INTO AFRICA

A publication from Capital Markets in Africa

JULY 2016

PRIVATE EQUITY: AFRICA'S TRUMP CARD!

Featured Articles

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Cover Image : Tunis
The North African region, of which Tunisia is in, remains a viable Private Equity destination. Investment from Private Equity has helped the region experience exponential growth and the Asset class has created wealth and growth in the MENA region.

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Welcome to the June edition of INTO AFRICA, a publication with fresh insight into Africa's emerging capital markets.

African countries experienced an exponential growth trajectory over the past ten years and will continue to demonstrate strong fundamentals that signal continued growth in the medium-term and long-term. Despite recent short-term volatility over the growing austerity, slow growth in Europe and Britain (the Brexit effect), concerns over slowing growth in China as well as a commodity slump, Private Equity has maintained its key role in Africa's economic transformation and sustainable growth by supporting small-medium enterprises as well as promoting impact and sustainable investment in Africa.

Africa-focused private equity funds raised US$4.3 billion in 2015, more than double the US$1.9 billion raised in 2014, according to African Private Equity and Venture Capital Association (AVCA) data. Helios Investment Partners closed the first-ever $1bn-plus Africa-focused private equity fund in 2015 by raising US$1.1 billion, while Abraaj closed its sub-Saharan vehicle at US$990 million and African Development Partners settled at US$725 million. However, the value of private equity deals in Africa fell by 69 percent to US$2.5 billion in 2015, from a total of US$8.1 billion in 2014, the AVCA data reveals. So, the lack of viable investment opportunities is the key issue facing private equity in Africa.

Private equity seems like a perfect model for Africa as the Asset Class has unlocked the potential for investors to contribute and benefit from Africa's growth story. In addition, private equity has also helped innovative and dynamic African companies achieve their ambition who may otherwise been limited only by a lack of capital and experience, drive forward some of the most exciting new prospects, entrepreneurs and business leaders on the continent. As a result, this edition focuses on Private Equity in Africa and is titled *Private Equity: Africa's Trump Card.*

We start off with *Why Pioneering Private Investors Are Increasingly Critical To Africa's Development* by **Brooks Preston**, Vice President, Investment Funds, Overseas Private Investment Corporation provides an insight into the pioneering role played by Development Finance Institution (DFIs) and hinted that Emerging markets (particularly Africa), although complicated and more challenging than developed markets, are worth a closer look.

Recent Private Equity Deal Activity In Africa By **Jeff Buckland** and **John Nielsen** at the international law firm Hogan Lovells South Africa, discuss the key sectors and upcoming trends in 2016 and beyond. While **John Rowland**, White Lake Group re-analyzes and reassesses Africa's investment fundamentals and themes in the current economic climate and concludes that he would continue to hold African private equity in his write-up *African Private Equity: Time To Reassess Our Trade: Buy, Sell Or Hold?*

Adam Bennot, Senior Analyst, RisCura showcases the role of private equity in value creation and as a promoter of impact and sustainable investment by supporting real business growth, maximising value for society, and increasing returns over the longer term rather than short-termism in the article Private Equity: *A force for Good*. While *Harnessing Maghreb' s Growth Potentials A Private Equity Perspective* by **Mr. Albert Alsina**, Founder & Managing Partner, Mediterrania Capital Partners elaborates on the Maghreb region's investment opportunities and underlying factors.

In our Interview with ***Anne Keppler*** Vice President, Corporates & Funds Africa Equity & Mezzanine, DEG, Anne points out that a well working private sector is vital for sustainable growth and is a strong contributor to improving living conditions of the local population. Also, in a special interview with **John Van Wyk**, Partner and Head of Africa at ACTIS Private Equity says Africa remains a continent of contrast, despite its size and playing the African story is not simply a matter of 'buying' Africa as public markets as they do not give the best exposure to the long-term consumer trends. At the same time, TVM Capital Healthcare Partners in *Eyes Returns and Societal Impact* talks to us about the appetite for healthcare investment among global institutional investors.

In *Mezzanine Financing: A Solution for the Mid-Market Funding Gap in Africa*, **Adesuwa Okunbo**, Director and Co-Head of Africa, Syntaxis Capital, explains the intricacies of Mezzanine Finance and how this instrument provides established African companies unable to access debt from local banks the much needed Finance they require.

Managing and Mitigating Risk in Mergers and Acquisitions by **Kevin Paarman**, Senior Consultant, Marsh Africa discusses Insurance as a Risk mitigation strategy from a policy structure perspective and provides a number of key reasons why this form of insurance has grown in popularity. *Embracing Local Capital Markets: an Alternative Approach to Hedging Currency Risk in Africa* by **Lasitha Perera**, Chief Investment Officer, GuarantCo, elaborates on an alternative to hedge currency Risk.

We round-up with a focus on North Africa's Private Equity, **Dalia Tadros**, Executive Director, Egyptian Private Equity Association gives an insight into Egyptian private equity outlook and **Françoise De Donder**, Déléguée Générale, Association Marocaine des Investisseurs en Capital (AMIC) discusses private equity activities, growth, and performance in Morocco.

Kind regards,

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ENJOY!

WHY PIONEERING PRIVATE INVESTORS ARE INCREASINGLY CRITICAL TO AFRICA'S DEVELOPMENT

By Brooks Preston, Vice President, Investment Funds at the Overseas Private Investment Corporation (OPIC), the U.S. Government's development finance institution.

Africa has long been a place for pioneers. With more than ten percent of the world's population, and less than two percent of the world's GDP, Africa needs far more investment that it receives. The challenge of identifying strong investments in a massive continent that is a complex array of 54 jurisdictions and even more languages, cultures, and political systems, has kept many private equity investors away. The Overseas Private Investment Corporation (OPIC) is not one of them. OPIC has 40 percent of our private equity portfolio invested in Africa and we plan to invest even more.

For more than 30 years, OPIC has been a strong investor in Africa, alongside some other pioneering investors who are supporting small businesses, and addressing a host of challenges from food insecurity to insufficient housing. As the U.S. Government's development finance institution, OPIC has a mission of mobilizing private capital to address major world development challenges.

More recently the more pioneering investors from the private capital base are joining the other DFIs on the continent. In fact, in some cases, PE firms have raised all their capital from commercial investors with financial objectives only. Decades ago, private capital flowing into developing countries was a small fraction of aid dollars. But in recent years that ratio of aid to investment has flipped and the amount of investment flowing to the developing world far exceeds aid dollars. Private capital is flowing, from many sources, into many sectors.

The pioneers are not just the investors, but also the asset managers. Fifteen years ago, investors like OPIC had to choose between a handful of managers, most of whom were first time funds. Today, there are more than 200 fund managers that have raised $38 billion for the continent, and most of them have already invested significant quantities of capital into local businesses in Africa and other emerging markets. These pioneering GPs are being assessed against institutional standards of governance, investment process discipline, and reporting by their LPs. And, they are meeting these standards.

The ranks of pioneers in Africa also include the management teams of the portfolio companies who are introducing, for the first time, equity based compensation to African workers. They include members of diaspora communities who are returning to their home countries and bringing with them a variety of skills and knowledge. Venture capital is an asset class in Africa because entrepreneurs are raising private capital to introduce technology enabled consumer services businesses such as mobile banking into markets that will leapfrog Europe and North America.

These pioneers have all played important roles, and as a result the African private equity market continues to grow. OPIC is in Africa to support this growth, to help achieve important development objectives, and to help demonstrate that the returns that investors seek are available in Africa.

In fact, this is exactly OPIC's mission: mobilize private capital, promote development, and generate returns from our investments. Africa presents many examples about how we do all three.

Mobilizing Private Capital

Capital is never a scarce resource for projects that promise high returns; it is only scarce when people perceive too much risk and inappropriate returns. In Africa, investors have a host of concerns including currency risk, political volatility, corruption, deal access, and historic returns. While some of these risks are perceived, others are quite real.

OPIC can help mitigate these risks – both real and perceived – to help returns-focused investors take their initial steps into emerging market private equity. Here are a few.

Early Diligence:
Many investors in North America and Europe lack the resources to do due diligence on far-away managers who may or may not achieve a target fund size. But OPIC routinely does this necessary early work. Alongside a qualified gatekeeper, OPIC will interview the team, visit the portfolio companies, research the target sectors, and scrub the fund terms, among other diligence items. In the process, we also help new and emerging managers bring their whole data room closer to an institutional standard. And when OPIC commits to a fund it signals an important step towards institutional quality and the likelihood of achieving scale.

Integrity Checks:
The process of vetting key players is harder if the investors do not speak the local language or have access to local networks. Because OPIC can access to U.S. Government databases to check on the integrity of stakeholders, we are in a unique position. Before moving forward with a transaction, we contact the local embassy where the fund will be operating to ask whether there is any local knowledge that should give us pause. This provides an extra layer of integrity diligence that can be reassuring.

Shareholder Rights:
Corruption can contribute to a challenging business environment, but so can basic inefficiency or a lack of

consistent business practices. OPIC is able to engage on these issues directly through contact with the State Department network of embassies. For example, on behalf of current fund managers, OPIC has engaged with U.S. Embassies to call on a central bank to expedite a foreign currency disbursement, call a regulator to get fairer treatment for a broadcast license, testified in court to address a corruption issue, visited a mayor to enforce a contractual payment obligation, wrote a letter expressing concerns about dividend streams.

Portfolio Monitoring:
While regulatory agencies of North America and Europe provide a baseline level of accountability and compliance, regulatory agencies in emerging markets may not be implementing the same standards or they may lack the resources to enforce compliance. OPIC can address this risk in two ways. Prior to investing we make sure that the fund manager is not only going to apply local law, but also that they are going to apply the International Finance Corporation's (IFC) standards for human rights, environment, labor and other core factors. We also conduct on-site monitoring of active projects.

Political Risk Insurance:
Because investing in emerging markets poses its own sets of challenges, OPIC offers political risk insurance to protect investments against certain common risks. OPIC can write policies that will insure investors against currency inconvertibility, political violence, expropriation, and sovereign non-honoring of contractual obligations. We can also help insure a private equity buyer at acquisition, or insure a potential buyer of a private equity asset at realization.

Advancing Development

Since 1991, OPIC's Investment Funds department has invested $5.6 billion across 82 funds operating in emerging markets around the world. Funds we have supported have built affordable housing developments, food processing plants, telecom tower networks, schools, hospitals, consumer goods businesses, tourist destinations, and created local jobs and economic growth.

All these projects have a profound, positive impact in places where too many people lack access to some of the fixtures of modern life like education, electricity and financial services, as well as basic opportunity. Getting these basic services in place helps lay the foundation for further economic expansion and diversification over time. Indeed, a dollar invested in Africa brings a much higher social return than the average dollar invested in most other developed economies.

A recent survey from the Emerging Market Private Equity Association (EMPEA) showed a significant share of global limited partners were seeking more than just financial returns: They were also looking to achieve greater environmental, social and economic impact through their investing. OPIC's portfolio is full of examples where we have pursued, and achieved, great social and economic development returns.

Agriculture:
Silverlands Funds invests in livestock and produce farms across Africa and has achieved efficacies that have significantly improved crop and livestock health along with overall output and earnings potential for small rural farmers. For example, when Silverlands invested in a small cattle farm in Zambia, it helped grow the farm's herd by more than 30 percent in a single year.

Consumer Goods:
The Helios Modern Africa Growth Fund invests in diverse range of sectors across 14 countries in Africa. From a pharmaceutical company in Ghana, which was able to bring anti-bacterial medicine to the market, to a pink rose exporter in western Kenya that created horticultural jobs, to an auto repair shop in Nairobi that now employs 20 people, Helios' investments have stimulated the small businesses that are so crucial to economic growth and job creation.

Education:
Sarona Frontier Markets Fund, a "fund of funds," has supported various portfolio companies across a variety of sectors that have yielded many benefits, including helping a school in Egypt create a special program to subsidize tuition for Syrian refugees.

Jobs:
Emerging Capital Partners' investment in the Java Shop chain in Kenya has demonstrated that even a gourmet coffee shop can bring significant developmental benefits. Java House, which operate 41 coffee shops throughout Kenya has determined that green coffee beans generate significantly more local economic value when they are roasted ground, brewed and served at home. Java House has also created jobs that start at double the minimum wage and has, by example, helped raise the standard for employers throughout Kenya.

Achieving a Financial Return

Since a core piece of OPIC's mission is to catalyze private investor capital into developing markets, it only follows that we are seeking comparable rates of return. OPIC has generated money from its investments for 38 straight years. Our charge is to be self-sustaining, and selecting good managers and good investments is essential to this challenge. Just as the very practice of investing has inherent embedded risk, so does economic development in frontier markets. For both objectives – financial and impact - we don't always accomplish our desired outcome, but that is part of taking risk. The majority of our investments do succeed, and that makes all of our efforts worthwhile.

Emerging markets like those in Africa are without a doubt more complicated and more challenging than developed markets. But given their contribution to of our collective GDP, these markets are worth a closer look. And, given the interconnectivity of our global community, economic development in the emerging markets is an important good investment for world's people. By helping investors feel more comfortable in these markets, OPIC can help them engage in some high growth places with significant potential to achieve returns and make a positive difference on the ground.

RECENT PRIVATE EQUITY DEAL ACTIVITY IN AFRICA

By Jeff Buckland, Partner and John Nielsen, Associate at Hogan Lovells

There have been a number of recent investments in 2015 into private healthcare and pharmaceuticals in Nigeria and into agriculture in Nigeria, Ethiopia and Kenya, and into life insurance and financial services business across West Africa, particularly Ghana.

Telecommunications businesses across Africa also remain attractive.

Regrettably a number of deals have collapsed or been put on hold (often indefinitely) due to the commodity slump (in particular the low oil price affecting the viability of renewable and gas projects) and African currencies depreciation against the USD.

Key sectors

Private equity fundraising for investments into Africa increased from USD 2.5 billion in 2014 to USD 3.8 billion in 2015. European funds need to invest as yet unspent committed capital and there is increased political stability across many parts of the African continent, so investments from Europe into Africa may increase.

