THE UNTAPPED POTENTIAL OF SUB-SAHARAN AFRICA

A CASE STUDY OF THE DEVELOPMENT OF PRIVATE CAPITAL AND ITS IMPACT ON THE LAST FRONTIER OF GROWTH

ALEXEI MOORE

MIRANDA EKELUND HAGBORG

Master Thesis
Stockholm School of Economics
2023

The Untapped Potential of Sub-Saharan Africa: A Case Study of the Development of Private Capital and its Impact on the Last Frontier of Growth

Abstract:

As the market is starting to see an increase in private capital investments in sub-Saharan Africa, questions have been raised as to what has changed from the perspective of investors when it comes to investing in a market that has traditionally been underfunded. Through a case study analysing the risks, challenges, and opportunities of investing in sub-Saharan Africa, we attempt to analyse the reasons for traditional investor hesitancy and better map the risk and reward landscape as it is seen today. The findings state that the most prominent risk investing funds face is currency exposure. Furthermore, it is found that discrepancies in actual risk and perceived risk are a significant deterrent to investment in sub-Saharan Africa. The opportunities for private capital in sub-Saharan Africa are considered to be superior financial returns in comparison to traditional markets and the potential for development impact, both at the company and country level. This paper offers a broad analysis of the sub-Saharan African market, and through comparison with the Nigerian market offers insights into the development of private capital and preconditions for further growth. The paper contributes to existing literature with its focus on sub-Saharan Africa as well as the impact private capital can have on economies in the region.

Keywords:

Private Equity, Growth Equity, Venture Capital, Private Capital, Impact Investing,
Emerging Markets, Sub-Saharan Africa, Nigeria

Authors:

Alexei Moore (42234)
Miranda Ekelund Hagborg (42183)

Tutor:

Diogo Mendes, Assistant Professor, Department of Finance

Examiner:

Anders Anderson, Associate Professor, Department of Finance

Master Thesis
Master Program in Finance
Stockholm School of Economics

Acknowledgements

We would like to first and foremost acknowledge the contributions of our tutor, Diogo Mendes. His guidance and support throughout the process has been invaluable. We would also like to thank the Yinka Shonibare Foundation and Guest Artists Space, specifically Belinda Holden, Adekunle Adeboye, Tomi Olukosi and Magdalena Kaggwa. Their assistance has enabled us to effectively conduct our fieldwork and given us unparalleled access to the Nigerian investment landscape. Further to this, we wish to offer special thanks to Yinka Shonibare CBE, RA for his support of the scholarship program and his contributions to Nigeria's social, economic, and cultural development. We would finally like to express our gratitude to all participants in our qualitative study.

Contents

1. Introduction

Private equity (PE), growth equity and venture capital (VC), together referred to as private capital (PC), grew popular as investment strategies in the 1980s in the U.S., spreading soon after to Europe and other developed markets. PC has since established itself as a significant source of global capital across most markets, and extensive research has been performed to investigate the upsides and consequences of PC investments (Leeds, 2015). PC investors have traditionally been hesitant to enter sub-Saharan African (SSA) markets, however, the last few years show a shift in attitude as investments are rising in the region. In 2022, SSA recorded positive net growth in PC deal activity, in stark contrast to developed markets that witnessed significant contractions. West Africa and specifically Nigeria have experienced significant inflows, with the region attracting the largest proportion of PC in SSA (AVCA, 2023A). Despite this, Africa still experiences a significantly lower amount of invested capital. Statistics for 2022 show PC investments of 7.6bn USD in Africa and VC investments of 5.2bn USD, the latter corresponding to ca. 1.2% of the total VC invested globally. Among the VC investors, 77% were international and 23% were African (AVCA, 2023A; AVCA, 2023B).

SSA is the largest region of Africa, comprising the southern part of the Saharan desert and is the world's largest free trade area. With 62% of its 1.2 billion residents being under the age of 25, favourable demographics have been a noteworthy driver of growth, in contrast to the ageing populations experienced in several developed markets (World Bank, 2023A; World Bank, 2020). The largest economy in SSA is Nigeria, outnumbering all economies in Africa. The country's economy is primarily driven by the oil and agriculture sectors and the country holds one of the largest demographic dividends on the continent (Soludo, 2006; World Bank, 2023B; EFInA, 2021).

Given the favourable demographics of SSA, it seems natural that the deal volume in SSA has increased more than 300% over the previous five years (AVCA, 2023A). Aside from significant financial upsides in the context of timid economic growth in developed markets, there are also significant possibilities for PC to contribute to the socio-economic development of the region. Becoming an important intermediary in financial markets by providing capital to under-financed firms also creates potential for employment opportunities and knowledge exchange (Gompers & Lerner, 2001; Donahue & Timmerman, 2021; Dickinson (via OECD.org), 2007).

These opportunities come together with risks, with the most prominent challenges posited in the literature being currency exposure, political risk, limited legal resources and transparency, corporate governance, and limited data availability (Leeds & Sunderland, 2003; Donahue & Timmerman, 2021). As less research is performed on the sub-Saharan region, the possible impacts and challenges of PC are to some extent unknown for the region.

Together with the Yinka Shonibare Foundation and Guest Artists Space in Lagos, we are mapping the risk and opportunity ecosystem for PC investors in SSA, where we hope to better understand the reasons behind the rapid growth in investment in Nigeria's VC ecosystem. In doing so, we contribute to the existing literature gap regarding PC in SSA with a deep exploration of the preconditions of the region's largest market, Nigeria.

The case study will use empirical evidence from discussions with international and local investment professionals at development financial institutions (DFI), VC funds, growth equity funds and PE funds active in SSA, together with on-ground observations of the Nigerian business landscape to answer the following research questions:

(1) *What are the underlying risks, challenges, and opportunities of sub-Saharan African private investments?*

(2) *How has the balance between risks, challenges, and opportunities changed?*

Our study reveals that the most prominent challenge for investing funds is currency exposure, meanwhile, challenges such as petty corruption, limited corporate governance and data availability are considered to have less impact on investments. Our experience in Nigeria highlighted for us that grand corruption and regulatory risk are still significant challenges, and that the literature and transparency indexes do not sufficiently consider the nuanced differences that these forces have in comparison to petty corruption. During interviews, the challenges of the underdeveloped infrastructure and creating a local presence (for foreign funds) are raised as additional inhibitors to potential investment. Inefficient capital markets are also discussed, with the nascency of the SSA market implying that investments are being made without a proven exit market. The largest opportunities for investments are found to be above-market financial returns and the development impact that investments can have on the region. These above market financial returns have been primarily driven by SSA's demographic dividend along with the rapid increase in internet access allowing the growth of digital industries. For the invested companies and countries, the capital provided facilitates growth on both firm and macroeconomic levels. Network and knowledge are also large contributors to entrepreneurship. On a macroeconomic level, employment opportunities and knowledge exchange are stressed as being key contributions to the region's socio-economic development.

Through a comparison of the experience of private capital funds, recipients of private capital, and experts in both sub-Saharan Africa and Nigeria, our study further outlines how certain areas of risk have dissipated or been managed. Further to this, new opportunities have arisen, and existing investment opportunities have been expanded, especially in comparison to alternative opportunities in other markets. Finally, the relationship between actual risk, perceived risk and information is discussed, offering insights into the recent increase in PC activity in SSA.

1.1. Purpose

The purpose of the paper is first, to investigate and receive in-depth knowledge and analysis of the PC investment landscape of SSA, the opportunities PC can bring, and the challenges met by investing funds. Secondly, the case has the purpose to provide lecture materials for studies at the Stockholm School of Economics.

1.2. Contribution

The paper contributes to the empirical research on the PC landscape in SSA with a specific focus on the Nigerian market. Previous literature is focused either on the U.S. or other established capital markets, emerging markets, or in some instances the broader continent of Africa. Studies on PC in SSA as a region or the country of Nigeria have proven to be scarce and limited in scope, even though recent statistics speak to the rapid growth of PC in the area. As a result, the paper will address this literary gap in previous research and provide insights into areas that are crucial for the future growth of the PC market in SSA. The findings will also be discussed in accordance with the UN Sustainable Development Goals to investigate if and how PC can facilitate the achievement of goals 8 and 9.

1.3. Limitations and Scope

There are several limitations to our qualitative and quantitative research. First, our participants are almost exclusively investment professionals working at investment funds, complemented by a small number of interviews performed with entrepreneurs receiving PC. The limitation lies in not accessing or accessing limited insights from the companies being invested in or the actual deployers of capital (i.e. limited partners). Secondly, our research is limited to a few countries in SSA, with a large focus on Nigeria. As in all regions, there are cultural, economic, and political nuances which limit the ability of this paper to aggregate findings in a wider SSA context. The same applies to existing literature, where we find that previous academic studies have been performed on emerging markets or Africa in general, and seldom on SSA or on a country level. Furthermore, we complement our qualitative findings from discussions and interviews with a preparatory quantitative analysis. The quantitative data is not sufficiently comprehensive that results retrieved from the data can have significant weight on the paper’s fundamental conclusions.

2. Literature Review

2.1. Private Capital and its Role in Global Capital Markets

PC is a broad term that can apply to a wide range of investment vehicles. These investment vehicles serve different purposes and provide capital to different types of actors. For the purpose of this thesis, we have decided to focus on the role that financing plays in capital markets. We have also decided to focus on three specific areas of PC that cover companies across several sectors that are at different levels of maturity. We will therefore actively be investigating VC and growth equity and PE.

2.1.1. Venture Capital

VC investments are the earliest form of PC financing. They provide capital to companies primarily in the early stages of aggressive growth, who are focused on gaining market share and expanding operations rather than focusing on unit economics and profitability. Due to this focus on growth, many of these start-up firms are not in a position to secure debt financing, due to the uncertainty surrounding their future success and ability to repay debts according to a standardised loan schedule (Gompers & Lerner, 2001; Ibrahim, 2010).

