

Africa, a world of investment opportunity

Africa boasts some of the fastest growing regions, supported by strong population growth, technological innovation and infrastructure deficit. However despite the wealth of opportunity across the continent it comes with its fair share of Africa specific risk.



Gyongyi King, chief investment officer at Alexander Forbes Investments

According to Gyongyi King, chief investment officer at Alexander Forbes Investments, Africa presents the following opportunities for investors:

- **Long-term growth**

Africa has attractive demographics in an ageing global economy. Africa is set to have a larger working population than both China and India by 2034;

- **Infrastructure**

Africa requires material infrastructure investment to service its growing population. Sustainable infrastructure development across road, rail, energy will drive the growth of private enterprise in Africa. Infrastructure transactions dominate the private markets landscape in Africa, accounting for \$12bn (R18bn), according to the African Venture Capital Association (AVCA). Despite this material private sector investment, the infrastructure deficit remains huge, requiring the continued mobilisation of both local (public and private sector) coupled with international investment in order to ensure its rapidly urbanising population have the means by which to realise the embedded growth potential of the continent;

- **Unlisted credit**

African corporates are underbanked relative to development markets. Greater institutional investment in unlisted credit across the continent will enable private enterprise to grow and scale in a cost effective manner so as to better meet the needs of its growing population;

- **Private equity**

Private equity (PE) in Africa remains a pivotal asset class in funding the economic growth of the continent. In a study by AVCA over \$24bn (R250bn) of new funding was raised over 2012–2017 for PE in Africa – almost double the size

of the South African PE industry, an indication of size of the investable opportunity in Africa. International development finance institutions dominate the fundraising landscape across Africa. These and other institutions need to assist in mobilising greater pension fund and institutional investments across the region;

- **Direct property**

The deficit in available quality retail and office space across the continent is notable with current infrastructure unable to support the demands of a rapidly urbanising population and foreign corporate and retail entrants across the continent;

- **Technology**

In Africa, even more than elsewhere in the world, technology is improving people's lives. A telecommunications company brings an increased focus on internet penetration across West Africa with applications ranging from voice communication to internet-based learning and price discovery platforms, to mention a few.

Mobile money offering

Moving to East Africa, a company's leapfrog technology has transformed local communities through a mobile money offering. It has allowed the local community to advance from the formal banking model to transacting and making payments on their mobiles with ease. In turn, mobile-based products provide a platform where large corporate customers can place orders for agricultural crops from the farmers without the intervention of agricultural traders.

Collectively, these technological advancements have benefits which promote a cross-pollination of growth opportunities across sectors.

Unlisted assets

Despite the listed exchanges in Africa having made progress in deepening their coverage of local economies through improved corporate representation, the real untapped opportunity from a South African investor perspective are unlisted assets in Africa, says David Moore, head of alternatives at Alexander Forbes Investments.

Unlisted assets in Africa which can be categorised into several sub-asset classes namely unlisted credit, infrastructure, direct property and private equity:

- have attractive US dollar-linked return profiles;
- are lowly correlated with conventional South African asset classes; and
- can create sustainable impact in the jurisdictions in which they operate.

Private equity

The Pensions Fund Act, has increased the Africa investment allocation from 5% to 10%, now allowing SA investors greater access to these alternative sources of investment return.

“It is important for investors to be mindful of the nuances that frame African markets. Characteristics such as illiquidity, regulation and political uncertainty make investing in Africa something that requires patience on behalf of investors. However, we still believe that opportunity exists, with access to some of the fastest-growing regions and rapid urbanisation. This gives rise to untapped investment opportunity, supported by policy reform and political improvements,” says King.

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