We envisage increased investments into the following key sectors: agriculture, education, insurance, banking and financial services, telecommunication, infrastructure and real estate. Recent fundraising activity and announcements from Africa focused PE houses reflect what sectors they are focusing on and where they believe they will make their returns for investors, for instance:

- Abraaj Group in March 2016 announced the formation of a project development arm to extend its investment capabilities in energy infrastructure;
- Verod Capital in January 2016 announced the final close of Verod Capital Growth Fund II at USD 115 million, which will invest across manufacturing, consumer goods and services, business services, agriculture, education and financial services;
- Prudential Financial, Inc. and LeapFrog Investments in January 2016 announced the launch of a USD 350 million investment partnership to target investments in leading life insurance companies in Africa;
- Abraaj Group announced in August 2015 that it had reached final close of its North African Fund II, having secured funding of USD 375 million. This fund focuses on North African companies that could mature in their respective markets and could stand to benefit from a growing middle class spending more on consumer goods and services, business services, materials, logistics and healthcare; and
- Helios raised USD 1.1 billion in what is possibly the largest African focused fund (Helios III) in January 2015. Helios III focuses on businesses that increase business efficiency and reduce costs for consumers and business in their respective countries.

Preparation for exit

Exits by African focused PE funds increased in almost all major private equity hubs (excluding South Africa) for the year ended 2015. This trend may not continue given the current and prospective challenges faced by emerging market economies.

Holding periods for PE investments are affected and potentially lengthened as a result of relatively weak financial markets (with the exception of South Africa), illiquidity of most capital markets and complex and inconsistent regulatory frameworks, each of which could create unnecessary barriers to exit.

PE funds invested in businesses in which shareholders' and managers' interests are aligned, which use sophisticated financial reporting systems and which comply with legal, tax and regulatory requirements, and apply good governance, are easier to value, package and sell.

The exit process often takes between 3-6 months or longer depending on local law requirements. Preparation for exit should begin as early as when the initial investment is made so as to ensure all stakeholders are prepared for what is required of them to facilitate a clean and timely exit.

Well conducted and managed due diligence, evaluation of buyers, pricing, data room access and content, transaction structuring and negotiations are all factors that in our experience facilitate an efficient exit.

Market timing is also key. Given the current economic climate we believe that all exits will need to be carefully considered by PE houses. The weakening African currencies add to the difficulties facing managers to accurately forecast returns on exit.

Upcoming trends in private equity through 2016 and beyond

There was a marked increase of exits in 2015 by PE funds from consumer goods and services, retail investments and financial services. It appears that these exits may have more to do with PE funds trying to avoid losses than about achieving profitable returns to investors, given the outlook on the state of the African economy.

The increased amount of financial services exits, coupled with the decrease in exits from technology business, may be because of the large consolidation of banking and insurance business across Africa with an uptake in mobile technology and access to financial services, which remain in high demand.

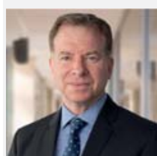
Recent investments suggest a continuing appetite for banking and insurance investments, and an increasing

appetite for industrial and agricultural investments. We expect these trends to continue as many African countries try to become less reliant on the export of raw commodities.

We envisage a continued trend on investments into healthcare and pharmaceuticals across Africa as African governments are concerned with the provision of access to healthcare and pharmaceuticals to lower income consumers, creating an opportunity for increased private sector participation to service the growing middle class. There is also potential for PE funds to benefit from increased state efforts to roll out universal healthcare if they can find businesses that provide complementary services and products.

Given the prevailing views of economic uncertainty surrounding developing countries in Africa, the decrease in fundraising generally and the increase in PE funds' cash reserves (especially in more developed markets), we expect PE funds to be cautious when making new investments in Africa.

Contributors' Profiles



Jeff Buckland is a Partner at Hogan Lovells South Africa. Jeff offers his clients practical and tailored solutions when they need help with all aspects of corporate law such as public and private mergers, acquisitions and disposals, outsourcing, crafting constitutional documents for different types of companies, partnerships, joint ventures and trusts incorporating majority and minority protections, exit strategies and commercial arrangements, corporate restructurings, investments in debt, equity and hybrid instruments, corporate governance, and JSE listing requirements. In addition, he has been involved in establishing numerous South African private equity funds, some with parallel fund structures, and private mezzanine debt funds, as well as executing many acquisitions and disposals by private equity funds, including crafting the constitutional documents for portfolio companies.

John Nielsen is an Associate at Hogan Lovells South Africa. John's practice focuses on all aspects of corporate law, including public and private mergers, acquisitions and disposals, private equity funds, joint ventures and trusts incorporating majority and minority protections, exit strategies and commercial arrangements, corporate restructurings, investments in debt, equity and hybrid instruments.

PRIVATE EQUITY INDUSTRY NEWS

Capria launches US$100 Million impact fund-of-funds. Capria Venture, the impact investment firm based in Seattle, announced the launch of Capria Emerging Managers Fund, a $100 million fund-of-funds which will invest in early-stage equity and debt fund managers in Africa, Asia and Latin America.

Phatisa buys 40% of Torre Equipment Africa by investing almost $15 million to acquire a 40% stake in Torre Equipment Africa (TEA), a subsidiary of JSE-listed Torre Industries. A management consortium will acquire an additional 5% of the company, with Torre Industries retaining the balance of 55% as an ownership stake.

Harith, Africa Finance Merge US$3.3 Billion Assets to Boost Growth, the new entity's portfolio will be valued at $3.3 billion and have 1.3 gigawatts of capacity in operation and under development, according to a joint e-mailed statement from the development institution and private equity company. The joint venture, which provides energy to 30 million people in 10 African countries, also includes Aldwych International Ltd., an independent power producer in London which is owned by Johannesburg-based Harith. AFC contributed two assets and Harith added four.

Injaro Agricultural Capital Holdings Limited (IACHL), the impact investment fund managed by Injaro Investments, invested in Ghana's pineapple sector. IACHL, through its Ghanaian subsidiary Injaro Agricultural Venture Capital Limited (IAVCL), has signed an agreement to invest in Gold Coast Fruits Limited (GCF), a Ghanaian pineapple exporter based in Accra. GCF is one of Ghana's leading exporters of 'Golden Sweet' (MD2) pineapple with customers in Switzerland, France, The Netherlands, Morocco, and the United Arab Emirates. The investment by Injaro will help GCF increase the volume and quality of fruits grown on its farms, expand its reach and market share in rapidly growing emerging markets and source fruits from a larger number of smallholder farmers.

Helios Investment Partners and including The Pembani Group, First City Monument Bank and IFC, announced today the completion of the sale of HTN Towers ("HTN"), the pioneer of tower infrastructure sharing in Africa, to IHS Holding Limited, the largest mobile telecommunications infrastructure provider in Africa, Europe and the Middle East. Founded by Helios in 2006, HTN was the first independent telecom tower company in Africa devoted to building and operating towers. The company has since grown rapidly and is recognized for providing best-in-class service to customers across Nigeria.

INTERVIEW WITH ANNE KEPPLER

Vice President, Corporates & Funds Africa Equity & Mezzanine, DEG Regional Office Southern Africa

Anne Keppler joined DEG's financial institutions team in 2005 after 5 years at WestLB in Germany. Anne has been responsible for assessing and structuring debt as well as equity transactions for banks and non-bank-financial institutions globally. In 2010, she joined the corporates and funds team for Africa and is based in Johannesburg since 2011.

The team is responsible for structuring and managing DEG's direct equity and fund investment portfolio as well as structuring mezzanine solutions for its private sector clients on the continent.

CMinAfrica: To start off, could you introduce the DEG to our readers, what is the mission of the DEG and what are its core mandates?

ANNE: DEG is the German Development Finance Institution. We are a dedicated emerging market investor with the mandate to promote private sector development and hence funding entrepreneurs and businesses since 1962. For DEG, a well working private sector is vital for sustainable growth and a strong contributor to improving living conditions of the local population. To this end, we provide long-term debt funding but also offer equity and mezzanine solutions to private enterprises investing in these countries. We try and add more value than a usual commercial bank would offer by extending advice and business support services to grow ventures sustainably.

CMinAfrica: Please can you share the size and investment philosophy of DEG with us? Also, could you tell us the newest investment mandate made by DEG in terms of size and the reason behind it in Africa?

ANNE: DEG invests sustainably and we expect our partners to act and operate along the same lines. The actual mandate is obviously broader and also slightly more complicated. We invest to promote private sector development. This comprises entrepreneurs and businesses in the agricultural sector, infrastructure developments, and financial institutions as well as businesses in the manufacturing or services industry. We have specific interest in energy, logistics and trade, the textile industry, healthcare and agriculture. Also, we invest a limited portion of our new commitments every year with private equity funds. This as well as the partnership with financial institutions allows us to serve clients, we could not otherwise service out of Cologne, due to their size, their funding needs or simply the geographic proximity. To date, we have worked together with more than 1,900 companies globally, which include 478 in Africa. DEG's portfolio of about EUR 8bn is spread over 738 investments in 81 countries, about USD 2bn in 23 African countries. In essence this means that we are looking for minority equity stakes between USD 10m and USD 50m per investment and senior debt tickets between USD 10m and USD 75m. We prefer fund expansion to support experienced partners in growing their ventures. This applies to our debt as well as our equity strategy. DEG operates 4 offices in Africa; Accra, Lagos, Nairobi and Johannesburg. Especially for equity investments, we like to be in proximity to our (co-) investment partners.

I guess one of our main strategy drivers is that we like to find the right partner in our investments. DEG will always be a minority shareholder and we invest our own money, so risk and a balanced assessment of threats and opportunities for each investment are part of our DNA. We would like to partner with someone whose interests are aligned with ours: to grow a profitable business in a truly sustainable fashion for more jobs, more taxes. And we have contributed to these. An analysis of DEG's portfolio has revealed that businesses co-financed by DEG employ around a million employees, and they make a substantial contribution to state revenue through tax payments totalling around EUR 1.5bn per year.

CMinAfrica: Investing in Africa has been a significant part of your professional life, what significant Investments have you witnessed and what have been the greatest significant impacts these have had on the people of the region?

ANNE: Sometimes it is not only about "big" numbers. Certainly, having seen I&M Bank to develop from a mid-sized Kenyan bank into a regional financial institution has been a success for DEG. When DEG invested in 2005, I&M had almost 1,500 clients and at the end of last year, more than 100,000 clients and was well established as regional player.

DEG has also supported the Bokpoort Concentrated Solar Plant in South Africa. DEG supported the original development team which joined Metier since 2011 and attending the commissioning of the 50MW plant in March this year was a great milestone. The plant provides electricity to 200,000 households in South Africa.

But sometimes the individual experiences have even more impact. Having discussions with a fund manager and helping to add value, or talking to a plant manager who has just undergone a resource and energy efficiency assessment sponsored by DEG and is very motivated to keep improving his plant performance going forward, are just some of the examples of the motivational moments which keep me going.

CMinAfrica: Institutional investors often have concerns around liquidity, transparency and lack of benchmarks when it comes to private equity. How do you manage this and what advice can you give in this respect?

ANNE: I truly believe this depends on the investors preferences and strategies, therefore requirements differ. From DEG's perspective, we are a long-term investor by mandate and hence the liquidity constrains and long-term nature of private equity doesn't "scare" us.

Various reports and analyses prepared by AVCA and SAVCA frequently show that PE can outperform public equities. If you enter the PE space, the only advice I would give is the selection criteria of the manager. Take your time and think carefully whom to entrust your money with for 10 years or more. The strategy and chemistry should be aligned to make this a successful experience.

CMinAfrica: It has been said that SMEs are key to Africa's growth as we have witnessed from the many SME stories coming out of the region. Can you give us some examples of where the DEG has invested in SMEs and what is the DEG investment strategy in this regard?

ANNE: Somehow I would tend to say that most economies are backed by SME's. Obviously there are various examples but to pick on two examples which you can read up on DEG's website as well *(www.deginvest.de)* are:

The Berlin-based solar company Mobisol GmbH supplies off-grid solar home systems to households in rural areas in East Africa. DEG provided the company with a convertible loan for expansion and also invested equity in the company. Mobisol has already equipped over 21,000 households in Tanzania and Rwanda with off-grid solar power systems, with an outlook that 150,000 people in East Africa will use Mobisol systems. Moreover, 10,000 micro entrepreneurs are expected to generate an income amounting to 10m US-dollars annually.

Another example for a successful SME investment, is the Kenyan enterprise Kevian Kenya Ltd. (Kevian). DEG provided a long-term loan of USD 7.5m for expansion which enabled the business to realise strong market growth, high product quality and improvement of its distribution strategies. DEG was the first international development finance institution to support Kevian and the company continues its growth by increasing its production capacity, improving its packaging systems and introducing new products.

CMinAfrica: In investing in Africa, what are the key conditions that a Fund Manager/Private Equity would need to have in order to attract DEG's investment?

ANNE: As I mentioned earlier, our fund investment mandate is seen as an extended arm of DEG's own, direct investments. We frequently partner with PE funds to co-invest and hence an alignment between the fund's investment strategy and ours is key. DEG, as member of the EDFI network and a subsidiary of KfW Banking group, adheres to standards of responsible and sustainable investment. We expect every fund manager we invest with to implement reliable environmental and social risk assessments as well as adequate management processes in reducing identified risks. The same applies for integrity and good corporate governance, where we expect our partners to speak the same language and to have the same ambition to improve standards to build a sustainable business which will yield profits for all its stakeholders.

CMinAfrica: Finally, what is your investment outlook for Africa in 2016 and are there any hidden gems to look out for?

ANNE: Sometimes gems are out in the open, think about the Namib dessert. So keep your eyes open. Goods and services you request as a consumer might actually be the investment gems you are looking for.

CMinAfrica:: Thank you very much for granting the interview.

DEG AFRICA'S PROFILE

Africa has been one of DEG's focal regions for many decades, particularly in sub-Saharan Africa. Three representative offices facilitate direct contact to markets and customers: in Accra for West Africa, in Johannesburg for Southern Africa and in Nairobi for East Africa.

Key areas are: funding for the manufacturing and service industries as well as financing solutions for agribusiness and infrastructure projects. In the last two business years alone, DEG committed around EUR 561 million for investments ins Africa. The volume of our portfolio is currently just under EUR 890 million.

DEG provides direct loans and venture capital to facilitate reliable access to long-term capital for companies investing in Africa

DEG AT A GLANCE

Established:	1962
Head office:	Cologne, Germany
Shareholder:	KfW Frankfurt
Employees:	499
Equity capital:	EUR 2,272 million
Balance sheet total:	EUR 5,843 million
2015 New business:	EUR 1,064 million
Sub-Sahara Africa:	EUR 284 million
Project portfolio at end of year:	EUR 7,979 million

Source: KfW, DEG 2015 Annual Report

AFRICAN PRIVATE EQUITY – TIME TO REASSESS OUR TRADE – BUY, SELL OR HOLD?

By John Rowland, Managing Partner and Founder, White Lake Group, United Kingdom

In September 2012, we at White Lake wrote an article called "Patterns, Predictions and Profits: the Powerful Case for African Private Equity" - our macro investment thesis at that time for Africa. The title speaks for itself - investment professionals always have a view – and we were pounding the table in support of African PE, albeit with some risk caveats.