Gerken & Whittaker (2014) explore how VC investors focus primarily on future-looking industries so that receivers of capital have a larger market to grow into as they reach scale and maturity. They expand upon how venture capitalists almost exclusively take minority stakes, as their role is centralised around providing capital and network to investees rather than operational support. Venture capitalists, therefore, prioritise investments with strong operational teams and contribute by establishing governance practices and supporting the existing team with capital and expertise. As a result, VC investors prioritise investing in companies with innovation and expansion strategies, rather than firms that compete in smaller spaces within existing branches (Gerken & Whittaker, 2014).

Exit opportunities for VC investors are the broadest, due to the smaller ticket size of these investments at the end of the venture capitalist's investment horizon. Listings on stock exchanges can be an exit option for venture capitalists, however strategic buyouts and sales to larger PE investors are common alternatives across capital markets (Gerken & Whittaker, 2014).

2.1.2. Growth Equity

Growth equity is a subsequent form of PC financing which takes place in the final stages of fundraising by fast-growing companies. Companies invested in by growth equity investors have exhibited substantial growth, however, have not yet reached the scale required to guarantee profitability and therefore require intermediate capital before an exit is materialised (Demaria, 2013). Similar to VC investors, growth equity investors often take minority stakes (although this mandate is flexible) and provide financing, networking, and governance support rather than operational leadership. Due to the later stage of investment, ticket sizes are generally significantly larger than for VC investments. In addition, due to the lower level of risk associated with investments in companies with more established unit economics, growth equity investors tend to make fewer investments than VC investors per fund. The returns on these investments tend to be relatively more mean-reverting in comparison to VC returns, where the higher level of risk can lead to extreme spreads in exit multiples (Wong, 2002).

In spite of this minority ownership, growth equity is also significantly influenced by the management of traditional PE investors. Growth equity fund mandates often emerge within the infrastructure of large traditional PE funds (Demaria, 2013). In addition, even if growth equity investors are minority stakeholders, ownership tends to be higher than in VC funds, increasing their ability to influence operational activity and putting pressure on the owners of start-up companies. Combining this higher level of ownership and the use of growth equity as a more aggressive fund strategy within PE firms means that the investment strategies and landscape analysis of opportunities and risks from a growth equity perspective is similar to that of PE investors. Growth equity investors will prioritise market growth and innovation, however operational effectiveness and financial discipline are also core tenets of their investment philosophy (Demaria, 2013).

The exit horizon for growth equity investors is shorter than for VC investors, meaning the probable exit opportunity is often already analysed in the due diligence process associated with the investment (Demaria, 2013). Initial public offerings are the preferred option (especially for technology-based investments); however, strategic acquisitions are also common. As growth equity investments are focused on companies that still have strong growth potential and are not in a profitable financial position, leveraged buyouts by large PE funds are less common as the mandate of such investors tends to be focused on mature companies requiring efficiency improvements (Kaplan & Strömberg, 2009). This incompatibility of investment size and strategy between growth equity and traditional PE represents a fork in the PC investment landscape, with companies either being attractive for growth equity or PE investors (Demaria, 2013).

2.1.3. Leveraged Buyouts

Leveraged buyouts (also referred to as PE) are the most established and final stage of PC investments, with PE investors generally focused on operational efficiency, effectiveness, and growth in market share within developed consumer markets. PE investors are generally attracted to companies with an established unique selling point that has reached the scale required to shift focus to increasing profitability and creating a lean business model (Kaplan & Strömberg, 2009).

PE firms utilise their expertise to increase margins and re-position companies that have stalled in their growth trajectory. Through purchasing majority stakes (historically close to full ownership), PE firms have a strong operational mandate and are actively involved in the management and leadership of their portfolio companies (Kaplan & Strömberg, 2009).

Due to the size of many contemporary PE investments, public listings are often the only way to achieve attractive exit multiples. Strategic buyouts can occur, however, at this later stage of PC investment, they are unlikely in normal market conditions (Kaplan & Strömberg, 2009).

2.1.4. Fund Structure

Capital for investments is raised through funds, where investors commit to providing a certain amount of capital to finance investments and management fees. Most funds are so-called "closed-end" funds, meaning that investors cannot withdraw their money until the fund is terminated. The fund is organised with general partners (investing funds) and limited partners, where the general partner manages the fund, and the limited partner provides capital. The limited partners are typically institutional investors such as pension funds, endowments, and insurance companies. The fund often has a fixed life of ten years, which can be extended for up to three additional years, where the PE firm has five years to invest the capital and then five to eight years to return the capital to the investors. When capital is committed by the limited partners, they have little control over how the capital is invested so long as it is done within the fund's mandate (Kaplan & Strömberg, 2009).

Jensen (1989) argues that the structure of PE utilises the upsides of debt, governance, and operational efficiency to the portfolio companies, leading to improved operations and economic value creation. The success seen in results is argued to depend on market timing and mispricing between debt and equity markets (Kaplan & Strömberg, 2009).

2.2. The History of Private Capital in Sub-Saharan Africa

Leveraged buyout PE strategies have never been a prioritised investment form in SSA, predominantly due to the cost of debt in SSA capital markets (Pinaud & Grandes, 2005). The lending interest rate in the US was between 3.3% and 8.1% between 2001 and 2021 (World Bank, 2023C). On the other hand, lending rates in South Africa were between 7% and 15.8% during this period, whilst in Nigeria rates were 11.5% and 24.8% (World Bank, 2023C). With significant interest rate premiums, creating positive IRR on investments using an LBO strategy is unrealistic under such borrowing conditions. Successful leveraged buyouts in SSA have been conducted at lower leverage levels by international investors, using foreign-denominated debt from low-interest markets which has then been converted into local currency (Vasvari & Talmor, 2011). A notable example of this is the buyout of Edcon in South Africa by Bain Capital in 2007 (Cohen, 2007).

Because of the underdeveloped nature of SSA leveraged finance markets, PC investments have primarily been made with equity using VC or growth equity strategies (AVCA, 2023B). However, these investments have also historically lagged, with the Asian market being the focus of investment and receiving the majority of international capital invested in emerging markets (Bailliu, 2000). This lack of investment has exacerbated the flight of human and physical capital that already existed within the SSA market, increasing reliance on natural resource exports to fuel growth (Bhorat et al., 2019). A consequence of these commodity-oriented export markets is the strong foreign ownership and influence in SSA, which has created challenges for both development and transparency objectives (Liedong et al., 2023).

Over the past decade with the boom of the financial technology (FinTech) sector and plateauing economic growth rates in mature financial markets, this trend has begun to change. PC total deal value in Africa has increased from 2.7bn USD in 2015 to 7.6bn USD in 2022, with Africa being the only region to increase deal value in 2022 from 2021 figures (AVCA, 2023A).

A driver of investments in local PC funds has been the increased interest from Western governments to use development financial institutions (DFIs) as a part of international aid budgets (Cagiza, 2022). DFIs have similar structures to VC funds (minority ownership, governance support and smaller ticket sizes); however, they also dedicate significant resources to investing in existing funds. The growth in DFIs (due to their ability to generate social impacts in developing markets whilst sacrificing little or no taxpayer funds) has directly contributed to the growth in SSA PC markets (OECD, 2023).

2.3. The Investment Decision for Private Capital Investors in Emerging Markets

The crux of the investment decision for PC investors is the balance between investment risks and financial returns (Strömberg, 2009). Consideration of risks, challenges, and opportunities is even more central when entering new markets with unique risk profiles and financial landscapes (Donahue & Timmerman, 2021). In the case of emerging markets, certain risks have been identified throughout the literature to have increased the reluctance of PC investors to deploy their assets. There have also been a set of unique opportunities that have attracted growing volumes of investment and offset certain operational challenges.

2.3.1. Causes of Hesitancy

Low Standard of Corporate Governance

Leeds and Sunderland (2003) argue that the accuracy, timeliness, and transparency of financial and operating information provided to investors in SSA and the willingness of managers to subject themselves to accountability to outsiders differed from what was seen in the investments made in the U.S. The authors believe this to be driven by high levels of family ownership in SSA commercial markets. The importance of independence, secrecy and autonomy is therefore deeply rooted in the corporate culture of firms in developing countries and is not challenged until the company requires outside capital.

Limited Legal Recourse and Transparency

Reliable legal systems are stressed by the authors Leeds and Sunderland (2003) to be of importance to nurturing PC transactions. However, early experiences in emerging markets have demonstrated the limited legal resources available when investors and companies do not concur. Local owners tend to be adept at navigating the legal system, leading to outsider investors having a disadvantage in disputes. The authors describe fund managers withdrawing investment from the country unless they can gain majority control over the business (Leeds & Sunderland, 2003). La Porta et al. (1997) find that the legal origin is a crucial determinant of minority shareholder protection, mainly against corporate insiders, as common law systems provide better protection than civil law. The statement is expanded upon by Djankov et al. (2003) who argue that by being part of a common law state, one can enforce commercial contracts. Kaplan, Martel and Strömberg (2003) give a plausible explanation for the reason that foreign funds experience that their contracts are inefficient, namely that PE funds use contracts that are similar to the ones in use in their home countries.

Dysfunctional Capital Markets and Exit Landscape

As the main objective of PE is to make a profitable exit this calls for a well-functioning stock exchange market or high activity of management buyouts, strategic investors, or later-stage financial investors. Leeds and Sunderland (2003) present evidence that the most successful exits have been achieved through IPOs. However, equity markets in developing countries fail to provide this alternative for the PE firm, as the primary market only succeeds to provide capital for a handful of the largest companies. Further to this, the secondary market only fulfils the needs of an even smaller number of large companies (Leeds & Sunderland, 2003). Lerner et al. (2016), offer a different account, concluding that exit opportunities in emerging markets are not inferior to those in developed markets. The authors continue to explain that the main difference between exits in emerging and developed markets is what type is performed, where IPOs have been made to a larger extent in emerging markets than in developed markets in relation to the activity. The holding period also differs, being notably shorter in emerging markets compared to developed markets.

