[49], with geographic focus primarily on South Africa and North Africa. The early 2000s saw the entry of newer international institutions seeking higher returns but also targeting new geographies, including Helios Investment Partners (founded in 2014)[50] which invests exclusively in Africa and the formation of Actis (also in 2004)[51] following the restructuring of the United Kingdom's development finance institution, the CDC Group. These firms have grown to become some of the larger operators on the continent in African PE today, operating alongside more than 200 Africa focused funds (as of late 2015)[52]. These have, combined with the development of other financial investors seeking to differentiate themselves (e.g. activist investors in South Africa, mezzanine debt funds and more recently the entry of venture capital vehicles) combined to ensure that pools of capital on the continent remain despite some of the challenges experienced by recent entrants into the market and the macro-economic challenges post the commodity price correction in 2015-2016.

In conclusion, despite increasing interest investors continue to need to be educated on the unique challenges and features of what is expected to be a key catalyst for growth in medium sized companies in Africa. Unique risks remain prevalent in a continent gradually shifting towards more stable and predictable policies, with the need for more "patient" capital and a strong focus on creating markets that would not normally be required in more developed private capital markets. Fundamentally, failing to adopt has proved to be expensive. This realization is starting to gain traction, with more recent investor appetite indicating a shift in strategy for those looking to deploy increasing assets in the region[53]. Furthermore, the role of prioritising not only economic but also social returns (in addition to the reduction in average deal size and the move away from public-to-private transactions) has led to more and more entrepreneurs in more unique industries accessing funding and the benefits of PE ownership (e.g. improved governance). Critically, investors are now looking to invest predominantly in growth equity, moving away from the large scale buyout funds that dominated fundraising post the financial crisis.

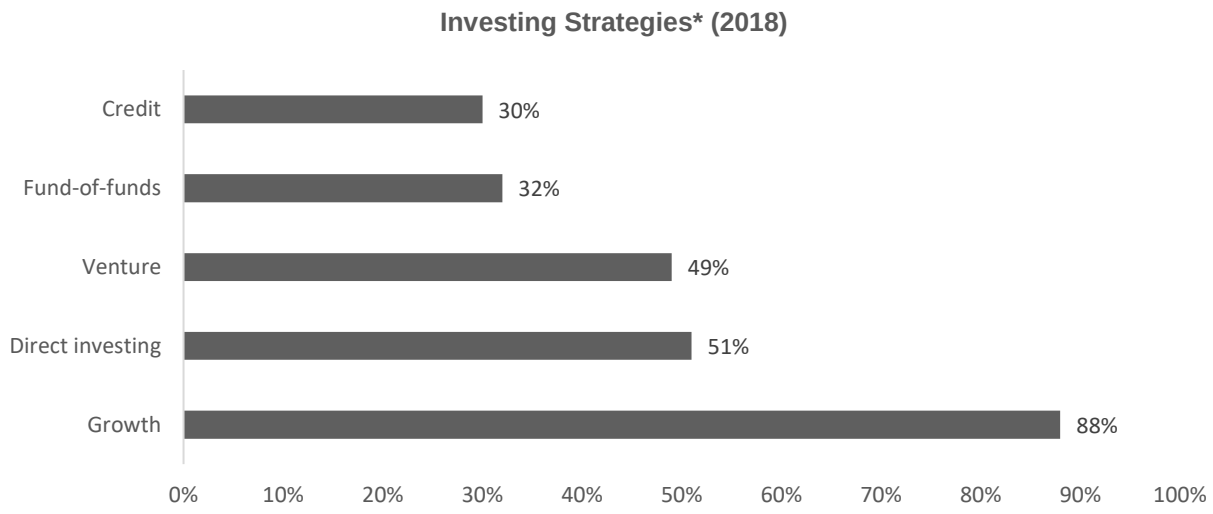
[49] https://www.africanbusinesscentral.com/wp-content/uploads/2017/01/Why-Africa-Remains-Ripe-for-Private-Equity-BCG.pdf

[50] https://www.heliosinvestment.com/

[51] https://www.cdcgroup.com/en/our-investments/fund/actis-africa-fund-1/

[52] https://www.africanbusinesscentral.com/wp-content/uploads/2017/01/Why-Africa-Remains-Ripe-for-Private-Equity-BCG.pdf

[53] https://qz.com/africa/1482214/private-equity-investors-still-view-africa-as-attractive-market/



Source: AVCA, 2019

** Percentages (%) indicate the number of LPs seeking to allocate capital to that strategy. Consequently, for Growth, this would imply that 88% of surveyed LPs in 2018 intend to allocate to the strategy. Naturally, most LPs intend to allocate to more than one strategy.*