Let's assume at that time we "bought" African PE as a long-term investment. Would it have been a good deal? When I was a stock market equity analyst or even as a PE investor, the process was first of all in the form of an investment thesis, which is essentially a set of assumptions based on which triggers are pulled.Then as time unfolded, we monitor (in the case of listed equities) to see if they come true (in the case of PE you try and control what you can, to make the assumptions come true). In this article however, I will re-analyze the assumptions we made then, to see if they have proved true and restate how I feel on African PE now as well as its opportunities and challenges.

Am I up or down and will I Buy, Sell or Hold my African PE position assumed bought in Sept 2012?

Of course there was not and still isn't a PE index for Africa that I could buy over the counter. A full study would need to be done on every PE fund of that vintage in Africa to ascertain returns to date. Perhaps Cambridge Associates or Harbourvest can help out here. My belief from looking at 4 funds I know reasonably well, is cash on cash it would be still down or neutral at best (mainly due to the stage in the cycle (just at the end of investment period) - only a couple of exits and on the flip side also some write-offs, with unrealized returns looking better than that. However I always take unrealized returns with a pinch of salt. Adjusting this to the currency weakness effects of a dollar denominated fund and I would say I am down or barely breaking even. So let's say we are neutral to 10% up – which based on an expected risk-adjusted IRR expectation for African PE of 30-40% is not where we need to be. The cash generative side of the PE cycle should be just ahead though.

However now what to do - Buy, Sell or Hold? (Theoretically of course, as PE is so illiquid and the secondary market always heavily discounted).

Let's examine our original macro investment thesis to see if it has come true and continues to be true.

The Macro Opportunities as of 2012:

1. Commodity boom – Continued high prices of oil and precious minerals sourced in Africa bringing continued revenue to these countries.

Were we right or wrong?

WRONG – On two fronts actually. First, oil has crashed from over $90 a barrel in 2012 to $49 as of today and this is after a current two-month rally from $35. This has put the economies and currencies of oil exporters like Nigeria (fifth largest exporter in the world), Algeria and Angola under serious pressure. Palladium and platinum which are mined almost exclusively in Africa have dropped an average of 32% over the four-year period. So Government revenues from commodity sales taxation which could have been used for badly needed infrastructure projects in Africa are falling away, not to mention the associated jobs from the marginal cost producers.

On the second front – even before the price drop –, Nigeria, that being the country population as a whole, was not benefiting from the oil funds glut. Yes the richest few and the corrupt were, however taking Norway as an example where oil funds are collected by the Government and invested for the good of the country as a whole – Nigeria is a long way from this ideal.

In short the earnings gap in emerging markets, due to lower priced soft and hard commodities, has not been offset by an increase in spending from the western world, even as they experience more spending power due to this same price drop.

"So let's say we are neutral to 10% up – which based on an expected risk-adjusted IRR expectation for African PE of 30-40% is not where we need to be. The cash generative side of the PE cycle should be just ahead though."

2. Economic growth will keep ahead of the rest of the world.

Were we right or wrong?

NEUTRAL – It turns out that the target set for Africa to beat by the rest of the world over the past 4 years (which they duly did) was quite modest, outside of China (which has now also started slowing). However over the past 12 months there have been alarm bells on African growth. Declining commodity prices and economic difficulties in China, Africa's key trading partner, are driving down African economic growth. The International Monetary Fund (IMF) was forced to revise downwards its growth forecasts for Africa twice in 2015.

Add to that now - some other new macro speed-bumps:

- *Weakening currencies all over Africa* – the cause? Various reasons for this from lack of export value (commodities' value drop in general as mentioned, agricultural failure in Kenya in 2015), to a fall in tourism due to terrorism/Ebola across the continent. A weakening currency makes a country's imports expensive, and import-led inflation leaves less money for internally produced goods. Yet Africa is still at a stage where it still needs to import specific materials to build up its own manufacturing industry.
- *(Very!) High interest rates* – in part due to the emergency funding often needed by African governments, who go to the bond market with crazy yields to fill the book quickly. However the feeling is, these rates do not affect consumer spending as people do not borrow much personally in Africa – after all, at these rates and with a lack of banking credit history, who can?
- *High unemployment* – mainly among the youths aged 18-34. This is heartbreaking and a serious social and economic headwind. This counteracts the advantage of Africa having the youngest fastest growing populations of all continents.

However, with that said, African growth outlook (IMF set 2016 prediction at 3.5%) is still brighter than for most of the developed world (1.5-2%).

3. A continued and improving stable environment for business and growth in Africa.

Were we right or wrong?
RIGHT – With some caveats. Since 2012 some elections have thankfully passed with minimal violence, most recently Uganda where Museveni prevailed, albeit with grave doubts as to the absolute fairness of the election. To say that Governments in Africa are approaching the transparency level of the western world is still a stretch. Every day here in Kenya the man in the street bemoans the corruption of the Government of the day. We had violent protests on election reform with deaths only last week. So the improvement has stabilized and consolidated but is not continuing at the pace set at the beginning of the decade from what I can see. Old habits die hard. Though we have always maintained that this risk can largely be managed.

4. A growing middle class in Africa will be a consumer product companies dream.

Were we right or wrong?
NEUTRAL to WRONG – it's all relative as it turns out. So is the growing middle class thesis proving true?

In 2011 a paper from the African Development Bank Group (AfDB) found that the number of middle-class Africans had tripled over the space of three decades to 313m. This study defined the group as those with a daily of consumption \$2-\$20. However reading the study more closely revealed that 60% of the so-called middle class went into a category of individuals with a consumption level of \$2-\$4 per day. Hardly a group that has much discretionary spending power.

Then last September, Standard Bank examined the middle class of 11 countries that make up >50% of sub-Saharan GDP finding that the middle class in these countries was just 15m people. Adding to this information nuggets such Barclays pulling out of Africa and Nestle shedding 15% of its African workforce in June 2015.

My own 'on the ground' evidence here in Kenya would at first glance give credence to the theory that the middle class growth is true. I shop in a local store where milk or cheese cost more than a store in London. There are western style malls popping up all over Nairobi and the roads are jammed full of expensive SUVs. However I have to balance that against the fact that I run a team of 14 well educated accountants who earn per month at the lowest level a fraction of what their European counterparts earn. These workers are in the middle class as defined by AfDB however I know they do not shop regularly in these malls or buy these products. These malls are supported mainly by the elite of Kenyan society and expats.

So yes discretionary spending is rising in Africa however we are still a long way from what would be considered a western world middle class discretionary spending power.

5. Shift towards urbanization driving consumerism and thus economic growth.

Were we right or wrong?
RIGHT – However this is not necessarily a good thing. Cities in Africa continue to expand, slums expand, consumerism rises and traffic continues to worsen. From the Asian experience urbanization means people live longer, have fewer children and consume more discretionary goods – pushing economic growth. In a decade the population of Nairobi has gone from 2 million to 4 million people. If the Government can manage the social issues of urbanization (youth unemployment, slum proliferation, increased crime), the scene will be set for increased economic growth. The jury is still out on whether urbanization will be a good thing for Africa.

6. Communication improvement – proliferation of the mobile phone will lead to increased economic activity.

Were we right or wrong?
RIGHT – Unprecedented growth. For example in Kenya, Safaricom 3G covers 80% of the country with pans afoot now to roll out 4G. A bigger factor is the rise of MPESA - more on that below. This rise is one of the fundamental reasons that the African economies will continue to improve despite all the headwinds.

Risks:
The following were the risks we pointed out in 2012 and a review of where they now stand:

1. *Political risks are relevant and need monitoring* – still true but still manageable. Overall it is hard to see any further alleviation of this risk. There are less violent elections and less wars. However corruption has not decreased which makes it difficult at times to do business. Increased terrorism was a new issue thrown into the mix.
2. *Lack of infrastructure* – The Chinese have pledged $1 trillion in infrastructure financing to Africa by 2025. Of course the majority of that will be spent with Chinese companies. Infrastructure is improving but still has a long way to go. Just try the traffic in Nairobi to verify.
3. *Corruption and corporate governance.* This remains a risk area. African corporates are still not at European levels of governance and the losses are felt daily. Having worked as a CFO in Africa over the past year, I can say it remains a serious issue but can be managed with strong controls and company ethos towards fraud.
4. *Paucity of management talent* – still true and a huge risk but manageable depending on individual company conditions. Middle management is the key area where the standard is just not yet at the European standards. Upper management is easier to plug – mainly as you need fewer people therefore returning African's whom have worked abroad fit the bill. The education standard is good though; so with the right PE fund intervention and coaching, vast improvements can be made.

Factors which had a huge positive impact which we did not foresee in 2012, and are still proving to be a tailwind for African PE:

Mpesa proliferation – this has become a pseudo banking and saving system allowing greater commerce for many Africans. Trade has increased greatly because of this.

New technologies developed in Africa now can take over the world. What natural advantages has allowed a country like Kenya to compete in technology development?

Actually it is more pertinent to ask – what natural disadvantages has given Kenyan entrepreneurs the need and drive to develop their own business models and technologies not seen anywhere else in the world? What problems do Africans have, to induce such technology advancements that can then be applied to the rest of the world?

Here are some examples where a geographically specific disadvantage is leading to technological innovation.

- *Credit scoring* – In Africa there is no banking and bill payment data on the majority of people to aid credit scoring. Africa has had to develop new methodologies linked to social media and other esoteric sources. These methodologies can also be useful as alternative credit indicators in the western world.
- *Off grid power* – The lack of reliable grid power has pushed companies like MKOPA to redefine how people get and pay for power.
- Mobile banking – Branches may become a thing of the past in Europe soon – in Africa they never even got started.

- *Mobile payments* – MPESA leads the world.
- *Online Education* – Companies like Bridge international have redefined how teachers work using technology. They instruct teachers over tablets on lesson plans. Parts of the innovation to cope with producing quality education at a price point suitable for the African market, may also now make its way to western world education models

Conclusion – Buy, Sell or Hold?

Hold and selectively add. Be patient. Mitigate those risks where you can. Support your management teams strongly.
I would continue to Hold African PE from my Buy in 2012. (Theoretically) I am just about breaking even – having bought the market at that time, not deal picked and in places I am feeling some real pain. Of course the currency depreciation to the dollar is punishing.

However, with quality fund managers who really work on plugging management weaknesses in their portfolio companies (middle management is the key weak area which can make a difference), drive strong governance, controls and process disciplines into cash management and growth – the future is still bright. I would selectively add in areas – a few tech VC plays and middle market buyouts (large cap is crowded with only so many deals for Actis, KKR etc to chase and drive prices) and add a sprinkling of debt/mezz deals with strong protections. East African would be my geography of choice. In summary African private equity continues to ripen slowly. The challenge for funds will be to see which can win the available quality deals without overpaying, and which can take the diamonds in the rough and make them shine.

> *"Actually it is more pertinent to ask – what natural disadvantages has given Kenyan entrepreneurs the need and drive to develop their own business models and technologies not seen anywhere else in the world?"*

Contributor Profile

John Rowland worked in the African PE fund Inspired Evolution for 5 years, and now runs White Lake Private Equity consultancy. He is currently working as Consultant CFO for Bridge International Academies in Kenya. He focuses on private equity market analysis, deal-making and transforming PE backed companies' governance and processes to world-class.

PRIVATE EQUITY: A FORCE FOR GOOD

By Adam Bennot, Senior Analyst, African Private Equity, RisCura

"What improves the circumstances of the greater part can never be regarded as an inconvenience to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable."- *Adam Smith, The Wealth of Nations*

Although Adam Smith, often referred to as the father of modern capitalism, may have not have been a proponent of businesses pursuing charitable activities, he clearly believed in a society of shared value creation.

In order to address some of South Africa's most pressing social and environmental challenges, a paradigm shift is taking place within the realm traditionally seen as driven by narrow profit maximization. By aligning purpose with profit, private equity (PE) is emerging as a powerful tool that supports long-term financial sustainability, reduces business risk and focuses on value creation for a wider group of stakeholders.

According to the Bertha Centre for Social Innovation and Entrepreneurship's 2015 African Investing for Impact Barometer, an estimated 70% of funds managed in South Africa, representing USD 480 billion, implement at least one or more investing for impact (IFI) strategies. These strategies include:

- Integrating Environmental, Social and Governance (ESG) factors into investment analysis, valuation and decision-making;
- Investor engagement which seeks to influence a company's behaviour through proxy voting and board participation;
- Negative or exclusionary screening;
- Thematic investments which focus on investments along the themes of environmental sustainability and inclusive socio-economic development; and
- Impact Investment which is an investment strategy intended to generate positive environmental and social impact alongside financial return.

According to the Bertha survey, ESG integration was the most popular strategy with 71% of assets being managed using in this way. While Impact Investment only constituted 1% of total assets under management at USD 6bn, it has a greater level of impact; and private equity is leading the way within this strategy.

Although private equity firms managed relatively fewer assets than the listed asset managers, the survey found that they were generating more impact per unit of assets under management. Thanks to the efforts of DFIs, which have been a major contributor to funding PE mandates integrating ESG in South Africa, PE is now being used as a force for good.

Driving this investment philosophy is the belief that well-managed and well-governed private equity investments can be a powerful driver of improvements in the livelihoods of people living at the bottom of the economic pyramid (BoP). A joint report by SAVCA and the DBSA shows that investee companies increased the number of staff employed both within and outside of South Africa by around 40%.

Private equity is no longer just about growing the bottom line in the short-term; it is about contributing to real business growth, maximising value for society, and increasing returns over the longer term. Beyond job creation, PE is raising operational standards, improving corporate governance and putting South African businesses on par with their global counterparts.

This transformation couldn't happen at a more critical time. South Africa's current economic challenges seem almost unsurmountable. GDP growth of a less than 1%, a looming credit ratings downgrade and rising unemployment, means that South Africa's economy is on the brink of a recession. Targeted investments are desperately needed in the education, infrastructure, healthcare and agriculture sectors. Unfortunately, the level of investment needed far outweighs the resources available from the public sector, private foundations and DFIs. Private sector resources are needed to bridge the gap; and private equity is paving the way.

SAVCA's Case Study Compendium showcases how PE investments are contributing to sustainable economic development in South Africa.

For example, in the food and agriculture sector, Musa Capital invested in African Frontier Holdings (AFH), an integrated FMCG group focused on the food industry with investments in farming, processing, manufacturing, distribution, logistics and retail. With the support of Musa, AFH established an Emerging Farmers Programme to provide internships for 50 aspiring black farmers. These farmers will be up-skilled to develop new co-operatives which will ultimately be phased into new farming units.