Capital markets being inefficient are argued by Lerner and Schoar (2005) to be caused by the country's legal system. Djankov et al. (2003) present findings stating the correlation between common law and high enforcement nations having broader and more valuable capital markets offerings, dispersed ownership of public firms and other indicators of financial development.

Political Risk

Political risk is explained as the potential harm to a business caused by political behaviour (McKeller, 2010). Donahue and Timmerman (2021) explain that local knowledge and networks are needed to make investments in areas holding political risk and that the risk can be diversified by locating funds to several countries with political risk as political cycles and market factors will appear at different times. The authors also state that there is a large potential for political stability in many areas as foreign investments increase in the areas.

Currency Exposure

Currency risk derives from changes in exchange rates originating in mismatches in the value of assets and liabilities denominated in different currencies. The risk comprises transaction risk, economic (or business) risk and revaluation risk (or translation) risk (Van Greuning & Bratanovic, 2020). Hausmann et al. (2006) show that the long-term volatility of exchange rates has been found to be approximately three times higher in developing countries compared to developed.

Mitigants to the currency risk are suggested to be investing in companies with USD or euro-linked revenues through exports or US-dollar-priced goods. Other mitigants could be to structure by disbursing over time or structuring part of the investment in hard currency debt or a convertible instrument. A natural hedge at the operational level could also be to focus on import substitutes, due to their higher level of protection from foreign exchange volatility, lower cost of production, and lack of transportation costs (Donahue & Timmerman, 2021).

Limited Data Availability

Donahue and Timmerman (2021) state that the limited data availability is seen through shorter track records, lower published benchmark returns and lower information coverage, leading to investor uncertainty about the ability to generate competitive results.

2.3.2. Potential Upsides of Private Capital in Africa

Strömberg (2009) has investigated the impact of PE investments on the economy in Europe. He finds a correlation between PE activity and economic growth, where PE was seen to have a beneficial effect on innovation, productivity, technology, and corporate governance, generating growth. However, the author continues to state that there is a lack of analysis on whether PE spurs economic growth or if economic growth attracts PE activity. This claim is further supported by Cumming and MacIntosh (2006). Literature on the topic has not seemed to have been specified on a regional level.

Gompers and Lerner (2001) state the important gap in financing that PC contributes to. The authors state that PC has become an important intermediary in the financing market by providing capital to firms that otherwise would have difficulties attracting financing. Raising capital at a competitive rate is mostly only available for the largest companies in Africa, creating consequences for smaller companies of inhabited growth and competitiveness. PC can therefore be a filling role between self-financing and conventional capital market activity (Dickinson (via OECD.org), 2007).

Private investments in Africa are also seen as an immense opportunity to promote the UN Sustainable Development Goals through spurring job creation, increasing food production, and improving logistics (Donahue & Timmerman, 2021). The statement is reinforced by the African Development Bank (2012), which states that the private sector is the most important driver of economic growth in Africa. The bank has seen a material impact on job creation and economic growth through investing in companies.

Further to this, impact investing has grown in relevance, with funds aiming to make investments that will contribute resources to areas that facilitate social and environmental progress (IFC.org, 2023). Dickinson (via OECD.org, 2007) also argues that by attracting foreign capital and talent, PE can raise the efficiency and effectiveness of invested sectors and contribute to knowledge transfer, which reaps wider macroeconomic and human capital benefits for developing markets.

3. Methodology

3.1. The Case Study Method

As private sector data can be difficult to retrieve and financial reporting in emerging markets is underdeveloped, we have chosen to predominantly conduct our analysis using a qualitative case study methodology (Kaplan & Sensoy, 2015; Lerner et al., 2009). According to Yin (2014), this method is suitable when investigating "how" and "why" questions. Researchers can build knowledge from observations of phenomena within a contextually rich environment and contemporary real-life situations. Furthermore, Idowu (2016) argues that the case method is suitable when holistic and in-depth investigations are required. Stake (2005) endorses this comprehensive approach and posits that the most prominent advantage of the case study is the holistic picture, explaining the relationship between parts of a whole instead of parts of information about the components of a relationship. We believe that this method is most compatible with our research agenda.

In order to complement our qualitative study and critical analysis of the academic literature, we will conduct a preliminary quantitative analysis in order to provide a macro-level perspective and illuminate historical investment activity in the SSA ecosystem.

3.2. Data Collection

3.2.1. Qualitative Data

The primary source of data is interviews performed with DFIs, PE, growth equity and VC funds (general partners) based both internationally and within SSA. The insights and knowledge from the discussions performed have been controlled through a subsequent quantitative analysis focused on relevant and calculable risks. As the main source of information is from interviews, we have focused on preparing, conducting, and analysing the information in an organised and structured manner. Preparations have included research of the interviewee's previous experiences as well as the organisation's objectives and focus. The interviews are then held in a semi-structured way, meaning that the interview was performed with prepared questions as a basis of the conversation, but the conversation was later left to unfold in a natural and spontaneous way (Merriam, 1994). The analysis has been complemented with quantitative data to critically analyse our findings, along with supplementary data used to strengthen and challenge the interview discussions.

The interviewees have been selected to represent a broad spectrum of investment strategies, backgrounds, and countries. Given the lack of Scandinavian investment funds focusing on SSA, the selection presented in the thesis is limited. Regarding investment funds based in SSA, the largest funds were contacted and complemented by funds operating in different segments. For domestic funds, the focus lies on Nigerian investors.

Table 1
Summary of Interviewees Operating in SSA

Interviewee	Role	Company	Country
Alexander Paterson Pochet	Founding Partner	J12	Sweden / France
Interviewee A	Investments	Impact VC active in Africa	Rwanda
Interviewee B	Investment Professional and Founder of VC	African Investor	-
Junehee Han	Investment Analyst	Swedfund International	Sweden
Karin Kronhoffer	Director Strategy and Communications	Swedfund International	Sweden
Laurie Clark	Venture Associate	Norrsken22	South Africa
Nivesh Pather	Investment Manager	Norrsken22	South Africa
Rivhatshinyi Mandavha	Investment Professional	Norfund	South Africa
Shaibu Mashud	Investment Analyst	Sahel Capital	Nigeria / Ghana
Tamsin Freemantle	Vice President	South-Africa-Nigeria Business Chamber	Nigeria / South Africa

Table 2
Summary of Interviewees Operating in Nigeria

Interviewee	Role	Company	Country
Abraham Durosawo	Head of Investment Banking	ARM Holding	Nigeria
Adedamola Olabintan	Investment Professional	Sahel Capital	Nigeria
Adewale Odusanya	Vice President	Verod Capital Management	Nigeria
Chidinma Okoli	Investment Associate	Aruwa Capital Management	Nigeria
Daniella Ekwueme	Investment Professional	Verod Capital Management	Nigeria
Jumoke Dada	Founder & CEO	Taeillo	Nigeria
Lexi Novitske	General Partner	Norrsken22	Nigeria
Niyi Adenubi	Executive Director	VFD Group	Nigeria / U.K.
Segun Cole	Founder & CEO	Fund the Gap Alliance & Maasai	Nigeria
Shaibu Mashud	Investment Analyst	Sahel Capital	Nigeria / Ghana
Tamsin Freemantle	Vice President	South-Africa-Nigeria Business Chamber	Nigeria / South Africa
Yemisi Akinbo	Principal	African Capital Alliance	Nigeria
Zeal Akaraiwe	CEO	Graeme Blaque Advisory	Nigeria

3.2.2. Quantitative Data

Our quantitative analysis is centred on comparing the number of yearly transactions in a country (per capita) with the variables of transparency, currency risk and infrastructure. The factors tested for originate from themes brought up in the literature review and throughout the interviews.

The number of PC transactions per year and country is retrieved from Capital IQ. A PC transaction used in this setting is defined as an acquisition of an equity stake by a financial sponsor/sponsors. The countries of the transaction are identified by the country of the headquarters of the acquired company and the timeframe used is from the first day of 01-01-2013 to 31-12-2022. The search in Capital IQ is narrowed to transactions cancelled within the timeframe classified as a private placement or an M&A transaction where the acquirer/acquirers include, minimum one investment firm with interests in the stage: "Seed/Startup," "Early Venture," "Emerging Growth," "Growth Capital," "Bridge," "Turnaround," "Middle Market," "Mature," "Buyout," "Mid Venture," "Late Venture," "Industry Consolidation," "Mezzanine/SubDebt," "Incubation," "Recapitalisation," or "PIPES". The screening results in 130,209 transactions spread over 179 countries. Since we aim to measure the investment activity in countries based on selected variables, we include all transactions even if information such as deal value is missing.

As the next step, each transaction is referred to a country and year. As the countries vary in size, we have chosen to use transaction volume per capita as the independent variable to make the countries' transaction volumes comparable to each other. Once transactions per capita are calculated the data is scaled with 1,000,000 to avoid the coefficient being too close to zero when they in fact have a value. The population is retrieved from World Bank and is actual levels for the years 2013-2021 and projected levels for 2022.

The measurements of public sector transparency are derived from Transparency International's Corruption Perceptions Index (CPI). The index is a robust measurement of the perceived level of public sector corruption stated in a scoring system of the approximately 180 countries included. The score of each country is a combination of at least three data sources drawn from 13 corruption surveys and assessments. The sources of the data are reputable organisations such as World Bank and the World Economic Forum.

The variable of infrastructure is retrieved from the World Bank's logistics performance index (LPI). The index comprises six components, where infrastructure is one of them and is measured for 160 countries. The variable is described as "the quality of trade and transport infrastructure" and is measured on a scale from one (very low) to five (very high). The variable is measured through surveys conducted by global freights and express carriers who provide feedback on the friendliness of the logistics in the countries they operate and trade in. The feedback from operators is supplemented with quantitative data on the performance of key components of the logistics chain in the country. The index is published and measured every other year with the exception of no data being published for 2020 (data available for 2012, 2014, 2016, 2018, 2022), meaning that for our data collection, we cannot access data points for the years 2013, 2015, 2017, 2019, 2020 and 2021. Data for the first three lacking years are calculated as the average for the country between the year before and after and data for the last three years is calculated as the average growth between 2019 and 2022.