In the housing sector, Lereko Metier Capital Growth Fund invested in South Point Management, which was established in 2003 to redevelop and manage underutilised inner-city properties to provide affordable, quality accommodation for students. Since the fund's investment in 2007, South Point's property portfolio has grown from six buildings to 40, providing housing to approximately 10 000 students.

The renewable energy sector has attracted significant PE investment, which is providing much needed clean energy to the national grid. For example, Inspired Evolution invested in Red Cap, which is developing two onshore wind energy projects in the Eastern Cape. The two projects include the Kouga Wind Farm (KWF) and Gibson Bay Wind Farm (Gibson Bay). The KWF project will generate approximately 305GWh of clean energy per annum, mitigating approximately 220 tons of CO2 greenhouse gas emissions each year.

In education, Milpark Education and Management received an investment from Leaf Capital, which has helped the company grow into a prominent higher education institution with two campuses and over 14,500 students enrolled countrywide.

Even in healthcare, PE is having a significant impact. For example, Medu Capital invested in Medipost Pharmacy, which is the largest courier pharmacy for chronic medicine in the country. The resulting deal enabled Medipost to improve its BBBEE rating from Level 4 to Level 2. It also helped the company establish an additional hub in Cape Town and increase the number of jobs from 408 at investment to 1,300 in 2014 at exit.

The above examples highlight some of the tangible value-enhancing socio-economic impacts of private equity investment across companies and industries. Clearly, PE has a vital role to play in driving inclusive growth and sustainable economic development in South Africa, as well as driving strong, long-term returns for investors.

Contributor Profile
Adam Bennot is a private equity Analyst at RisCura. He is responsible performing valuations of companies held by private equity funds and funds of funds in Africa. Additionally, he has assisted in drafting legislative policy on education and labour issues for the United State House of Representatives, writing press releases for the House Committee on Education and the Workforce, and researching various investment-related topics on the African continent. Adam holds a Masters in Development Finance (MCom) from the UCT Graduate School of Business and is a level III candidate in the CFA programme.

El Niño – beware the lag effect of this 'weather bandit'

While the weather phenomenon appears to have passed, El Niño will continue to impact food security, food prices and humanitarian needs well into 2017, says a new Bright Africa special report from African investment specialists RisCura.

Like the archetypal bandit in a classic Western, riding into town and wreaking havoc, El Niño has devastated many regions: leaving some places with a landscape of parched earth and animal skulls, and others a soggy wasteland of flooded crops and disease. "In every case, economies have been badly hurt through the knock-on effects of this 'weather bandit', and they're not over; they're growing," says the report author Fran Troskie at RisCura.

Food insecurity, the most readily apparent and widely reported effect of El Niño, is only likely to peak by December 2016 according to the United Nations Food Programme. Over 10 million people in Ethiopia, 3 million in Zimbabwe (30% of the population) and a quarter of Swaziland's population already need food assistance. Sudan is likely to see more than 4 million people at crisis levels of food insecurity by September this year.

"Growing seasons, harvests and crops will remain affected well into 2017 with shortages in key agricultural commodities likely to persist even longer," Troskie says. "As a result food prices have escalated sharply since December last year, and in South Africa, economists are predicting that food price inflation will reach 13% later this year."

Looking at maize, South Africa, the largest producer on the continent, has been forced to import both the yellow and white varieties (1.73 million and 72 000 tonnes respectively as at end April 2016). A shortfall of 3.8 million tonnes is anticipated for this year. Maize prices have been peaking, with the staple fetching nearly 20% more per tonne than a year ago, at R4000 – R5000 per tonne (USD 270 – USD 340).

The knock-on impact on overall food inflation and headline inflation has been somewhat delayed for at least two reasons: In the first place, processed items (such as samp and maize meal) typically have a lag of 6 to 9 months before reflecting input-price hikes, and the lags for dairy, eggs and meat are slightly longer. In the second place, retailers have been absorbing the brunt of the extra costs over the course of the past year, effectively subsidising cash-strapped consumers. It is clear, however, that they can only withstand so much margin-squeeze. Rising costs at producer level are increasingly likely to be passed through to the consumer.

Unlike more developed parts of the world, African economies are still largely reliant on agriculture, particularly Sub-Saharan countries where it contributes nearly 15% to GDP. Farming and related activities, including seasonal labour, are the main source of income in many poor communities. As market adjustments to weather-related headwinds play out, an almost perfect storm of higher food prices, wage cuts and job losses results in shrinking disposable income.

As food makes up between 40 to 60% of the consumption basket of the poorest in Sub-Saharan Africa, rising food prices have the most immediate and acute impact on the most vulnerable communities. "The average size of food baskets will shrink significantly, as will the quality of what fills them, as less nutritional foods are typically cheaper," says Troskie.

Households will also be forced to undertake precarious budget-balancing acts. Education and ongoing health needs will be neglected. This will have longer-term, negative impacts on countries' human capital.

"Investors need to be aware of the ongoing direct and indirect impact of El Niño on the sectors and countries they invest in, and consider both the challenges and the opportunities that have emerged," Troskie concludes.

PRIVATE EQUITY IN AFRICA

Special Feature: Exclusive Interview with John Van Wyk, Partner and Head of Africa, Actis

John is Head of Africa for Actis's Private Equity Business and is a member of the Private Equity Investment Committee. He has extensive experience in the private equity industry and has been involved in managing some of the largest deals in the region. John joined Actis in 2004. Prior to Actis he spent nine years at Ethos Private Equity. He holds degrees in Commerce and Accountancy from the Witwatersrand and is a Chartered Accountant.

CMinAfrica: Many people are describing Africa as the next frontier for Private Equity. ACTIS has been investing in Africa for many years. Have you noticed a change in the way Africa is perceived in the private equity community?

JOHN: Actis has been investing in growth markets including Africa for six decades. The perception has certainly changed. In the year 2000 the front cover of The Economist described Africa as "the hopeless continent"- fast forward 12 years and we encountered the start of the "Africa Rising" narrative and a survey from E&Y showed us that Private Equity investment into Africa had more than doubled between 2012 and 2013.

Our view of Africa is rooted in extensive experience. We remain cautiously optimistic- the macro story is intact –we are seeing favourable demographics, in particular growth and urbanisation driving the investment environment and economies that are becoming increasingly diversified. Up until recently, interest in Africa had increased significantly and we have seen fairly substantial sums of capital raised in the last two years. More recently lower commodity prices and stalling global growth has impacted the macroeconomic environment in Africa and this has impacted many economies. Currency volatility is adding another dimension to the investment environment and the combination of the above factors has made investors more cautious of late. Investors who are patient and understand the cycle will benefit.

CMinAfrica: Africa is a very diverse continent with 54 countries. How would you best describe your strategy to investing in Africa?

JOHN: Africa remains a continent of contrast, despite its size- we have done 71 deals in 20 countries since 1998 and our strategy has always been focused on local presence and sector expertise. We have tended to focus on the larger economies/regions – South, East, West and North, which is where we have local presence, although we do not restrict our investment activities to those territories only.

We believe in using sector focus to identify opportunities with high market share, scalable business models and strong management teams. For us this means businesses operating in consumer, financial services, including healthcare and some industrial sectors. In addition to our Private Equity Funds, we also invest in Energy and Real Estate and have just raised our 3rd Real Estate Fund of $500m which will invest in SSA ex SA.

CMinAfrica: What do you see as the biggest challenges to doing deals in Africa?

JOHN: Africa remains a continent of contrast, despite its size. Playing the African story is not simply a matter of 'buying' Africa as public markets are relatively shallow and do not give the best exposure to the long-term consumer trends.

Outside of the major markets the level of company sophistication can vary significantly as well as the experience and availability of management. Cultural differences need to be understood, languages vary and regulations differ between most countries. Deal types vary from LBO's to growth capital and capital is more readily available in some markets than others. All of these nuances need to be understood.

Other challenges include more capital looking for investments and optimistic estimates around growth which result in rising valuations against a volatile macro and currency backdrop. The intermediary landscape is another key piece of the jigsaw which is still somewhat underdeveloped.

CMinAfrica: Institutional investors often have concerns around liquidity, transparency and lack of benchmarks when it comes to private equity. How do you manage this and what advice can you give in this respect?

JOHN: These are real and relevant concerns- we believe that communication is key. Our Limited Partners, many of whom are subject to the highest level of scrutiny and accountability, know that investing responsibly and delivering excellent returns are not mutually exclusive concepts. As such our Environment Social Governance (ESG) team is an integral part of the rigorous screening process to assess whether an investment is suitable for Actis' funds.

In terms of liquidity we are for the most part long term partners- typically for 4-6 years so our investors

understand that some elements of the portfolio are more liquid than others. Our ability to exit an investment is a key factor in any investment decision and generally we will look to invest in assets that will have strategic appeal or can be IPO'd.

Benchmarking is the perennial challenge because putting the net internal rate of return (IRR) on the private market investments up against a public stock index can be misleading. IRRs are based on the pacing of cash flows while stock indexes measure gains in asset values over time it's simply not a meaningful comparison.

That said, LPs do occasionally use public market-equivalent (PME) benchmarks to evaluate past investments and make decisions it is a complex calculation but a more solid methodology.

Overall we believe in taking a mature public markets approach to investing in (private) growth markets- this includes adhering to ILPA guidelines and AIFMD regulation.

CMinAfrica: How is ACTIS approaching the issue of currency risk in light of the volatility we have seen over the last 18 months?

JOHN: The last 5 years has seen a average annual depreciation of 18% in the Real, 16% in the Rand, and 7% in the Rupee and Egyptian Pound

To help manage this exposure, we have developed a long term FX model which we use to inform our decisions around:

- Investment
- Exit Timing
- Hedging alternatives

Investment decisions at Actis are made with reference to where currencies are against their fundamental value this allows us to make more informed investment decisions on entry and exit. The model also provides an anchor for the short term and provides a clearer horizon with which to navigate the portfolio and deliver the best absolute US$ returns we can

CMinAfrica: How easy is it to exit from portfolio companies is and what exit routes do you favour in Africa?

JOHN: Trade sales account for the majority of PE exits in Africa, other PE firms and other financial buyers are becoming increasingly significant purchasers of assets. This tends to be across a mix of local, regional and multinational firms, according to EY report for AVCA

Some Selected ACTIS Activities in Africa ....

Actis raises over $500m for new African real estate fund, a third opportunistic private real estate fund, Actis Africa Real Estate Fund 3 ("ARE3") with commitments totalling more than $500m, comfortably exceeding its original $400m target. ARE3 is the largest opportunistic private real estate fund targeting sub-Saharan Africa raised in the market to date. ARE3 has a diverse investor base, including pension funds, sovereign wealth funds, development finance institutions and endowments from Africa, Asia, Europe and North America. The new fund is significantly larger than Actis Africa Real Estate Fund 2, which closed in October 2012 with commitments of $278m. ARE3 will invest predominantly in prime retail, office and industrial developments in the capital cities of 7 – 8 sub-Saharan African markets. Over the past decade, the team has invested in assets valued at $1.4 billion on a gross asset value basis.

Actis invests in Mundiapolis University, Morocco, a top ranking private university in Morocco, as a bolt-on acquisition to its investment in Emerging Markets Knowledge Holdings. Actis is investing in Mundiapolis to support an ambitious development plan that strengthens the university's offering, accelerates its internationalisation, and strengthens its important contributions on the African continent. Mundiapolis was founded 20 years ago. It began as three institutes offering degrees in Business, Law and Engineering, and has since merged into a leading Moroccan university with some of the highest academic credentials in the region.

Actis agrees to sell Emerging Markets Payments, the leading Africa and Middle East payments business, to Network International. The transaction is subject to regulatory approvals.

Actis established EMP in July 2010 as a 'buy and build' platform, to capitalise on increasing demand for payments infrastructure in Africa and the Middle East. EMP today has the broadest footprint of any payments business in the region. It delivers electronic payments services to over 130 banks, 35,000 retailers, governments and consumer finance institutions across 45 countries in the Middle East and Africa. EMP enables banks to issue and process debit, credit and prepaid cards; facilitates merchant acquiring; and provides retailer and e-government payment solutions.

LMA East African Syndicated Loans Conference

16 August 2016
Windsor Golf Hotel & Country Club, Nairobi

The Loan Market Association (LMA) is the trade body for the syndicated loan market in Europe, the Middle East and Africa. Its key objective is to improve liquidity, efficiency and transparency in the primary and secondary syndicated loan markets in EMEA.

Our membership stands at over 600 organisations covering 55 nationalities, comprising commercial and investment banks, institutional investors, law firms, service providers and rating agencies. We support the industry by offering template syndicated loan documentation, establishing market practice, educating the market and removing barriers to entry for new participants.

The LMA in Africa

We are seeking to bring about greater efficiency and standardisation in the African commercial loan market, whilst educating our members about the opportunities and challenges they may face when operating in this region. We continue to broaden our footprint in Africa, and now have 45 members from nine different countries.

About the conference

We are pleased to return to Nairobi this year for our fourth annual East African Syndicated Loans Conference. Now an annual fixture, it is one of the largest conferences in East Africa dedicated to syndicated lending.

The conference will explore general market, economic and legal trends in the short and medium-term, and discuss ways to reduce bottlenecks of liquidity in the region. The role of development banks will also be discussed, as well as legal risk and the impact of recent changes in the international regulatory landscape. There will also be sessions on project finance and the role of non-bank investors. The conference will be followed by networking drinks. Speakers will consist of senior market practitioners from local and pan-African commercial banks, as well as non-bank investors, advisors and law firms active in the region.

Who should attend

This event, which is free to both members and non-members of the LMA, will be open to all professionals operating in the syndicated (and wider corporate) loan markets in East Africa. This all-day conference will have a specific focus on the syndicated loan markets in the region and in Sub-Saharan Africa more broadly.