When evaluating currency risk, we first retrieved foreign exchange rate data from the World Bank displaying the average exchange rate between currencies and the USD normalised over annual periods between 2008 and 2021. Our fundamental reason for choosing the USD as the currency of comparison is the ease of accessing data and the USD's dominance as a safe-haven currency, particularly within the context of PC. The USD was then compared to the Special Drawing Rights (SDRs) amalgam, retrieved from the IMF between 2008 and 2021. The XDR basket contains USD, EUR, RMB, JPY and GBP, allowing the volatility of the USD against other major currencies to be evaluated. After these datasets were cleaned, we then calculated the volatility of these currencies against the USD (and the USD against the XDR) over 5-year periods preceding investment. These volatility figures were then compared to transaction volumes to deduce the relationship between currency risk and willingness for investors to invest.

One adjustment we made to our dataset was the removal of all currencies that are pegged to the USD, as that would imply a currency risk of zero in this analysis. In reality, research shows that currency pegs created by central bank manipulation are still an indicator of currency risk, as the requirement to increase interest rates to maintain pegs of overvalued currencies creates a macroeconomic cost which can be difficult to maintain (Di Giovanni and Shambaugh, 2008). This was seen in the Asian Financial Crisis, where speculative attacks led to the de-pegging of specific currencies, highlighting the currency risks present in these markets (Burnside et al., 2001).

The data is used in a panel regression, grouped into years, with transactions per capita as the dependent variable and transparency, infrastructure, and currency risk as independent variables. Due to lacking data for different countries depending on the independent variable, the number of countries included in the regression decreased to 127. We also test the robustness of the model, adding the variables GDP per capita, GDP growth, and inflation. In the robustness data, the sample period is between 2013 and 2021, due to macroeconomic updates for 2022 not yet being updated. Given the instability of 2022, we have chosen to not make projections of our own and instead exclude the year for the robustness tests. The quantitative part of our analysis is a complement to the qualitative part and aims to see if challenges brought up in discussions are reflected in the number of transactions.

The hypothesis we aim to answer with our quantitative data is:

Hypothesis 1: The quantitative analysis will show a negative relationship between the risks observed in our qualitative investigation and the number of private capital transactions performed per capita in each country market.

Given that the quantitative model's aim is to work as a complement to the qualitative data, it contains restrictions. First, the transaction data suffers from selection bias due to its dependence on Capital IQ's classification of potential buyers. Lerner et al. (2009) cross-checked the data retrieved from Capital IQ with transaction data in the Emerging Markets PE Association (EMPEA) database and found, in their case, that 63% of the investor names were covered in EMPEA's data. The 37% of uncovered sponsors are likely small firms or subsidiaries of larger groups that are consolidated in Capital IQ's data. Secondly, the data has only undergone preliminary robustness tests, and has therefore not been sufficiently tested to guarantee its explanatory value.

3.3. Research Criticism

The case study method has been met with both praise and criticism. One of the drawbacks of the method is argued to be its dependence on single events used to draw a generalised conclusion, leading to unreliable results (Yin, 2014). A tool that is important to ensure generalisability is to construct the interview questions as “how” and “why”, which has been done in this study. Yin (2014) also states that a reasonable approach to handling issues is to incorporate multiple sources of data called triangulation. In addition to performing interviews, we have used quantitative data to strengthen the validity of the results.

The method has also been criticised in terms of external and internal validity (Yin, 2014). Internal validity refers to the risk of the case study being prone to researcher bias, affecting what data is incorporated in the study and the bias of the interviewee’s recollection of events. The paper focus on expertise from several sources with variating backgrounds as well as uses quantitative data as a complement to the qualitative analysis to partly compensate for the bias.

Idowu (2016) states that case studies may have challenges with being replicable. In this paper, events such as interviewees wishing to be anonymised interfere with the possibility to replicate the exact results. Performing the research, we followed a structured way of working and systematically noted the questions asked and the answers received.

4. The Case

The following section will introduce the case and the information received from the interviews alongside our quantitative findings. The section is structured with an introduction to the Nigerian history and investment landscape, followed by the demographics seen in SSA and the findings of our qualitative and quantitative research.

4.1. Collaboration with Yinka Shonibare Foundation's Guest Artists Space

The Yinka Shonibare Foundation was founded by Yinka Shonibare CBE, RA in 2019 with the purpose of facilitating cultural exchange and the growth of interdisciplinary knowledge and discussion in Nigeria. The Guest Artists Space hosts residents that are looking to explore artistic and academic themes that are tightly integrated with Nigeria's cultural history and socio-economic development.

As recipients of the Yinka Shonibare Thesis Scholarship, we have been based in the Lagos Guest Artists Space where we have conducted fieldwork looking specifically into the recent growth of PC investments in Nigeria. Our interviews and qualitative research have been targeted at DFIs, PE, growth equity and VC funds, both operating internationally and domestically. Throughout this research process, we have been specifically focused on the contrasting risks, opportunities and challenges that exist within the SSA and Nigerian PC space. In addition to this, we have attempted to contextualise our findings and prognoses of the future developments of PC within Nigeria's overarching socio-economic development.

The predominant ways in which we tie Nigeria's PC landscape to development outcomes is through Goal 8 and Goal 9 of the Sustainable Development Goals.

The eighth goal refers to the promotion of sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all (United Nations, 2023). The global economy is argued to be hampered by new waves of covid-19, rising inflation, supply-chain disruptions, policy uncertainties and labour market challenges (United Nations, 2023). Furthermore, rates of unemployment are explained to have risen as an effect of the covid-19 pandemic and one in ten children is engaged in child labour, this corresponds to 160 million children in total during 2020. The eighth goal aims to promote a decline in these statistics (United Nations, 2023).

The ninth goal refers to building resilient infrastructure, promoting inclusive and sustainable industrialisation, and fostering innovation (United Nations, 2023). The United Nations explains that while global manufacturing has rebounded from the pandemic, developing countries are left behind. This seems to partly derive from higher-technology industries being more resilient in a crisis than their lower-technology counterparts. It is also mentioned that small-scale industries lack access to financial support for their recovery from the pandemic where one in three are benefitting from a loan or line of credit (United Nations, 2023). The ninth goal's objective is to improve conditions currently hampering the development of industry, innovation, and infrastructure (United Nations, 2023).

During our research, we have actively worked to ensure that we understand the investment landscape in SSA and particularly Nigeria. This has been a central focus for us given that our perspective has thus far been deeply informed by our lived experience in the European context. Colonialism has had a profound and lasting impact on the society of SSA, with the traces still prominent in contemporary society and within academic literature. In our investigation, we found that research was produced in a Western context with a focus on Western perspectives, with inadequate SSA voices in spite of the topic. In this section, we also want to acknowledge the differences in the investment landscape and culture throughout the region of SSA. The findings in Nigeria and other countries that we have been in contact with cannot be generalised to the entire region of SSA. The thesis investigates the whole region out of the purpose of data and research limitations to perform the thesis on solely one country.

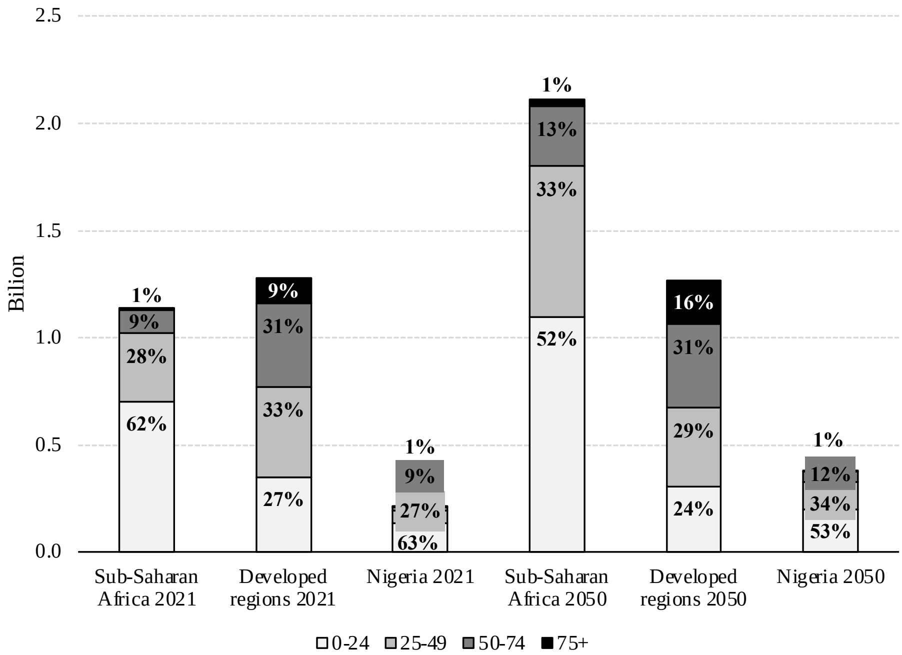
To summarise our case, we consider the socio-economic preconditions that have rebalanced the phenomena of risk and reward in the Nigerian context to try to understand the development of Nigeria as the hub of PC activity in SSA. Further to this, we look to explore the potential benefits that this increased investment has brought to Nigeria's landscape, and how this can further contribute to development outcomes across the country.

4.2. Nigeria's Demographics, Labour Market and Macroeconomy

Nigeria is the sixth largest country in the world by population and the largest economy in Africa (CIA, 2023). Nigeria's young population has been seen as an asset, with the country's demographic dividend contributing to economic growth and the large young population aiding the uptake of new technology and future-focused industries (Demographic Dividend, 2023; International Trade Administration, 2023).