Session topics

- Lending in EA: maximising liquidity and bankable opportunities
- To what extent will short-term tailwinds impact the long-term prospects of lending to Sub-Saharan Africa?
- The potential pitfalls of cross-border lending: legal risk in East Africa
- Credit Insurance as a Risk Distribution Product
- Competitive or Complementary: the role of DFIs in East Africa
- A non-bank investor's view on the East African loan market
- US and EU regulatory extraterritoriality and the impact on cross-border lending
- Sector focus: project finance in EA

Confirmed speakers include:

Michael Awori, Regional Head of Debt – Barclays
Robin Bairstow, Managing Director – I&M Bank (Rwanda) Limited
George Bodo, Head of Financial & Banking Sector Research – Ecobank
Charles Corbett, Head of Financial Institutions, Sovereigns & Public Sector Development Organisations, Financing Solutions Africa – Standard Chartered Bank
Oliver Fowler, Partner – Kaplan and Stratton
Andreas Grenacher, Regional Director East Africa – DEG Kenya
Fredd Kambo, Director – The Abraaj Group
Kenneth Kaniu, Chief Executive Officer – Britam Asset Management
Henry Kikoyo, Partner – Brown Rudnick
Thomas Lambourn, Director, Capital Markets Origination – Citi
Daniel Odongo, Regional Coverage Executive (Eastern Africa) – Nedbank
Jonathan de la Pasture, Head of Africa Debt Finance, LibFin Markets – Liberty SA
Paras Shah, Partner – Coulson Harney

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HARNESSING MAGHREB'S GROWTH POTENTIALS - A PRIVATE EQUITY PERSPECTIVE

By Mr Albert Alsina, Founder & Managing Partner, Mediterrania Capital Partners

Very often investors wonder whether investing in the Maghreb is beneficial and delivers high returns. There are several reasons why this region is more attractive than other emerging markets in the world. In the Maghreb countries, future growth expectations tend to be high, competition levels are rather low and markets relatively stable. Also, there is usually a strong pipeline of good companies in fundamentally good sectors.

Another important element to keep in mind is that the Maghreb region is currently experiencing an exponential demographics growth with 50% of the population below 25 years-old, and a phenomenal rise of the middle class. All these factors will continue to trigger the GDP growth in the Maghreb countries for many decades to come.

Private Equity investment is crucial for the Region's development and the world's stability and its impact can be felt across society. Investments through Private Equity contribute to helping the development of these countries and companies, creating new jobs, driving the economies and encouraging further investments in related sectors. Also, thanks to the additional financial and business support that Private Equity firms bring, local companies are able to expand their reach quickly and enter new markets and customer segments. Furthermore, it's proven that in cases where Private Equity firms are involved in the management of the company, there is lower entrepreneurial failure with the consequent benefits for the local community.

In addition to this, PE firms implement socially responsible policies such as encouraging female employment, offering employees secondary benefits and supporting environmental policies to achieve energy efficiencies or preserve natural resources.

All in all, PE investments are both necessary and very beneficial for the progress of the Maghreb countries and their communities. In that sense, we have seen an enormous evolution in several companies since the start of our operations in 2008, especially in terms of ESG impact and Value Creation.

ESG Impact

First of all, the labour market has been positively impacted by Private Equity as PE firms help local companies achieve and exceed their growth plans subsequently increasing employment. For example, through the Mediterrania Capital I and II funds, we have created more than 1000 new jobs since 2008 with 50% of them being held by female employees. Besides that, all our portfolio companies conduct an official equal opportunity employment policy and provide secondary benefits such as health insurance, vacation pay, pension plans, etc to their staff.

Secondly, many PE firms implement policies related to preserving the environment. In our case, all our portfolio companies pursue at least one environmental objective, 2/3rds are actively pursuing pollution prevention and waste management, half of them implement policies to achieve energy and fuel efficiencies, while others focus on water resource management, natural resources conservation or sustainable land use. This was not the case prior to PE entering those companies, today this is a reality.

In terms of Governance, PE firms must establish a Governance structure in their investee companies that focuses on developing a strong, transparent and fluid relationship with the local partners through formal and informal interactions.

Overall, social, environmental and governance policies as we may know them in Europe are not yet obvious in the African region, and PE is playing a major role to make them happen.

Value Creation

Essential for the PE industry is to create value in the local companies where we are investing. Since the start of our operations, through Mediterrania Capital Partners, we have implemented a unique Value Creation model that allows our portfolio companies to deliver on average over 20% y-o-y growth on revenues and 30% y-o-y growth on EBITDA.

How does it work?

First of all, a Social Operating System is well defined. This Social Operating System, also called Governance, includes monthly board meetings, management meetings, audit committees and strategic sessions. Also we combined these scheduled meetings with informal touch-points with employees at different organisational levels. This approach for formal and informal meetings helps us understand the business in depth and what to do to improve the performance of the company.

Then, having the right person in the right job is key for the success of any company, so we spend significant time with the entrepreneur reviewing employee profiles, performances and potential, and make changes where necessary to ensure people are in the job that best fits their skill set, experience, knowledge and ambitions.

Also, we implement the 3 Wide Enterprise processes that are essential for a strong and efficient operation: the strategic process, the HR process and the budgeting process. The strategic process considers where we are today and where we want to be in the short, medium and long term. The HR process aligns the resources with the

work to be done in order to achieve the strategic plan goals. And the budgeting process deals with how we can achieve a step further in our strategic growth plan next year.

We also monitor very closely the company's Key Performance Indicators. Each company has its own, but all companies have 5 in common:

- Cash
- Growth
- Customers
- Velocity (or inventory turns)
- Profits

And finally, a diligent and comprehensive follow-up is critical so we perform regular checks to monitor strategy implementation, to verify that the right people are at the appropriate positions, to ensure that budgets are under control, and that Key Performance Indicators are met on a consistent basis.

Thanks to this value creation model, Mediterrania Capital's portfolio companies are growing far beyond the markets where they are playing, and are setting the right foundation that will allow them to keep performing in the future years.

Case Study - Cash Plus *(www.cashplus.ma)*
The largest independent money transfer company in Morocco specialised in national and international money transfers, prepaid credit cards and bill payments. It operates through 1000+ point-of-sales across the country.

Improvement:
In 2015 Cash Plus sales increased by 80% vs. the previous year; EBITDA grew by 33%; and Net Income grew by 196%.

Cash processed transactions increased by 20%, from 1.4 million transactions in 2014 to 1.7 million transactions in 2015. Regarding international transfers, in 2015 the company delivered a 20% increase in total value of the transactions, clearly over performing the market (5% est.). During 2015 Cash Plus opened new shops reaching a total of 1,000 point-of-sales by the end of December.

Development impact:
Cash Plus helps enhance financial inclusion in Morocco by allowing its 1 million unique clients, mostly unbanked, to have access to financial products: money transfer and payment services. In a country where 12 million of people do not have a bank account, the company plays a key role in providing low-income banking solutions and improving financial inclusion.

Social impact:
200 new jobs have been created under Mediterrania Capital's tenancy. Employee working conditions and rewards have been improved.

Innovation:
Cash Plus is continuously working in developing new products and services for its clients. Thus, the company has added bills payments and telecom recharge to its products offer, and its teams are working in pilot mode on mobile accounts management.

Summary:
Cash Plus's financial inclusion products allow hundreds of thousands of people to have access to new payment capacities, to widen their consumption capabilities and to participate more actively in the economic development of the country. At the same time this allows Cash Plus to deliver fast growing sales and profitability, ensuring that new jobs continue to be created and the working conditions of its employees keep improving.

"Mediterrania Capital's portfolio companies are growing far beyond the markets where they are playing, and are setting the right foundation that will allow them to keep performing in the future years."

Side Note:
According to the Emerging Markets Private Equity Association (EMPEA), 12 private equity (PE) funds raised a total of US $994 million in the MENA region over the first three quarters of 2015, compared to US $1.1 billion raised by private funds for the full year 2014, underlining the better shape of the sector in 2015. Total capital invested increased over the first three quarters of 2015 with US $774 million invested by PE funds for 35 deals closed while US $752 million were invested for the full year 2014 for 67 deals closed. Funds managers have been increasingly harnessing the progress and prospects for regional expansion within North Africa toward Sub-Saharan Africa and Europe.

Contributor's Profile
Mr Albert Alsina, is Founder, CEO and Managing Partner of Mediterrania Capital Partners. With over 25 years of international experience, Albert Alsina started his career at General Cable where he spent 10 years in General Management and Executive positions based in Germany, England, Scotland, Zimbabwe, Brazil and USA. Afterwards, Albert was appointed General Manager & Vice-President at Textron Power Transmissions in Boston, MA. Later, he joined VWR, a pharmaceutical company, as GM & VP managing the Northern Europe business. In 2007, Albert entered the Private Equity industry through Permira, and continued as head of Fons Mediterrania Capital with RyG. In 2013, he founded his own management company, Mediterrania Capital Partners.

Albert is a Graduate of Harvard Business School (AMP). He has a Postgraduate in Business Management from the University of Barcelona (Spain). Albert also attended The Whartonand the John Moore University in Liverpool (England). Postgraduate in Business Management and Finance from the University of Poitiers (France) and the University of Fulda (Germany). Also attended The Wharton School (AMP), IESE (Spain) and London Business School (Corporate Finance).

TVM CAPITAL HEALTHCARE PARTNERS EYE RETURNS AND SOCIETAL IMPACT

Dr. Helmut M. Schuehsler, CEO of Dubai-based TVM Capital Healthcare Partners

Dr. Helmut M. Schuehsler, CEO of Dubai-based TVM Capital Healthcare Partners tells Into Africa about the specialist private equity firm's investments in the Middle East, North Africa and India, and plans to extend the company's reach to Southeast Asia.

TVM Capital Healthcare Partners has invested in five companies. How have those investments progressed?

Our approach to investing is to research our target markets in selected geographies extensively, in order to identify gaps in healthcare provision, before deploying capital. We have concentrated on building scale, quality and efficiency at these companies, using a very hands-on approach, with our TVM Operations Group supporting companies in several areas, including finance, IT, legal, and human resources. The divestment of ProVita to London-listed NMC Health in mid-2015 was a measure of our success in developing a mature, high-quality healthcare company that was an attractive acquisition for a major healthcare company.

You recently announced the registration of a new fund. How will this be different from your existing fund, and where are you planning to invest?

The fund, TVM Healthcare III, intends to raise up to US$300 million and invest in up to 12 healthcare companies in opportunities in the MENA region, India and Southeast Asia. We have already identified a number of highly attractive investment opportunities in all three regions. In our minds, especially demand for high quality healthcare will rise. We have partnered with a small group of highly experienced healthcare professionals in Singapore already to advise our Dubai-based investment team on investment opportunities in the region.

Where do you see the gaps in healthcare provision in emerging markets? What are the drivers for growth in the healthcare industry in the markets where you are investing?

Urbanization and socio-economic development in emerging markets are resulting in rapidly increasing demand for high quality healthcare. There is a real opportunity for private companies to complement the public sector, by stepping up to supply specialist services. Although recent emerging market volatility may make fundraising challenging, it also creates attractive investment opportunities from a relative lack of competition. Combine this with investing in a defensive sector such as healthcare that benefits from a solid long-term positive mega-trend and you should be looking at an excellent investment opportunity for a private equity player.

What is the appetite for healthcare investment among global institutional investors?

There is a lot of interest in healthcare at the moment, partly because it is a defensive sector, but also because in emerging markets, it is a high growth sector, which is benefiting from rising incomes, and higher expectations on quality of service. We believe that our investors are also increasingly looking to have a positive impact on societies at large through their capital allocations, as well as looking at the usual return metrics. However, we firmly believe that to invest in healthcare successfully in emerging markets, you have to develop a strong in-house team, or be a specialist. For example, our investment and especially our operating teams include physicians and experienced healthcare administrators, as well as financial, human resources and legal professionals who bring to our portfolio companies first-hand knowledge of value creation and operational quality in the healthcare sphere. As a company, we also bring global sector relationships to bear on the growth of our companies and the quality of the care they provide.

Contributor's Profile

Dr. Schuehsler has dedicated his career to exploring new horizons as an investor, pursuing innovation and building teams and businesses, sometimes from scratch, sometimes in new regions, and always in healthcare and with an eye on products or services that address unmet medical needs and promote societal progress. In the process he has gained extensive operating and investment experience in numerous geographies, such as Germany, the UK, France and several other European countries, the United States, the UAE and India.

He started his investment management career at Horizonte Venture Management in Vienna, Austria, and joined TVM Capital in Munich in 1990. Since then his investment track record includes close to 30 direct investments, as well as positions as chairman, vice chairman or director at around 30 innovative life science and healthcare companies. In the Middle East, he currently serves as chairman of UAE-based Manzil Health Care Services, and previously held the position of chairman at ProVita International Medical Center, Cambridge Medical & Rehabilitation Center and Bourn Hall International. On the life science side, he is a board member of Concert Pharmaceuticals, Inc, (Lexington, MA, USA) and f-Star GmbH (Vienna, Austria).

As a long-time director of Max Planck Innovation, he contributed to the translation of leading German science into commercial projects. For several years between 2003 and 2009, he represented the European private equity and venture capital industry at the European government level in Brussels in various roles such as chairman of the Professional Standards Committee and finally in 2007/08 as chairman of the European Private Equity and Venture Capital Association (EVCA, now called "Invest Europe").

During his tenure with TVM Capital, Dr. Schuehsler has raised more than $1 billion in committed capital for life science and healthcare investments from global investors.

MEZZANINE FINANCING: A SOLUTION FOR THE MID-MARKET FUNDING GAP IN AFRICA

By Adesuwa Okunbo, Director and Co-Head of Africa, Syntaxis Capital

Introduction

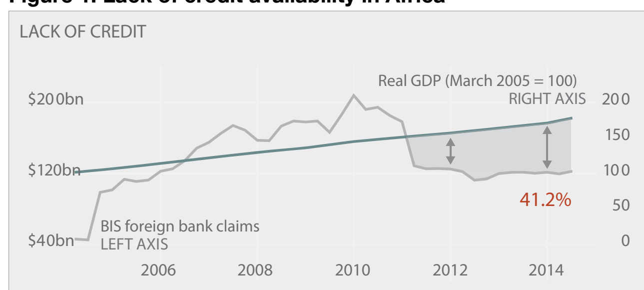
Mezzanine financing in developed markets such as Europe and the United States is typically used to fill a gap in the capital structure, providing additional leverage for primarily private equity funds. In emerging markets such as Africa, mezzanine financing is a key tool in addressing the current lack of funding that is especially obvious in the mid-market, where small and medium sized companies are looking to raise between $5- $20 million for expansion.

Mezzanine provides established African companies unable to access debt from local banks with a more cost effective and flexible financing solution, and also provides a less dilutive alternative to private equity for those entrepreneurs or family owned businesses looking to retain control of their business.

Africa's mid-market funding gap

The lack of access to finance is one of the most prevalent challenges entrepreneurs and business owners face in Africa, particularly as credit to the private sector has failed to keep pace with the growth rates of most economies in Africa. With banks deleveraging after the financial crisis, credit flows from developed countries into Africa have shrunk, with cross border credit down 41 pct since the peak in Q4 2010. However over the same period the overall economies in selected African countries have grown 4.5 pct annually since 2010 despite this lack of credit, which for mezzanine providers presents a clear and significant opportunity.

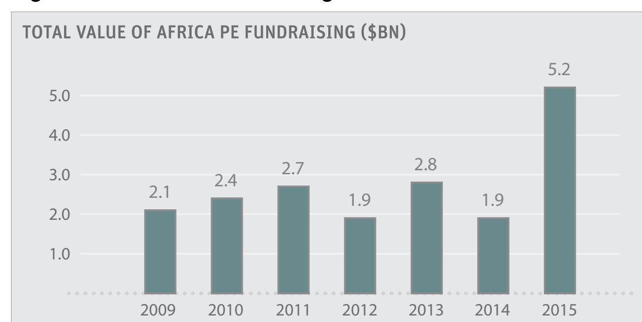
Figure 1. Lack of credit availability in Africa



Source: BIS data and Syntaxis analysis

Due to this lack of credit, African banks are now much more selective, preferring to focus their efforts and credit, on larger corporates and national champions. The perception exists among many local banks in Africa that smaller firms have insufficient assets or collateral, making them a riskier and therefore less desirable proposition. When banks do decide to lend to small and medium sized enterprises, the terms offered are often unsuitable, given the stage of the respective company's development. Banks fail (or are unable) to tailor debt-service schedules according to a given business plan, and tenors are often very short term, which is not the type of patient capital small and medium sized companies need to grow. There is typically a mismatch between the shape of the capital banks are willing to provide and the entrepreneur's business plan. This lack of support from local banks for mid-market companies means the only option left for business owners is to turn to the private equity market to source growth capital. However, what we see is 1) entrepreneurs are unwilling to cede a significant minority interest or control to private equity fund due to succession reasons or the stage of their business, and 2) private equity dry powder allocated for Africa is much more targeted at larger companies/deals.

Figure 2. Record PE fundraising for Africa



Source: Preqin and Syntaxis analysis

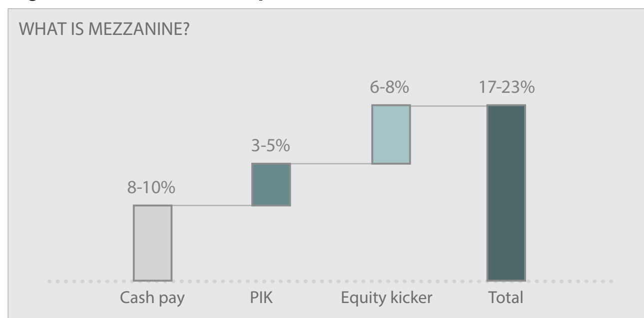
Since 2009 there has been approximately $19 billion of funds raised for private equity in Africa, with circa 40 pct raised in just the last two years. In 2014, excluding infrastructure funds, $1.9 billion was raised for Africa. However, three funds alone raised $1.5 billion or 77.1 pct. of total capital raised. The trend continued in 2015, a record year for fundraising, with $5.2 billion raised for Africa, with six funds accounting for $4 billion (77.4 pct of the total). A significant proportion of private equity raised for Africa is concentrated among a handful of GP's. In order to reach the diversification typical in a private equity fund portfolio, typical single investment amounts for these larger funds would be in the range of $75 million, meaning those companies seeking financing of below $20 million fall well below their radar. This creates a clear mismatch between those who provide and those who seek capital. The larger funds, which control the majority of available capital, are looking to fund the big deals as they seek to deploy their funds, in some instances between $700 million to $1 billion, over a 5 year investment period, despite the fact the majority of investment opportunities in Africa sit well below this deal threshold.

Not only do mid-market businesses struggle to raise affordable, sustainable and long term bank debt, they also often don't meet the minimum funding requirement for the majority of the private equity funds in the market.

What is mezzanine financing and how does it fill the funding gap?

Mezzanine financing is not pure debt and is not pure equity, but can be anything in between. The structure of a mezzanine deal will vary by transaction, and ultimately depends on the cash flow profile of the company, but there are common pillars that drive the composition of a mezzanine investment. The first is the contractual element, comprising both cash interest and PIK ("pay-in-kind") interest, which accrues and is paid when the loan is repaid in full (a benefit of PIK interest is that it enables the company to efficiently defer payment of a portion of its interest, reducing the immediate financial burden on its cashflows allowing it to invest cash into growing its business). The second component of a mezzanine instrument, as we structure it, is the equity kicker which through a variety of mechanisms entitles the investor to acquire or have a right to an equity stake in the company at a fixed price for a fixed percentage that is agreed upfront.

Figure 3. Illustrative components of a mezzanine investment



Source: Syntaxis analysis

The equity kicker ensures an alignment of interest between the entrepreneur and the investor as a portion of the investors flows come from the equity accretion in the company. Due to the contractual element of mezzanine which provides an annual yield that is growing due to compounding effect of the PIK interest, the equity stake the investor typically requires in companies is usually less than 15% i.e. a minority interest in the true sense of the word. At Syntaxis, we structure all of our deals so that our success is dependent on the upside from growth in the Company and not leverage or cost cutting. In terms of returns, a typical private equity investor will seek to achieve IRRs of 25 pct - 30 pct whereas mezzanine investors typically target returns in the high teens/low twenties.

Mezzanine financing can address this funding gap that is present in the mid-market from both the bank debt and equity market in Africa, by providing financing an alternative that is more cost effective and flexible than pure bank debt, by tailoring each investment to the company's business plan and cashflows. Unlike a bank that only has downside, due to the associated minority equity interest in the company, there is an inherent alignment of interest with the entrepreneur/business owner. However unlike a private equity fund that might be looking to take a significant minority equity stake or control in the business, mezzanine investors only require a small minority interest due to their reduced return threshold. This is an attractive component of mezzanine financing for entrepreneurs or family owned businesses who look to retain control.

> *"Not only do mid-market businesses struggle to raise affordable, sustainable and long term bank debt, they also don't meet the minimum funding requirement for the majority of the private equity funds in the market."*

To conclude, over the last two years at Syntaxis we have seen over a $1 billion of mezzanine demand from our target countries in Africa, and are currently working on live deals totalling over $300 million, across Nigeria, South Africa, Ghana, Kenya and Ivory Coast. Going forward we believe that mezzanine in Africa will continue to develop as an attractive asset class as more managers aim to fill this funding gap.

Contributor's Profile

Adesuwa is the Co-head of Africa at the Syntaxis Capital and responsible for the firm's investment activities in Africa including originating, structuring, executing, fundraising and post investment monitoring.

Prior to joining Syntaxis, Adesuwa was in the EMEA Acquisition & Leveraged Finance team at J.P. Morgan. She was involved in $3.2 billion worth of transactions across different geographies and industries, including a $100 million refinancing and capex financing for a Nigerian oil field services company. Prior to joining the Leveraged Finance team, Adesuwa was in the Mergers and Acquisition team covering companies in the Diversified Industries & Consumer, Healthcare & Retail teams, working on transactions totalling just over $2 billion. Prior to J.P. Morgan, Adesuwa worked in Africa-focused private equity as an investment analyst at TLG capital and prior to TLG Capital, Adesuwa started her career in Lehman Brothers. Adesuwa holds a BSc in Economics from the University of Bristol.

MANAGING AND MITIGATING RISK IN MERGERS AND ACQUISITIONS

By Kevin Paarman, Senior Consultant, Marsh Africa

A fragile global economy, coupled with local market uncertainty, and concerns over the recovery of equity markets followed by a business environment that places increasing pressures on profitability has significantly increased the complexity of deal making today. Corporate governance issues are paramount and regulatory and compliance issues demand that greater caution be exercised in ensuring that proper due diligence is conducted in assessing transactions and their associated risks. Notwithstanding all these "good" commercial considerations and the degree of reasonable care that a buyer may exercise in conducting a proper and thorough due diligence process it is impossible to uncover all potential and unknown risks that may exist.

It is for this very reason that buyers will typically demand that sellers provide them with a comprehensive set of warranties that underpin a transaction so as to ensure to the extent possible that the buyer ostensible gets what it is paying for and is not left "high and dry" with limited recourse options available to it. In the event that there were no warranties, the buyer would need to prove that there was a misrepresentation by the seller party. The legal ramifications of proving a misrepresentation are both costly and onerous in that one has to establish that the misrepresentation was untrue, was material and induced the contract.

Warranty and Indemnity ("W &I") Insurance is increasingly being considered and used as a means of protecting against breaches of the representations and warranties provisions contained in mergers and acquisitions sale agreements. This insurance which had its origins back in the mid 1990's has over time developed into a sophisticated and invaluable tool to mitigate risk and help facilitate deal closure. Most policies today are purchased by buyers.

The insurance can significantly assist contracting parties from the perspective of reducing both the seller and buyers risk in doing a transaction and additionally minimizing the time needed to reach an agreement and close the deal. Negotiating the warranties often comprises the most contentious and time consuming part of any M & A transaction and utilizing the insurance can significantly assist parties to reach consensus sooner as the insurance is used as the primary recourse tool following a breach of the warranties.

During share sales it is common for the seller to provide warranties to the buyer on a broad range of matters about the target such as title to shares, property, employment, tax, intellectual property, and other commercial matters. The insurance provides protection to either the seller or the buyer (depending on who the insured party is) against breaches of the warranties and indemnities being given by the seller in the sale and purchase agreement (SPA). The insurance provides cover for unknown and unforeseen breaches of the warranty provisions and for defense costs. Policies are bespoke and will be negotiated on a case by case basis.

From a policy structure perspective, there are two types of policy, namely a buyer-side and seller -side policy. A seller-side policy is designed to protect the party that gives the warranties and typically in this situation a seller would "off load" a portion of its warranty cap liability to an insurer. Conversely under a buyer-side policy, the buyer is protected from financial loss that may arise as a result of a breach of warranty where either the buyer is unable to or chooses not to claim under the SPA. Typically, this can be as a result of the warranty cap being too low or simply that they do not wish to pursue a claim against the seller.

There are a number of key reasons why this form of insurance has grown in popularity. From a buyer perspective it provides the buyer with direct recourse against an "A" rated insurer without the need to seek recourse against the seller , buyers can also top up the level of recourse available to them in addition to that which is provided by the seller. Importantly it is possible to not only top up the limits but also extend the warranty time periods under the SPA. The policy could as such have an extended time period in excess of the periods provided in the SPA. Typical policy periods are 2 years for operational warranties, 5 years for title and capacity warranties and up to 7 years for tax.

From a sellers perspective the insurance is appealing because it limits their post-closing liability to the buyer and gives a clean exit, mitigates against claw back of cash raised by sale proceeds (no escow provisions) where funds could be tied up for a period of 7 years for tax liabilities.

The Insurance can also serve as a strategic tool for bidders engaged in a competitive bid process where the insurance is stapled on to a bid process thus making their bid more appealing versus other bid parties. Typically in this situation a buyer would advise the seller that it is not seeking a high seller warranty cap, but is happy to procure W & I insurance, where the insurance would provide the required relief in the event of a breach typically in excess of a retention or attachment point of 1% of the transaction value.

The insurance can also assist where buyers may be loath to institute proceedings against a seller in situations where there is roll over management and the buyer wishes to retain the goodwill of the seller in respect of post-completion trading relationships, jurisdictional issues may mitigate against litigation being considered as a viable option because buyer and seller may be domiciled in different territories. Finally the policy can also provide parallel cover to a buyer where it has secured comprehensive warranties from the seller subject to a suitable warranty cap, however the buyer retains residual concerns over the seller's ability to meet a warranty claim some period of time after the deal closes.

From a Global perspective demand for W & I insurance continued to increase during 2015 across all regions as investors looked to reduce deal risk. The Asia-Pacific region particularly accounted for the largest year on year increase. Globally Marsh's merger and acquisition (M & A) professionals placed 450 W & I policies during the year, a 32% increase from 2014. Limits placed increased year on year by 45% to US$11.2 billion driven principally by larger deal sizes as well as more insurance limit being purchased per transaction.

Originally used almost exclusively by private equity firms we have seen an uplift of corporate buyers using W & I insurance to better compete for assets, especially in auction situations. The split between private equity and corporate buyers continues to even out, moving from 61%/39% in 2014 to 56%/44% in 2015. Regardless of this trend we still see Private Equity exists as being the dominant driver.

Typical pricing on a South African transaction is between 1.5% and 2.5% of the limit purchased, retention levels or policy attachment points are typically set at around 1% of the Transaction Value ("TV"). Pricing will vary based on a variety of factors.

Insurers will often have minimum premium levels so for some smaller limits of insurance the price may be higher than the indicated range of 1.5 to 2.5%. Conversely, if large limits of insurance are required, often a programme of insurance is built using capacity of various insurers which may mean the overall premium rate is lower than the indicated rate on line. Note the pricing does not include insurance premium tax/VAT or other applicable regulatory taxes.

There is growing appetite from insurers for emerging markets, including South African risks and the use of transactional risk insurance continues to broaden in terms of jurisdictions. During 2015 Marsh placed policies for deals in 23 different countries with respect to the target company's HQ domicile.

Claims statistics reveal that if difficulties are going to arise pursuant to a deal, they tend to do so fairly quickly. Specifically, more than half of all global claims reviewed were reported within the first year after a deal closed and 74% were filed within the first 18 months. On a global basis the most common forms of breach were in the areas of financial statements, tax and contracts while in Europe, the Middle East and Africa (EMEA) and Asia Pacific, there were significantly more accounts related breaches and alleged breaches of contracts being the dominant areas where losses arose.

"Warranty and Indemnity ("W &I") Insurance is increasingly being considered and used as a means of protecting against breaches of the representations and warranties provisions contained in mergers and acquisitions sale agreements."

Recent claims statistics reported by AIG (a leading Global Market insurer) show that about one in every 7 policies issued globally reported a claim. The frequency of claims varies by region, with transactions in Asia Pacific having the highest claims frequency and EMEA the lowest [18% vs 11.4%]. Interestingly the majority of the largest losses came from EMEA. The statistics also revealed that where deal values were greater than US$1 billion the claim percentage was highest at one in 5 policies reporting a claim.

Marsh is the only firm with dedicated transactional risk resources based in South Africa leveraging the expertise of our global insurance market placement hubs in London, Hong Kong, Sydney and New York.

Contributor's Profile

Kevin Paarman is based in Johannesburg South Africa and is part of Marsh Africa's Private Equity & M&A Services Practice. His primary responsibilities are to provide transactional risk solutions to our corporate and private equity clients.

Kevin has in excess of 20 years short term insurance experience. Most of this experience was gained in his capacity as Head of Legal for Alexander Forbes Risk Services (Pty) Ltd prior to the merger of the Alexander Forbes and Marsh businesses in January 2012 and in a similar capacity with Marsh post the merger. As a corporate lawyer of many years standing his in depth knowledge of company law coupled with general legal and insurance expertise paved the basis for his transition across to the Private Equity and M & A Practice Division with effect from 2015.