Nigeria's economy is dependent on natural resource exports, particularly oil and gas. Global increases in oil and gas prices have provided a significant boost to the Nigerian economy, with GDP growth averaging 7.1% between 2000 and 2015 (World Bank, 2023D). In spite of this growth, the large amount of foreign ownership of natural resources and the accumulation of wealth in small pockets of Nigerian society has not created sufficient opportunity for the growing number of young Nigerians entering the workforce every year. The result of this has been a brain drain, especially to the U.S. and the U.K. (Popogbe & Adeosun, 2022).

Graph 1
Population and Projected Population by Age Group



Source: United Nations, Department of Economic and Social Affairs, Population Division (2021). World Population Prospects custom data. Published 2021.

4.3. Private Equity and Venture Capital in Sub-Saharan Africa

The following section presents the findings of our qualitative analysis. The section is structured after first investigating the fundraising landscape followed by the hesitancies, risks and challenges for PC funds, the opportunities for PC funds, the hesitancies risk and challenges for founders, the opportunities for founders, the challenges and risks for invested countries, the opportunities for invested countries, before lastly investigating the differences in actual and perceived risk.

Arguments relating to SSA and Nigeria are distinguished through describing the findings in relation to the country or region. This distinction is made to show the underlying patterns observed in our broader SSA analysis, whilst still emphasising the nuances in Nigeria and the differences seen between countries. As several investment funds have pan-African mandates, certain observations are limited to the region as a whole. The foundation of our Nigerian case is based around the professionals interviewed throughout our field work Nigeria, who have professional and cultural understanding of the country's business environment.

4.3.1. Fundraising Landscape

When analysing the fundraising landscape in SSA and Nigeria, many similarities were observed. Both SSA and the specific Nigerian market are dominated by foreign investors, with a historically large focus on DFIs and increasing interest from family offices and high net-worth individuals who are often part of diaspora communities. Representatives from Norrsken22 emphasised that the Nigerian space has had a more specific focus on VC and FinTech investors, mainly due to the success of such ventures historically and the potential for growth in that vertical considering Nigeria's preconditions.

Interviewee A described that the majority of private investors investing in SSA are drawn to both impact and financial objectives but lacked the knowledge to make direct investments and therefore found it convenient to invest via the PC fund. When focusing more specifically on the Nigerian market, Yemisi Akinbo from African Capital Alliance reflected that over her 15 years of experience that there were more investors who had the required risk tolerance to invest in Africa, with more sovereign funds and institutional investors raising interest in Nigerian growth equity. Funds that are primarily focused on development-based industries (such as agriculture) are still primarily financed by DFIs, which was the experience of Adedamola Olabintan from Sahel Capital.

As private investors traditionally have a larger focus on financial gain whilst DFIs are more focused on impact and are mandated to invest in SSA, questions were raised regarding how this impacted fund management. Adewale Odusanya from Verod Capital Management has experienced that investors are most often aligned when it comes to impact and financial goals, however, there can be differences of opinion regarding vision and portfolio management. He also described how DFIs are more willing to endure cyclical shifts and tend to be more patient with their capital, often targeting a longer investment horizon.

Investigating the expected multiples upon raising the funds, these were in alignment with the multiples received for earlier funds in Europe. Interviewee A stated:

"We wanted to prove that impact investing is a good financial opportunity. The approach was never altruistic for the investment team and fund."

- Interviewee A, 2023

Interviewee A states that in the earlier stages of fund raising, some international limited partners could raise concerns regarding the political risk and the transparency level of the country, however, these limited partners quickly understood the potential of the market and therefore did not put much weight on the concerns.

Laurie Clark and Lexi Novitske from Norrsken22 highlighted the value of having an established PC presence in a home market (outside of SSA) before expanding to SSA when it comes to fundraising. Both described how Norrsken22's strong network of tech entrepreneurs and investors in Sweden assisted in Norrsken22's ongoing fundraising, with Laurie Clark emphasising that having early support for the fund from these established investors has assisted with further fundraising. Having DFIs as investors is also seen to attract more private investment, often due to the focus of DFIs on governance and their willingness to be hands on and dedicate resources to ensuring that ventures develop sustainably.

Throughout interviews with representatives from Swedfund, it was stated that funds focusing on the seed stage have the largest share of fundraising in SSA, with later-stage funds commanding a smaller share. This claim is consistent with statistics from AVCA (2023B) stating that seed/early-stage funds assumed the largest proportion of capital, with later-stage experiencing a capital decrease making it the smallest PC sector in year 2022.

4.3.2. Hesitancies, Risks and Challenges for Private Capital Funds

Currency Volatility and Functioning of Foreign Exchange Markets

An underlying risk identified by all participants in our qualitative study that is a severe hindrance to effective investment and realisation of investment returns is the volatility of currencies in SSA markets and the inefficient functioning of foreign exchange markets in these countries. This was found to be an even larger factor in Nigeria, where central bank interventions and the creation of a black-market currency exchange have created severe illiquidity in foreign exchange markets, disincentivising investment.

Adewale Odusanya considers currency risk to be the greatest cause of concern for those investors with pan-African investment mandates, with the large range of smaller currencies cumulatively increasing the risk associated with the portfolio. He described how these risks inhibit successful investments through two main means: operational inefficiencies and valuation and realisation of exit in foreign-denominated currency.

Currency volatility creates operational inefficiencies when predominant revenue streams and debt repayments are denominated in different currencies. Zeal Akaraiwe explained how the cost of debt in SSA has been driven by central bank interest rate pegs at above-market values, meaning interest rates must be raised to attract capital. This is particularly true in Nigeria, where Adewale Odusanya described how commercial interest rates were constantly above 20%. As a result, the majority of Nigerian (and SSA) business owners seek loans in USD, where even after considering country risks the rates are significantly lower. Due to the illiquidity of the official rate, business owners are unable to access USD to repay foreign loans and pay for supplies, something which is even more acute in Nigeria due to the country's current account deficit and dependence on imports. Business owners must therefore use the black-market rate (estimated to be 780 Naira/USD instead of the official 460/USD), which has been continuously depreciating over several years.

Adewale Odusanya emphasises that these depreciations have eroded Nigerian purchasing power and exacerbated other operational issues, in particular the difficulty to find international talent and Nigeria's brain drain to developed markets. Yemisi Akinbo describes how this creates a huge operational hurdle for business owners, who are unable to conduct their operations and are deeply exposed to currency volatility due to this dependence on foreign loans. As revenues are predominantly denominated in local currency, finding attractive investments in an inflationary macroeconomic environment characterised by rapid currency devaluation is difficult for PC investors.

Hedging markets for smaller currencies in SSA are deeply illiquid. Laurie Clark describes how the small size of loans for start-up companies makes foreign currency hedges unfeasible. As a result, hedging for currency volatility must be done on an operational level, through attempting to maximise the amount of revenue that can be generated in foreign currency.

Country-specific foreign exchange market functioning can however be a greater concern, especially when combined with an underfinanced private banking sector, volatile currency, and poor monetary policy from central banks. Being able to repatriate funds and translate local currency (especially after an exit) is essential for PC investors to realise their gains, and situations where this cannot happen can deter future investment.

Rivhatshinyi Mandavha from Norfund described a similar situation from her investment experience, where an exit had been performed in Zimbabwe but central bank controls prevented the money from being expatriated and converted to South African Rand. A history of extreme currency volatility and hyperinflation, combined with low foreign reserves and a transition to a multi-currency system within Zimbabwe were the reasons for this restriction. The result has been that the proceeds from this exit have still not been repatriated, preventing the funds from being used in any context outside of Zimbabwe. Similar cases have also been seen in a Nigerian context, with Tamsin Freemantle explaining how Emirates stopped operating their traditionally profitable route to Lagos due to the inability to repatriate Nigerian Naira. Repatriation risk has actively worsened in recent years in Nigeria, with the Nigerian Central Bank introducing a list of 41 imported products which are not valid for foreign exchange in an attempt to decrease demand for foreign currency.

This impediment on the ability to repatriate funds takes away a central feature of PC investors' investment mandate. The Zimbabwean and Nigerian cases highlight that many different elements of foreign exchange markets interact, which can create spirals leading to economic circumstances where cross-border investment is impossible. Hedging against risks associated with capital controls is not possible, stressing the importance of the due diligence process and analysis of country risks when it comes to international investments in SSA.

Infrastructure

The availability of reliable infrastructure was identified by interviewees as essential for the competitiveness of invested ventures. Discussants raised the importance of specific infrastructure capabilities for target industries, and the scale limitations that poor infrastructure creates in SSA markets. Respondents based in SSA and Nigeria were congruent in relation to the relevance of infrastructure to PC investment.

Discussions with Chidinma Okoli from Aruwa Capital Management highlighted the importance of infrastructure, especially with regard to power, logistics and supply chain reliability. This is especially true for companies that are active within manufacturing and consumer goods sectors. Jumoke Dada from Aruwa Capital Management's portfolio company Taeillo (which designs, manufactures, and distributes furniture) described how logistics and the supply chain are her greatest operational concerns, especially as Taeillo has expanded their production to Kenya. Further to this, Taeillo has had to make considerable investments in independent power generation to ensure that production can continue despite outages. Increasing the reliability and affordability of power and logistics services are seen to be keys to increasing the international competitiveness of Nigeria's processing and value-add manufacturing sectors.

Energy infrastructure has been seen to be a greater concern in recent years in Nigeria, as the cost of fuel has risen drastically. Daniella Ekwueme from Verod Capital Management described how the energy costs of MTN Nigeria constituted 30% of total expenses for the company and drew upon experiences from her own venture where energy expenses had more than tripled from 230,000 Naira to 750,000 Naira per month. This has severely inhibited the growth of Nigerian firms, decreasing their international competitiveness and their attractiveness as investment targets.

Lexi Novitske believes that the infrastructure landscape in Nigeria creates hindrances, but that there are available solutions that investors expect founders to invest in. This is especially true of the power sector, where electricity generators are widespread. Yemisi Akinbo shares this sentiment and sees the underprovision of infrastructure as being a potential opportunity for investment. Adewale Odusanya further stressed that FinTech (which has been the main industry for PC investments in SSA) is relatively insulated from infrastructure concerns, especially when power can be independently generated.

Exit Landscape

The inefficiency of capital markets in SSA and Nigeria implies that the exit landscape is currently more limited than in developed markets. Most respondents from both SSA and Nigeria expressed that exit multiples on African exchanges are lower than in developed markets, and the cost of debt makes LBO investment strategies unfeasible. This limits the availability of exit vehicles and decreases expected returns. The nascency of the SSA market however implies that the exit market is expected to develop in the future.

Nivesh Pather from Norrsken22 underlined the future potential of SSA exit markets, mainly driven by increased inflows of capital, the ability for SSA ventures to list overseas and the above-market growth of SSA start-ups. He stressed the importance of having patience when managing funds in SSA and expected the landscape to mature over the coming decade.

"You have to believe in the ecosystem and the quick growth of the ecosystem. Over time you have to believe in it becoming mature enough that businesses succeed to a really large scale, so it attracts international buyers or is attractive to listing or a third-party equity investor."

- Nivesh Pather, 2023

Norrsken22 representatives also explained how earlier-stage funds are performing more exits than the later-stage ones, as there is more of a market for these investments and that the early-stage companies are being bought by later-stage funds. Some smaller transactions are also explained to be acquired by domestic strategic buyers. However, these are seldom noticed as the size of the companies is so small. The representatives also mention how there is some activity from international strategic buyers and that this activity is expected to take off more.

Swedfund representative Junehee Han agrees with the statement of exits being less challenging for early-stage companies and more complicated for late-stage companies. He continues to explain the gap between being small enough to be acquired by a later staged fund and large enough to be able to list, either on the domestic stock exchange or internationally. One of Swedfund's missions is to step in with funding on acquisitions of later staged companies to create further movement and efficiency in the market.

Rivhatshinyi Mandavha also raises the issue of having an inactive IPO market, describing how there has not been a significant IPO on the Johannesburg stock exchange in about ten years. She also stresses that strategic buyers have traditionally been sparse due to a lack of understanding of risk in SSA markets, although this is changing in the South African market in particular when it comes to infrastructure funds. Tamsin Freemantle posited that aside from the aforementioned concerns regarding exit multiples, the costs of compliance on SSA stock exchanges were a key reason many founders and funds avoided public listings.

Nivesh Pather believes that the market needs more success stories to attract investors and create the necessary capital foundation accelerate the maturity of the market.

"If we see a lot more success stories over the coming next years, with listings from African start-ups, there will be more capital flowing in, and it will be a virtuous cycle and more maturity quicker."

- Nivesh Pather, 2023

In contrast, Yemisi Akinbo states that exit opportunities exist for all companies with good fundamental value propositions, but building successful ventures can be challenging.

"If you build a good business, you will sell it and in general I think this holds true. A lot of capital is attracted to this market, so the challenge is to build a business that is attractive to the investors. If you do, you will have the buyers lined up."

- Yemisi Akinbo, 2023

She further stated that there is an active market for strategic buyers in Nigeria, which has primarily been driven by the success of the oil and gas industry. This reinforces that the exit landscape is different for companies operating in different industries and different geographic regions.

Petty Corruption and Regulatory Risk

A theme of previous research has been transparency and how this creates hesitancies amongst limited partners and funds. Upon travelling to Nigeria, it became apparent that within the sphere of transparency, regulatory risk and petty corruption were unique forces that had differing impacts on PC investments. In contrast to research, respondents across SSA found that petty corruption was not a strong disincentive to investment. Within the context of Nigeria however, findings that regulatory risk and grand corruption had a material impact on the ability of businesses to operate became evident, which consequently impacted the willingness of PC investors to deploy assets in the country.

Interviewee A found corruption to not be an issue in investment activities. It is stated that countries in SSA often have limited transparency, however, investment professionals with multi-national experience do not single out Africa as being the only continent subject to limited transparency. Petty corruption is therefore not argued to be an issue solely related to SSA, and the perception that it only is significant to investment on the continent is misconceived. As a result, the fund does not perform any corruption-specific processes in its due diligence, instead focusing on standard anti-money laundering and government corruption watchlist checks.

Nivesh Pather offers similar sentiments, explaining how transparency does not have an impact when investing business-to-business or business-to-consumer. However, he introduces concerns regarding regulatory risk, with the fund avoiding deals that involve the procurement of business-to-government contracts.

Rivhatshinyi Mandavha states that in her work the team consider the level of corruption before investing and how they can work around this. The team has made similar observations to Norrsken22, where larger infrastructure projects that require concessions from government agencies often lend themselves to transparency issues. She continues to explain that this needs to be thoroughly investigated during the due diligence process.

When considering the Nigerian context, Segun Cole considers regulatory risk and grand corruption to be a large inhibitor to investment from PC funds. An example he raised was the experience of ride-sharing company Bolt, who refused to bribe officials linked to airport administration in Abuja and were as a result banned from operating at the airport. He also discussed how state capture was an underlying concern in Nigeria, whereby politically connected private individuals used regulatory power to achieve financial gain. In the case of Bolt being banned from the airport, the airport administration created their own taxi service that was not banned, profiteering from this uncompetitive market structure.

Segun Cole also described how companies that were able to manage this grand corruption often did so through employing former government employees to board positions, along with the general expectation of bribes. Among the companies listed which had politically connected individuals on their boards, one that was mentioned is among Nigeria's 'unicorns', and has thus far been considered to be one of SSA's greatest success stories. He posited that the difficulty of operating without engaging in corruption is a strong disincentive for foreign PC investors to deploy capital in Nigeria.

In addition to grand corruption, the capricious nature of government fiscal policies is also a challenge for PC investors. Daniella Ekwueme and Yemisi Akinbo both described how the introduction of capital gains tax without forewarning created challenges for fund management and return forecasts. Adewale Odusanya also discussed how the introduction of the ban on 41 imported products for foreign exchange purposes had severe impacts on portfolio company operations. Lexi Novitske shared these thoughts, emphasising that navigating the transparency environment and dealing with the impact of macroeconomic policies was off-putting for many foreign investors.

Corporate Governance and Internal ESG Considerations

Challenges related to corporate governance are raised in the literature and during our discussions with the interviewees. The transparency of financial and operating reporting, ESG performance and diversity are all brought up as challenges for investing funds.

Interviewee B has experience working both in the PE space and setting up a VC platform facilitating the matchmaking between entrepreneurs and investors. One main area where the platform has proven useful is to guide entrepreneurs on how to become investor-ready. This is mainly done by setting up a structure for reporting and decision-making, something that is expressed as important by several interviewees.

Evaluating a company's operations, investees consider a broad spectrum of variables such as health and safety, fair pay, and gender diversity to name a few. These factors are included in the due diligence performed upon investing in a company (Rivhatshinyi Mandavha, 2023).

"Some banks may just think of will we get paid back, okay then that is fine while we think about if your workers are being compensated well, are the working environment good, and those kinds of things."

- Rivhatshinyi Mandavha, 2023

This is an area where DFIs can facilitate concerns among investors. By setting up thorough regulations regarding ESG and reporting, investors will have a guarantee that the organisation is operating transparently and according to guidelines. Investing funds often have their own reports of ESG and diversity, and a lack of proficient reporting in the areas can create hesitancy for the investing funds as it will be reflected in their own reports (Swedfund Representative, 2023; Adedamola Olabintan, 2023).

Other interviewees agree with the importance of a thorough due diligence process to not be affected by challenging corporate governance. However, the process is not different in SSA compared to other markets, with a focus on the team, financial stability, and product. It is stated that being on the ground and meeting teams and founders is an important part of this process (Norrsken22, 2023; Swedfund, 2023).

Fund Management Costs and the Role of Scale

A challenge faced by fund managers investing in SSA and a barrier for international investors considering entering SSA PC markets is the high management costs of managing an African portfolio. The two driving forces behind this cost base are the lack of density of impactful opportunities (leading to pan-African investment mandates across a portfolio) and the heterogeneity of culture, legal systems, and capital markets in SSA. Respondents have all stressed the importance of establishing a strong local network in order to gain access to the best opportunities and doing so across several countries with different economic preconditions that are geographically spread out can lead to significant fixed costs at a fund's opening, discouraging investment.

In our discussions with Alexander Paterson Pochet, the density of opportunities was a key motivation behind the establishment of J12 Ventures in Stockholm. Containing the most start-ups and VC per capita in the world, Stockholm is a lively and interconnected PC ecosystem where many impactful companies look to base their operations. In addition to this, Stockholm and the Swedish economy are proximate to other Nordic innovation hubs (i.e. Copenhagen, Oslo, Helsinki) and are strongly integrated with the wider European macroeconomy. This allows J12 and other funds based in Stockholm to expand fewer resources on having on-the-ground presences in different cities, also allowing firms to centralise and scale administrative and operational processes (e.g. legal services, bank financing etc.).

As the market is less mature, there is a far lower density of start-up opportunities in SSA. The result of this is that the majority of funds investing in SSA have pan-African investment mandates, often including North African markets within African portfolios. This is especially true of international funds looking to enter the African market, who often lack the understanding of the intricacies of specific markets and have ticket sizes that are too large to be focused on a specific SSA market or region. Interviewee B described this based on his experience at one of the largest international funds based in Africa, where the lack of density of opportunities prevents the centralisation of these auxiliary activities as funds look to be active across geographic and cultural boundaries.