Kevin spent some months in London working with the Marsh UK Transactional Risks Team and works closely with these colleagues on all the South African Transactional Risks deals.

EMBRACING LOCAL CAPITAL MARKETS- AN ALTERNATIVE APPROACH TO HEDGING CURRENCY RISK IN AFRICA

By Lasitha Perera, Chief Investment Officer, GuarantCo

With the appearance of stalwarts of the global private equity industry in Africa such as Carlyle, the Abraaj Group and Temasek, the outlook for private equity flows into the continent should be promising. The reality for these fund managers, is that the majority of growth being created is in local currency and as such their returns are impacted by volatility in exchange rates between local currency and the US Dollar, which dominates the global private equity industry. In the absence of hedging markets for a lot of the local currencies in Africa, fund managers need to find alternative means of managing the currency risks that their investments are exposed to. Local capital markets have the potential to provide these solutions if fund managers embrace them and engage with participants to develop capacity and create risk mitigation solutions.

Currency Risk in Nigeria

Nigeria presents a timely case study of the challenges that currency risk poses the private equity industry. Following a reduction in oil revenues and lower US Dollar receipts, the Federal Government of Nigeria decided to defend the Naira by pegging it to the US Dollar and reducing the availability of US Dollars via the Central Bank of Nigeria. This has resulted in a parallel market developing with an exchange rate that has oscillated between 50% to over 100% depreciation of the pegged rate. The Central Bank of Nigeria has recently allowed the Naira to float freely and currency traders expect significant depreciation in future exchange rates.

For a fund manager who has invested US Dollars in a Nigerian portfolio company that is earning its revenues in Naira the prospect of hyperinflation does not bode well. In a scenario of macroeconomic stress, the ability of a portfolio company to shift any increase in currency risk on to its customer base will be limited by the financial stress being experienced by the general population. Consequently, a fund manager may find themselves having to push back exit horizons to allow the value of their investment to recover over a longer period of time Which, depending on the objectives of the fund, may or may not be feasible.

Fund managers may have also compounded the problem by using hard currency debt rather than Naira debt to leverage their investment, usually attracted by single digit interest rates for hard currency loans versus double digit interest rates for Naira loans. Again, where a potential portfolio company's revenues are solely or predominantly in Naira, the currency mismatch that can arise from the use of hard currency leverage will actually result in increased debt servicing costs, in a depreciating Naira scenario, which can become unsustainable and ultimately destroy value.

Managing Currency Risk

So where does the solution lie for the fund manager faced with currency risk? The answer can perhaps be borrowed from the central tenet of project finance which states that the success of a project is dependent on the risks associated with a project being allocated to the party that is best equipped to deal with that risk. This principle holds true in the private equity world as well and a fund manager may be best served by turning to local capital markets for the solution when considering how to manage currency risk.

While most local capital markets in Africa will lack sophisticated risk management products there are simple strategies that can be employed by a fund manager to maximise the value of what is available. The most obvious and straight-forward strategy is to blend hard and local currency leverage so as to create a currency hedge. For example, if the leverage used in a portfolio company also includes a local currency tranche amounting to between 20% to 50% of the total debt structure, then this has been found to provide the portfolio company with a significant natural hedge and room to manoeuvre in times of currency volatility thereby helping preserve value. In simple terms, the key benefit of the approach is that it reduces the amount of US Dollars that the portfolio company needs to find to service its debt obligations. During a time when US Dollar liquidity is scarce, as is presently the case in Nigeria, this flexibility can be the difference between the portfolio company surviving or being taken over by its creditors.

In frontier markets, where the availability of currency hedging derivatives of any meaningful tenor are either scarce or prohibitively expensive, blending hard and local currency debt offers similar benefits and for tenors of 3 years or more, and at a cost, which being a blend of hard and local currency interest rates, makes commercial sense.

The challenge for the fund manager, who is typically making an investment during a period of economic stability, is to overcome the myopia which arises from the allure of nominally cheaper hard currency debt. Many will argue that in the context of a short-term investment horizon the protection offered by local currency does not justify the high cost associated with it. In other words, "The Do Nothing" strategy. Many fund managers have made a general assumption that African currencies

depreciate at an average of 5% per year. Unfortunately, the problem with African currencies is that they rarely depreciate uniformly, and most tend to punctuate a period of stability with a sudden plunge into the abyss. If a fund manager chooses to fund an investment strategy entirely in US Dollars and is able to time their entry and exit from an investment perfectly, then they may avoid currency risk. However, in the context of highly volatile African markets this approach could also be viewed as just another form of currency speculation. If there is anything predictable about African markets, it is their unpredictability.

Embracing Local Capital Markets

A better pathway for a fund manager to manage the currency risk associated with a portfolio company in an African market would be to include the local capital markets as part of the investment strategy. This could mean involving the local banking market in the acquisition of a portfolio company and the provision of local currency leverage. Then, once a business plan has been implemented, seek a recapitalisation via the local bond markets so as to engage local institutional investors and build local market knowledge of the portfolio company. Once an exit horizon has been reached then the same investors can be approached to anchor a trade sale or stock market flotation. Local institutional investors are amassing significant assets under management and are now seeking to actively invest in private equity assets and thus represent a further source of capital or an exit opportunity. Some forward-thinking fund managers are already embracing this approach and for example, Actis, an emerging markets private equity firm, gradually exited its portfolio company, Umeme, the Ugandan electricity distributor, by floating it on the Ugandan and Nairobi Stock Exchanges.

The emergence and rise of specialist local currency development finance institutions such as GuarantCo, TCX and FrontClear highlights the growing view that developing local capital markets is key to the future stability, growth and prosperity of developing countries. Private equity fund managers interested in Africa share the responsibility of engaging with local capital markets and helping them develop the products to mitigate currency risk and attract investment.

Contributor's Profile

Lasitha Perera is Chief Investment Officer at GuarantCo, a development finance institution that encourages the development of critical infrastructure in low income countries through the provision of credit guarantees that enable projects to raise debt finance.

GUARANTCO'S RECENT TRANSACTIONS IN AFRICA

SA TAXI III: ZAR 140 million guarantee covering a further ZAR 200m, loan from ABSA Bank

Transaction Overview

Date: Dec 2015 **Country:** South Africa
GuarantCo Guarantee Amount: ZAR 140m (USD 10.1m)
Total Transaction Size: ZAR 200m (USD 14.5m)
Beneficiaries & Financing Partners: ABSA Bank
GuarantCo Additionality: SA Taxi has a constant requirement for further funding to provide new loans to commuter minibus owners. Companies based in South Africa, being an upper middle income country, would not normally qualify for support from GuarantCo. However,given the pro-poor nature of the infrastructure being created and SA Taxi's restricted access to the local markets due to the current financial crisis (particularly following the fall of African Bank), GuarantCo obtained special approval from its shareholders to continue to support the company's financing requirements. GuarantCo's participation enables SA Taxi to continue to provide affordable and dedicated financing for minibus taxi vehicles. By maintaining and increasing their exposure to the company, GuarantCo and ABSA Bank provide a significant vote of confidence in SA Taxi and help preserve the company's access to commercial.

QUANTUM TERMINALS LIMITED II: GHS 30m (USD 7.5m equivalent) partial credit guarantee of long term senior funding raised by the Quantum Group to aid the construction of an LPG storage terminal in Tema, Ghana

Transaction Overview

Date: Dec 2015 **Country:** Ghana
GuarantCo Guarantee Amount: GHS 30m (USD 7.5m)
Total Transaction Size: USD 20m
Beneficiaries & Financing Partners: Commercial Bank
GuarantCo Additionality: Following the completion of the original Quantum Terminals project, the Quantum Group required funding to invest in a new LPG storage facility in Tema called Quantum Gas Terminals. This will provide the storage requirements for Early Power, a greenfield 340 MW LPG fuelled emergency power plant in Tema. In order to raise the financing to invest in the new terminal, Quantum Terminals needed to refinance its previous loan with a larger debt facility. Despite the original storage terminal having been completed and being operational, challenging economic conditions in Ghana severely limited commercial appetite for Ghana risk and Quantum faced difficulties in raising the required debt from commercial banks. GuarantCo's guarantee helped a commercial bank to overcome its risk appetite limitations and enabled Quantum to raise the local currency debt financing it required.

NOHA NYAMEDJO & TRANSMAR (NNT): XAF 7.5 billion (USD 12.5 million) partial credit guarantee of long term senior funding to build and operate a greenfield 32,000 mtpa cocoa processing facility in Cameroon

Transaction Overview

Date: Dec 2015 **Country:** Cameroon
GuarantCo Guarantee Amount: XAF 7.5 billion (USD 12.5 million in equivalent)
Total Transaction Size: USD 35.1 million (in XAF equivalent)
Beneficiaries & Financing Partners: Attijari Wafa Banque
GuarantCo Additionality: NNT sought to build, own and operate a 32,000 metric tonne per annum cocoa processing facility located in the Bonaberi industrial area of Douala, Cameroon, which would purchase raw beans from local smallholder farmers and produce processed cocoa products. The company wished to raise local currency financing from commercial banks but found only limited appetite as regional banks are not accustomed to taking project risk. GuarantCo's partial credit guarantee allowed Attijari Wafa Banque to overcome its risk constraints to provide the full debt package required.

ULENDO ROAD INFRASTRUCTURE NOTE PROGRAMME (RINP): A ZMW 165mn Liquidity Guarantee to cover interest payments for the RINP tranches providing funds to local road contractors in Zambia

Transaction Overview

Date: Dec 2015 **Country:** Zambia
GuarantCo Guarantee Amount: ZMW 165 m (USD 15m) committed (first tranche; ZMW 58.3m (USD 5.3m) at risk)
Total Transaction Size: USD 35.1 million (in XAF equivalent)
Beneficiaries & Financing Partners: Trustee on behalf of the Noteholders, African Trade Insurance providing insurance of non-payment by NRFA
GuarantCo Additionality: GuarantCo provided a renewable liquidity guarantee to investors in the first tranche of the RINP issued by Ulendo RINP Plc ("Ulendo"). Ulendo will use this money to discount interim payment certificates provided by the National Road Fund Agency ("NRFA") to local road contractors, thereby allowing the contractors to access working capital to continue projects and help the Government of Zambia meet its ambitious road programme. Note investors require certainty of payment, which is provided by the liquidity guarantee even if payments are delayed from NRFA and also to bridge the time before payment is made under the insurance provided by the African Trade Insurance Agency ("ATI") to cover the non-payment by NRFA. Accordingly, GuarantCo provides a complimentary product to ATI's and plays to each party's respective strengths.

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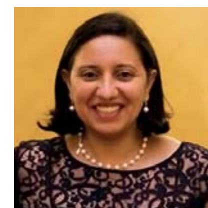
EGYPT: THE GATEWAY FOR INTERNATIONAL PRIVATE EQUITY INVESTMENTS INTO AFRICA



By Dalia Tadros, Executive Director, Egyptian Private Equity Association

Located at the North Eastern gate of Africa, Egypt is considered the gateway to African markets in terms of both investments flows, and target exports destinations. Together with the 90 million plus citizens, its professionally sophisticated financial sector adds to its comparative advantage as an appealing destination for investment flows, mandated towards both the local market and the neighbouring African countries, known for their huge investment potential.

In spite of the temporary disturbance that hit Egyptian African relations right after the eruption of the Arab spring, Egypt has recently successfully regained its position within the African continent.

Earlier in 2016, Egyptian President Abdel Fattah al-Sisi opened an economic summit attended by African leaders and businessmen. The summit aimed to boost trade and investment across the continent. In his opening speech, the president of Egypt highlighted that "Development, which is the main challenge facing us all, calls for achieving cooperation and integration and the need to implement giant regional projects in several areas".

In terms of trade and investment Egypt has a lot to offer Africa, and Africa has a lot to offer Egypt. Thus a win win situation exists. Egypt is rich in professional experience especially in the establishment and management of investments as well as Development projects, which African countries are in high need of. African countries are also rich in natural resources, which need to be explored and well utilized profitably through smart investment and developmental projects.

In addition, international financial institutions and investors can realize the potential in both Egypt and the African continent, are keeping an eye on investment opportunities proposals coming out of Egypt targeting the huge population of Egypt as well as the rest of the continent.

Defense, infrastructure, transportation, agriculture and farming, are just some examples of the sectors that appeal most to investors in the region. This is supported not only by the availability of natural resources needed, but also the humongous need and demand for such goods and services.

Though it is a relatively new means of finance for investment projects in the continent, Private Equity (PE) has proved to be a very successful source of finance for many projects across Africa. Those vary in the business model between on the ground project management with local offices, or off shore management from Europe and other developed countries.

An additional trend being witnessed is the preference for international investors to invest in Africa through Egypt. One very successful model of an international investor operating in the African continent through Egypt is Actis, with various success stories over the past few years. Another successful model of a local investor realizing the potential of investing in the African continent, and currently expanding to the South, is Qalaa Holdings.

“African countries are also rich in natural resources, which need to be explored and well utilized profitably through smart investment and developmental projects.”

To conclude, international money is interested in investing in the African continent, and especially through the professional expertise of the Egyptian financial sector. This is coupled with the generous availability of natural resources needed to implement the investments on one hand, and the potential high - and expected to continue rising - demand for goods and services, caused by the large, young, and growing population both in Egypt and across the continent. And last but not least, financing investment through private equity has proved to be a convenient, implementable and profitable mean of financing investments across the African continent, and the sector is developing and growing in Egypt. All those factors make investing in Africa through Egypt (and specifically through private equity firms operating out of Egypt) one of the most appealing investment means, routes and destinations in the world.

Contributor’s Profile

Dalia Tadros is the executive director of the Egyptian private equity association. Dalia has a masters degree in economics and finance, followed by 17+ years of work experience in and with the various components of the financial sector ranging from stock exchange, to banking. During her professional life Dalia worked in providing awareness, training, business development, consultancy and matchmaking services to SMEs, entrepreneurs and financial institutions. She was also engaged in a number of research projects and advisory projects to the economic policy makers

PRIVATE EQUITY ACTIVITY, GROWTH AND PERFORMANCE IN MOROCCO

By Françoise De Donder, Déléguée Générale, Association Marocaine des Investisseurs en Capital (AMIC)

Morocco has begun to emerge as a real operational platform for African investment seeking to position for the new economic dynamic in Africa. Building on a cornerstone location between West Africa, North America and Europe, and leveraging its own solid decade of successful market reforms and extensive, international-standard infrastructure expansion, Morocco is a bridging platform between the north and the south. Longstanding Africa commercial, cultural, and political ties and the new emerging economic dynamic in Africa led to the 2010 launch of Casablanca Finance City Authority (CFCA). The CFCA, building on successful financial and business reforms, aims to provide a full-service ecosystem as a hub for business and investment, for financial companies, professional services providers and regional or international holdings. To date, more than 100 international institutions and investors, of which the AfDB's Africa50 fund and Wendel Africa, have already chosen Casablanca as their platform for Africa.