The heterogeneity of Africa's cultural, economic, and legislative systems is another cost driver for funds with pan-African investment mandates and reinforces the need for having a strong local presence in invested markets according to Laurie Clark. He also described the exorbitant cost of travel within Africa as being a disadvantage. Shaibu Mashud from Sahel Capital reinforced the importance of understanding these different markets, comparing his experiences in Ghana and Nigeria. Ghanaians' willingness to purchase premium lifestyle products was something he had not observed in Nigeria (despite superior Nigerian purchasing power), highlighting the importance of product-market fit across SSA. Jumoke Dada concurred at a founder level, describing how when expanding from Nigeria to Kenya there was a need to tailor the furniture offering to the local market. This drives cost at a start-up level, which is passed on to PC investors. The result of this is that many local PC actors have focused their activity on a single market, as seen in the case of African Capital Alliance, Verod Capital Management, Aruwa Capital Management and Sahel Capital who have predominantly focused on Nigeria and West Africa. Laurie Clark described how Norrsken22's strategy was also focused on their hubs in Kenya, South Africa and Nigeria due to these drivers, however he also believed that more than 90% of the PC opportunities were based in these markets anyway, reducing the need to pursue a genuinely pan-African mandate.

Regional economic integration is lower in Africa than in both developed markets (such as Europe and North America) and other emerging markets (such as South-East Asia and Latin America). Combining these different economic systems with different cultural contexts creates different political and legislative environments. Interviewee B said the amount of time taken to receive permission to conduct an investment, the expectations and liquidity of local banks, and the time frames associated with repatriating profits were all areas that differed from country to country. They stressed the importance of having local experience and understanding to prevent these country risks from exacerbating other operational and investment risks across a portfolio.

The need to invest substantial amounts of money at the inception of an Africa fund to build a local presence in invested markets combined with the inability to centralise operational functions due to a sparse spread of opportunities creates a form of 'first-mover disadvantage' which can discourage investment. The front-loading of costs combined with the nascency of the SSA PC market represents a significant investment without an established track record suggesting that strong returns will be guaranteed. Alexander Paterson Pochet explained the idea that follow on investments had more opportunity to achieve strong financial returns, with scale advantages and market efficiencies likely to emerge as the SSA PC ecosystem received more funding. This would likely also increase the density of opportunities, creating more opportunities for more specific fund mandates. The current lack first mover advantage creates inertia and hesitancy from international funds, and associated start-up costs have made the barriers to entry higher for investing in African ventures than in developed and other emerging markets.

4.3.3. Opportunities for Private Capital Funds

One of the study's objectives was to investigate the perception of PC in both SSA and Nigeria, along with the benefits it is seen to create. The study also looked to examine the reasons for the rapid increase in investments seen in the last couple of years. There have been several re-occurring themes throughout our interviews, namely the financial upside for funds, the development impact on the economy, the role of infrastructure and innovation, the demographic dividend, and increased access to the internet.

Financial Return

As the growth in investments in the U.S. and Europe is starting to slow down and attractive investments become sparse, the literature argues that funds tend to enter foreign markets to spur returns. During interviews, the financial upside is stressed but as always, at the cost of risk. However, the objective explained by investment professionals is often the possibility of making an impact whilst also receiving decent returns.

Meeting with funds, the potential of returns is referred to the growing middle class and population, the rapid rise in technology, the growing knowledge base and the large part of the population being of working age.

"We all believe that it will become more attractive, mostly because it is the last frontier of growth around the globe. People around the world must go somewhere else to continue to find growth and Africa is the market of opportunity for that."

- Lexi Novitske, 2023

Looking at the expected returns, foreign investors believe that SSA funds will generate at least the same multiples in the future as established funds. However, interviewees highlight that the exit market is far away from reaching its full potential and an investor needs to be patient as to when the right exit opportunity will arise.

Given this, several of the interviewed companies flag that the first funds may not yield as high multiples as their traditional funds but are necessary to be set up to have an active presence as the market develops and higher returns (and competition) can be anticipated.

Interviewees mentioned that the European exit multiples in the VC market are generally expected to be around 10.0x invested capital for 2-5% of companies while the rest are expected to have multiples around 1.0-4.0x invested capital or even at a loss. Meanwhile, the Nigeria-based VC fund Acuity Ventures exited its first fund at 10.9x the invested capital.

Development Impact on the sub-Saharan Economy, Infrastructure, and Innovation

A common theme among the domestic funds is their wish to give back to the community. The belief amongst local investors is that employment is the first step to creating a well-functioning society, especially in light of Nigeria's soaring unemployment rate. An example of this was given by Niyi Adenubi of the first shopping mall being set up in Nigeria. No one believed in it being successful, however, once opened it was a success story from the beginning and plenty of malls have been established since. He continued by stating that the greatest power of PC is its ability to set companies up for success, create new markets along employment opportunities. National investors also mean that this is where foreign investment funds mainly can contribute, namely creating labour opportunities.

Adewale Odusanya and Chidinma Okoli also stress the importance of knowledge exchange between countries. Listening to Laurin Hainly's presentation on AfricArena, he also expresses the opportunity that this leads to. Laurin Hainly has worked closely with making sure to recruit the talent he needed to set up his business FairMoney and to ensure that by recruiting talent from other countries, the knowledge this individual brings is also transferred to others in the company.

It is also explained that since the continent is underfunded, most investments will be impactful. Therefore, it is less important to find the right impact companies and more about building the local ecosystems at a grassroots level (Nivesh Pather, 2023; Chidinma Okoli, 2023). Adedamola Olabintan agrees with the statement that most investments make an impact considering Nigeria's preconditions. However, she stresses that the growth of FinTech is not necessarily the segment where the most impact can be made, with Sahel Capital focusing on the food and agriculture sector which more directly benefits the most disadvantaged within Nigeria. This mandate makes the fund more vulnerable to currency, political and corporate governance risks and limitations and also expands their geographic presence to Northern regions plagued by insecurity. Furthermore, the fund works with ensuring sufficient employment in the companies so that the children of the owners can attend school.

During discussions with Swedfund, the potential impact of funds in the case of South Korea is mentioned, where foreign investors bringing businesses into the country contributed to the rapid economic development of the country and the growth of the private sector. This ultimately pressured the country to tackle institutional corruption. Swedfund representative highlighted that their objective with investments in the private sector is to achieve similar effects as those spurred by businesses in South Korea where the growth of the business sector played a large part in the country's financial rise. The power of the private sector is strengthened by Niyi Adenubi, stating that the first steps towards change in the country must come from private actors.

Discussing the case of South Korea with Daniella Ekwueme, she explains that the cultural differences between the South Korean market and the SSA market differ to the level where the strategies successful in South Korea would not succeed in SSA.

Interviewee A also mentions that given the scepticism of the return of funds currently active in SSA, some investors consider the investment to be of altruism and instead of donating, especially in seed funds where common investors are family offices and high-net individuals. However, the statement is finished off by pointing out that once it is time to exit the fund, returns aligning with the previous funds are what is expected. The representative also shared that by being an early player the fund hope to prove how the investments are lucrative and, in that way, attract other funds to set up operations in SSA and contribute more capital to the region. However, the view from some limited partners indicates their belief as well in the possibility of PC making an impact in societies.

Demographic Dividend

The 'demographic dividend' associated with SSA's young and growing population was identified as a significant opportunity by PC investors interviewed. This is considered to be an even stronger driver in the Nigerian context by Niyi Adenubi, who described how Nigeria's young population has increased the uptake of new products, especially in relation to tech-based solutions. The speed of this uptake creates more opportunity for market disruption by new firms and reflects a market that is more willing to adapt to new processes rather than rely on incumbent products.

In addition to SSA's young population, it is also the region with the fastest-growing population. Adewale Odusanya described how the rapid pace of growth in SSA gives companies a market to grow into, offering a strong first-mover advantage to companies that can establish themselves whilst the market is still in its growth phase. Another opportunity presented by the rapid population growth is the macroeconomic benefits of increasingly more people entering the working-age population. This implies that the most productive demographic segment which is in a position (and has a need) to purchase more services is increasing. This favourable balance between the working-age population and the dependent population puts less pressure on balancing the budget, increasing the disposable income of working-age individuals who do not need to fund social services of an aged demographic, as seen in countries like Japan and Italy.

Zeal Akaraiwe explains that purchasing power is growing faster in SSA in percentage terms than in any other market, which combined with the demographic advantages seen in SSA's young and growing population offers unique opportunities for entrepreneurs and the PC managers that invest in them. This was however countered by Adewale Odusanya when considering the Nigerian, who posited the inequality inherent in Nigeria's growth implies that the attainable market for several products is not growing at the same rate due to myopic purchasing power development in poorer communities.

Expansion of Mobile Technology and Internet Uptake in SSA

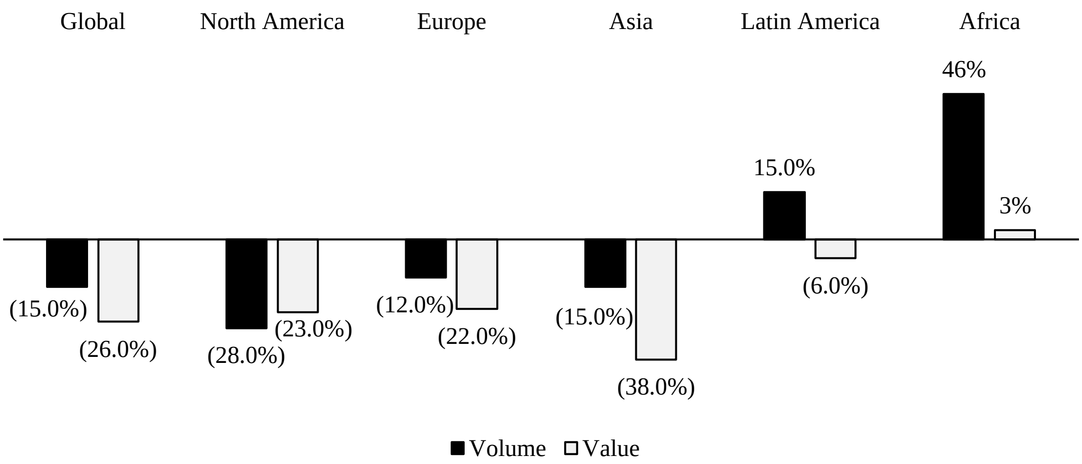
The rapid expansion of the internet network in SSA along with access to smart devices has brought millions of individuals into online markets, creating an opportunity for founders and investors. The number of internet users in SSA has grown from 4% to 36% of the population between 2008 and 2021 (World Bank, 2023E). With the population growing from 833 million to 1.18 billion during this time, the total number of users grew from 46 million to 366 million users (World Bank, 2023F). With the number rising to 50% of SSA's population in 2030 and the population expected to reach 1.8 billion, SSA is forecasted to have around 900 million users in 2030 (GSMA, 2023; United Nations, 2021). As internet uptake has occurred later in comparison to domestic markets, there has also been a focus on mobile technology rather than computer devices, which offers unique benefits according to Lexi Novitske. Smartphone devices offer added flexibility and greater compatibility with FinTech and payments solutions, which has been the main global trend in market innovations over the past decade. The dominance of mobile devices makes it easier to reach a greater range of people with these solutions and requires less investment both from a customer and firm perspective.