Behind Morocco and Casablanca winning attention as a platform are ambitious sectorial strategies to develop an industrial platform for key industries as renewable energy and value added agribusiness, while enabling automotive and aeronautics industry, setting an improving business climate. Private Equity has profited from legislative and regulatory reforms and Morocco's VC and PE Association, AMIC, has helped achieve with Moroccan government a reformed regulatory framework of Law 45-01 passed in 2015, intended to enable Casablanca as a PE hub. This sets an improved, more investor friendly regulation with better flexibility and tax attractiveness corresponding better to the GPs and LPs needs.

Although little known in English speaking circles, Morocco developed over the last decade a uniquely dynamic local VC and PE industry rooted in developing fundamental domestic industry and services, drawing on local institutional capital and focused on emerging Small & Medium sized Enterprises (SMEs). In fact, with a 2015 PE&VC penetration rate of 0.06% of GDP, Morocco outperforms all MENA region countries, while on the African level of 823 PE transactions between 2010 and 2015, 86 were in Morocco, i.e. more than 10% for a country representing less than 3% of Africa's population.

Its development over time is unusual in the Middle East – North Africa (MENA) region for a genuine SME focus and focus on innovation within the basic industries of most relevance to developing economies as in Africa, like renewable energy and innovative value-added agribusiness. At the same time of practical interest for African oriented PE players looking at regional expansion and consolidation opportunities, the Moroccan VC & PE industry has built up a current portfolio of well governed, modern firms with regional potential and interest.

The industry initially got a timid start in the early 1990s with the backing of Development Finance Institutions (such as IFC and European Investment Bank), but really took off circa 2000 with the first generation of independent funds and managers. Benefitting from an increasingly liberal investment environment, the aforementioned regulatory reforms and infrastructure investment, the industry expanded dramatically USD41 million in cumulated assets in 2000 to USD1.7 billion in 2015 (including infrastructure) for investment in the local and Maghreb markets. Along with this, Morocco quietly developed a reasonable ecosystem for VC and PE, with 24 local fund managers having executed more than 175 investments, in local enterprises, largely in SMEs. Further, AMIC is one of the few national associations in either Africa or MENA to regularly publish vetted industry data. AMIC partnered with respected international VC and PE associations, such as South Africa's SAVCA, France's AFIC, the US NAVC and EMPEA, to establish best practice services to its members. AMIC has, in partnership with Grant Thornton, collected and published national PE statistics continuously over the past eight years and is continuing to improve the standards each year to keep them in line with best international standards, now in close collaboration with EMPEA. This effort has been a key factor for the market in understanding the potential and the impact achieved to date, and has helped both government and private players to understand key issues.

Country focus: Morocco

The emergence of the PE sector has been supported by a sustained and importantly applied economic reform that has significantly improved the business climate, and established a real liberty of investment. Excepting a few narrow cases, like primary agricultural lands, there are no restrictions on the type or structure of investments for either locals or foreigners. Without nationality restrictions on ownership, nor hard restrictions on where and how funds can invest, funds have been free to raise both local and foreign capital, and secure win-win partnerships with foreign investors – to date mostly European. This flexibility has helped the Moroccan PE and VC sector emerge, and perform comparatively better than many peers, and overcome a lack of strong fiscal incentives for SMEs or risk capital funds. As important, the past decade

has seen truly substantial and well-integrated investment in infrastructure with nearly universal national electrical and telephone network coverage and an international standard national highway network that has now connected every major and most secondary cities, more than halving travel times in many instances.

Supported by ongoing business environment reforms and stable government policy, the pace of investment and fund raising has been maintained. In 2015, fundraising reached USD73 million, surpassing most peer emerging markets highlighting ongoing investor confidence, particularly as 54% of current fund investors are foreign. Supporting investor confidence, in addition to the environment is a bedrock of AMIC members who are players with confirmed track records and market expertise that have been able to launch a 3rd generation of funds from 2011. At the same time, the level of investment has been stable in 2015 despite the crisis, and more local fund managers are expanding regionally, especially at the level of the Maghreb and Sub-Saharan Africa, particularly West and Central Africa, following Moroccan and Maghrebine entrepreneurs and firms expansion. Similarly exits, dominated by trade sales followed by IPOs like most markets, have maintained reasonable levels despite the crisis, at USD20 million in 2015.

Perhaps most important for reflecting on the potential for expanding risk capital financing in the MENA, Morocco has perhaps uniquely shown that it is possible to build a genuine grass-roots SME focused growth capital (late stage VC or 'small' PE) based industry in the region by a focus on innovation in a broad sense. The vast majority of investments is made, and continues to be made, in deals around USD 5 million – and mostly representing significant minority stakes. Investment has also been highly diversified, across a wide range of sectors. The current ecosystem in Morocco resembles that of the 1970's in the US, where a focus on unlocking value by innovating in traditional industries was a key investment theme (the example of FEDEX).The Moroccan example suggests that in the emerging MENA markets, a back to basics approach in private equity inspired by the fundamental management transformations is a key to success in the SME space – along with government policy allowing the maximum investment flexibility in a positive business climate environment.

The impact, both economic and social, of investment in innovating (in business terms) and modernizing SMEs has been demonstrably important, and has been financially rewarding. Reported gross IRR from 1993 to date, across all investment stages and member funds, is 13%. In 2015, Turnover of invested companies increased by around 17,6% and number of employees by 5%. Across the board for key indicators on robust governance and economic management, the impact of AMIC members' intervention is impressive, for example the implementation of key management tools such as active management strategy monitoring, financial monitoring and analytical tools jumps post investment from 40-50% of companies 'flying blind' pre-investment to 100% of companies implementing.

As in other countries in the region, there remain cultural challenges, as entrepreneurs and established SME owner-managers remain uncomfortable with outside ownership, and AMIC's membership universally agrees that a significant part of their job is education and confidence building. The sustained and increasing level of investment suggests that the decade long investment by the local management groups is slowly paying off, particularly with the younger generation of SME managers, although more work needs to be done. AMIC's local membership, focused on initial rounds of investment of early stage and growth capital in SMEs need patience, as they are working on the frontier of building a modern business sector, but their investments have had good potential payoff with an adapted approach to the local market culture.

There is good future potential as aforementioned infrastructure development has opened up investment all over the country. Whereas up to 2005, 74% of investment was in the Greater Casablanca urban area, this has declined to 45% as investment in other regions in the country has grown substantially, such as around the new industrial hubs in Rabat and Tangier.

Although clear challenges remain to be resolved to maintain and improve competitiveness, the grass-roots fundamentals focus of Moroccan PE, based in the core industries most relevant to developing markets growth are a clear foundation for a Casablanca PE hub for Africa. With experienced teams, a regional platform in the CFCA and international class infrastructure, Casablanca is opening a stable, efficient and convenient door for emerging African opportunities.

Contributor's Profile

Françoise Giraudon De Donder, graduated in Law from the Catholic University of Louvain-la-Neuve (Belgium), She starts her career as a lawyer at the Brussels' bar. In 1990, after a LLM in International Trade and Banking Law at the American University in Washington, DC and an internship in a lobbying firm focused on African countries, Françoise works for RSCG, a global communication group in Paris as a communication and lobbying manager. Expatriated in Sydney, Australia, from 1994, she works as a freelance corporate and institutional communication consultant. Moving to Johannesburg, South Africa, in 1997, she joins the French South African Chamber of Commerce and Industry as Commercial Manager and then in 1999 sets up an export business to Europe of South African craftsmanship products. Moving to Casablanca, Morocco in 2003, she works as a journalist for various economic newspapers before joining in May 2008 the Moroccan Private Equity and Venture Capital Association as Managing Director

AFRICAN CAPITAL MARKET UPDATES

AFRICAN EQUITY MARKET INDICATORS AS AT 30-June-2016

Country Name	Index Name	Index at 30-June	1-month % Δ	YTD % Δ	1-Year % Δ	1-Year Low	1-Year High	30 Days Volatility %
Botswana	BSE DCI	10,081	-1.08	-4.91	-5.69	10,081	11,097	2.375
BRVM	IC Comp	308	0.72	1.31	10.59	276	321	9.780
Egypt	EGX 30	6,943	-7.23	-0.91	-17.07	5,526	8,523	22.674
Ghana	GSE ALSI	1,790	1.78	-10.29	-23.91	1,746	2,371	4.916
Kenya	FTSE NSE15	141	-2.10	-3.50	-14.48	136	164	9.561
Malawi	MSE ALSI	13,126	2.43	-9.86	-18.02	12,478	16,103	6.777
Mauritius	SEMDEX	1,752	0.34	-3.24	-11.53	1,741	1,987	3.181
Morocco	MORALSI	9,506	-2.58	6.50	-0.76	8,790	10,235	7.540
Namibia	Local	979	-0.83	13.12	-10.81	767	1,135	30.941
Nigeria	NIG ALSI	29,598	6.96	3.34	-11.53	22,331	33,471	31.205
Rwanda	RSEASI	130	-0.28	-0.42	-4.10	130	162	1.172
South Africa	JSE ALSI	52,218	-3.13	3.01	0.79	45,976	54,761	21.554
Swaziland	SSX ALSI	358	16.22	9.47	17.15	306	358	0.485
Tanzania	DAR ALSI	2,482	1.02	6.35	-8.98	2,173	5,005	19.965
Tunisia	TUNIS	5,290	-3.62	4.91	-7.50	4,812	5,739	5.495
Uganda	USE ALSI	1,707	-3.48	-3.23	-14.47	1,703	2,053	13.614
Zambia	LuSE ALSI	4,753	-4.25	-17.11	-18.64	4,753	5,859	7.587
Zimbabwe	IDX (USD)	101.04	-3.50	-12.02	-31.91	93	148	18.286

SELECTED AFRICAN CURRENCY EXCHANGE Vs. US DOLLAR AS AT 30-June-2016

Country Name	Currency Name	Index at 30-June	1-month % Δ	YTD % Δ	1-Year % Δ	1-Year Low	1-Year High	30 Days Volatility %
Algeria	Dinar	110.39	0.17	-2.98	-10.20	98.64	111.32	4.661
Angola	Kwanza	169.21	0.00	-20.09	-28.03	121.20	169.42	13.009
Botswana	Pula	0.09	3.02	3.48	-9.16	0.08	0.10	16.040
CFA Franc	CFA Franc	598.72	-0.69	3.31	-1.23	564.04	633.62	14.011
Egypt	Pounds	8.89	-0.63	-11.92	-14.09	7.63	8.96	3.954
Ethiopia	Birr	21.90	-1.04	-3.27	-5.62	20.36	22.10	12.051
Ghana	Cedi	3.95	-2.91	-3.67	10.38	3.10	4.43	12.862
Kenya	Shillings	101.10	-0.25	1.19	-1.83	98.65	106.67	1.975
Malawi	Kwacha	712.70	-0.50	-6.30	-38.12	440.00	757.03	1.480
Mauritius	Rupee	35.62	-0.62	0.65	-1.32	34.61	39.86	5.746
Morocco	Dirham	9.79	-0.30	1.43	-0.53	9.39	10.20	7.331
Mozambique	Metical	63.34	-7.93	-24.22	-39.06	31.28	65.65	16.492
Nigeria	Naira	281.29	-29.24	-29.15	-29.20	196.48	287.35	105.034
Rwanda	Franc	779.00	1.83	-4.37	-9.18	630.44	804.00	21.825
South Africa	Rand	14.75	6.53	4.90	-17.47	12.18	17.92	25.838
Tanzania	Shilling	2,190.00	0.05	-1.86	-8.90	1,993.00	2,245.00	1.469
Tunisia	Dinar	2.20	-3.54	-7.27	-11.29	1.88	2.23	13.023
Uganda	Shilling	3,410.00	-1.32	-1.11	-3.23	3,185.00	3,705.00	6.114
Zambia	Kwacha	10,400	0.0962	5.7692	-27.77	7,331	14,605	21.485

SELECTED AFRICAN GOVERNMENT INTERNATIONAL BONDS AS AT 30-June-2016

Country Name	Maturity	Price at 30-June	Mid-Yield at 30-June	1-month Yield Chg (%)	YTD Price Change (%)	Price 1-Year Low	Price 1-Year High	Amount Outstanding (US$ M)
Angola	12-Nov-25	99.488	9.580	-0.306	6.804	78.535	101.892	USD
Cameroon	19-Nov-25	101.330	9.281	-0.437	8.713	81.683	101.422	USD
Congo	30-Jun-29	72.497	9.476	-0.006	-8.076	70.324	90.661	USD
Cameroon	19-Nov-25	101.330	9.281	-0.437	8.713	81.683	101.422	USD
Egypt	30-Apr-40	83.694	8.478	-0.050	1.954	79.322	99.301	USD
Ethiopia	11-Dec-24	94.099	7.584	-0.415	5.969	82.037	100.431	USD
Gabon	16-Jun-25	87.845	8.952	-0.549	9.882	69.735	100.041	USD
Ghana	14-Oct-30	106.223	9.921	-0.761	4.348	87.092	108.467	USD
Kenya	24-Jun-22	93.027	8.078	-0.148	5.827	83.919	102.095	USD
Ivory Coast	31-Dec-32	93.628	6.709	-0.505	4.916	83.659	95.782	USD
Morocco	11-Dec-42	107.606	4.979	-0.212	11.203	92.194	107.657	USD
Namibia	29-Oct-25	102.228	4.948	-0.558	9.244	88.524	102.229	USD
Nigeria	12-Jul-23	96.550	7.005	-0.326	9.652	84.651	101.029	USD
Rwanda	02-May-23	97.260	7.137	0.133	1.448	92.349	102.722	USD
Senegal	30-Jul-24	95.894	6.922	-0.617	6.918	84.764	98.794	USD
South Africa	24-Jul-44	104.622	5.064	-0.581	15.588	85.773	105.038	USD
Tanzania	09-Mar-20	102.471	6.174	-0.146	8.135	92.702	102.744	USD
Tunisia	19-Sep-27	102.773	7.870	-0.097	-1.088	96.272	117.000	USD
Zambia	30-Jul-27	88.235	10.817	-1.108	11.263	65.003	97.539	USD

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