Lexi Novitske further outlines how the underdevelopment of SSA's and in particularly Nigeria's financial institutions has allowed FinTech solutions to spread in the market without competition from incumbents. This has allowed founders to grow far more quickly than in markets with traditional banking sectors and has given access to banking services to those that have traditionally been underserved. Adewale Odusanya explains that this has not only been a great opportunity for founders and investors but reinforces the development impact that these solutions can have even if they are not in development-dominated fields.

4.3.4. Hesitancies, Risks and Challenges for Founders

The risks that were seen from the invested companies mentioned during interviews mainly relate to capital leaving the country. Nigerian investor, Niyi Adenubi, raised the global macroeconomic state as something generally affecting invested companies where the risk lies in foreign funds withdrawing capital as the macroenvironment worsens. In contrast, other investors stated the importance of not leaving the companies invested in worse off than they were prior to investment (Norfund, 2023; Swedfund, 2023; Interviewee A, 2023). Previous literature and AVCA statistics indicate that the African investment market is in general not as affected as other markets by poor macro conditions.

Graph 2
Annual Percentage Change of Private Capital Deal Value and Volume in 2022



Source: AVCA, African Private Capital Activity Report 2022. Published 2023.

4.3.5. Opportunities for Founders

Capital, Extended Network, Knowledge Transfer and Corporate Governance

PC's largest areas of contribution are argued to be within capital provision, digitalisation, internal governance, and network. Among these, several interviewees named their ability to provide companies with connections as their largest contribution, aside from the capital provided.

Nivesh Pather states that their PC investors' interests do not lie with operating the company or controlling strategic direction. Instead, they want to effectively find good founders in the beginning, support them and add value to their businesses.

"They will tell you that they need help with XYZ and that's what we help them with."

- Nivesh Pather, 2023

The main value added to businesses is then argued to be the extended network both locally and internationally.

"At some point, you need capital outside of Africa, and then a foreign partner is an advantage."

- Nivesh Pather, 2023

Junehee Han agrees with Nivesh Pather on the reasoning that network is key to the invested companies and states that, foremost in the VC landscape, you will have some strong start-ups with funds waiting in line to invest in. These start-ups will not have an issue receiving the capital and will choose their investors on their network and know-how on the ground. Jumoke Dada agrees with the importance of networks and how this was one of the main contributors from the investing funds contributing to the growth of Taeillo. Niyi Adenubi also put emphasis on the power of networks as well as knowledge transfer and argues that this is a space where PC can contribute.

Chidinma Okoli agrees with the importance of network and knowledge transfer, but she also puts emphasis on the changes and opportunities that additional capital contributes to. Tamsin Freemantle states that SSA is one of the few markets where debt is more expensive than equity.

Investigating the case of Taeillo closer, Chidinma Okoli explains that Taeillo received seed funding to open a production factory in 2021. The capital grew the company from one employee to 70 employees in one year and in three years revenues had grown 25 times. Today, the company employs over 100 individuals and has grown revenues further. She explains that the case is a good example of the opportunities that PC can bring.

Lexi Novitske at Norrsken22 explains that the financial success that PC aims to scale in businesses, gives entrepreneurs several opportunities. She has seen several examples of entrepreneurs leaving the country and moving overseas to create a different kind of life for their families. She concludes her statement by saying "And who can blame them?".

4.3.6. Risks and Challenges for Invested Countries

Investigating the downsides PC can have on a country level, Interviewee B states the risks of having an illiquid listings market. Where later-stage companies might list out of the continent and bring capital and employment opportunities out of the country. This is also discussed by a Swedfund representative stating that for some companies, the goal is even to move operations and headquarters out of the continent. Niyi Adenubi argues that such an event would affect employment, taxes, and capital flows.

Adewale Odusanya raised how increased PC investments can exacerbate brain drain concerns under certain circumstances. This can specifically be seen in the Nigerian context, where companies that reach sufficient scale often shift their headquarters and operations to overseas markets. This is made worse by 'hot capital', where capital is abruptly withdrawn in poor macroeconomic circumstances. Lexi Novitske agrees that this can be a concern but believes that it is unavoidable and that the benefit of scaled successful ventures outweighs the downside of small-scale human capital flight. Both Segun Cole believes that 'hot capital' can also be a threat in and of itself, exacerbating macroeconomic shocks.

4.3.7. Opportunities for Invested Countries

As most investment professionals see the opportunity to make an impact on the economic ecosystem in SSA, many opportunities arise for the country and its population. These are mainly explained as employment, tax incomes and improved infrastructure.

The significant opportunity for SSA countries is increasing domestic production of goods and services, decreasing dependence on value-added imports. Zeal Akaraiwe explains that many raw materials are shipped out of Nigeria for value-add to be done, whereon Nigeria later buys the produced product at a higher price in a foreign currency. This is most palpably seen in Nigeria's lack of an oil refinery, requiring the export of raw crude before subsequent imports of petrol. The phenomenon is becoming increasingly expensive as the Nigerian Naira depreciates against foreign currencies and exacerbates energy insecurity. Chidinma Okoli agrees with the statement and argues that there is a large opportunity in the value-add segment. She saw this herself in the case of Taeillo, where the manufacturing centre was set up domestically and goods were produced by Nigerian materials. The growing segment of domestic production brings additional employment but also helps exports and the flow of capital in and out of the country.

Sahel Capital is focusing on the food and agriculture sectors in Africa, with a primary focus on Nigeria. Adedamola Olabintan explains that the fund invests in less traditional parts of Nigeria where the safety is lower, and few other funds invest. Through their investments, they are able to improve infrastructure, increase production value-add of goods, ameliorate food security, and improve working conditions, with a significant benefit being more children attending school instead of assisting with farm work.

4.3.8. Actual and Perceived Risk

Asymmetric Information and Perceived Risk

Across our qualitative study, we have seen that the investment decision process across all landscapes is a balance between risks and returns. In the case of investments in SSA, the lack of precedence and track record makes this balance more subjective, as information about the individual markets is insufficient and investment processes are less standardised. This uncertainty surrounding future risks and returns of investments is made worse for foreign funds, as available data is often inaccessible to those outside of the local PC ecosystem. The result is a situation of asymmetric information, which drives up the perceived risk of investments from the perspective of foreign funds. The diversion of perceived risk from actual risk due to information restrictions is considered to be a key source of foreign investor hesitancy, and improvements in data gathering and accessibility are seen as a tool to encourage further PC investments in SSA.

Risks in the SSA financial ecosystem can be difficult to quantify, which is due to different risks varying greatly in size and occurrence. Our interviews with all investment professionals active in SSA highlighted that repatriation risk is a central concern for fund managers, however, situations where it is impossible to repatriate invested capital occur seldomly. On the other hand, energy infrastructure concerns are ongoing in SSA contexts and can be tedious, but alternative solutions exist to manage the impact of unstable power. Understanding the risk matrix within markets and across markets can be difficult from an outsider's perspective. In addition, understanding which risk factors at the macro level are most likely top impact operations of invested companies at the micro level makes risk calculations uncertain.

Similarly, opportunities can be difficult to quantify due to the small number of successful exits and sporadic communication of financial results. Rivhatshinyi Mandavha described how nascency of the SSA PC industry has meant that reporting processes are not to the same standard as within developed markets. Accessing information about exit multiples across firms is difficult. Further to this, Lexi Novitske reinforced the idea that investing in SSA is frontier investing, and that investments must be conducted with the belief that an exit market will develop towards the end of a fund's horizon. The longer investment cycles associated with VC and growth equity investing implies that many of the larger players have not yet reached their exit point, and that clear exit performance is unlikely to be known in less than five to ten years. In the Nigerian context, Adewale Odusanya emphasised the difficulty in measuring and evaluating other non-financial opportunities, in particular in terms of ESG progress and development. Standardised data, public information about fund performance in these areas, and academic research were all seen to be ways to reduce the asymmetry and ambiguity surrounding this information.

A common reflection of our interviewees that were based in SSA was that the obscurity of actual risk and actual opportunity led to a situation where perceived opportunity is relatively in line with expectations, however perceived risk were overstated in relation to actual risk.

Strong early signs from SSA start-ups across different markets (such as Paystack in Nigeria, Wave in Senegal, Chipper Cash in Ghana etc.) has proven there is growth potential in the market. Macro figures (in particular economic and population growth rates) have encouraged new investors to enter the market in spite of bearish international trends, with SSA being the only market to see an increase in PC investment in 2022 compared to previous years. Respondents were therefore confident that the available investment opportunities were understood by foreign investors.

However, interviewees considered certain risks to be overstated, in particular the role that corruption and infrastructure play at a micro level. Nivesh Pather discussed how corruption and the role of lobbying is a challenge at a macro level in all markets, including developed markets. At the micro level however, corruption does not disrupt operational activities and growth potential to the extent which some foreign investors may consider. Similarly, infrastructure concerns cause inefficiency at a macro level across SSA markets, however, solutions are available which allow firms to manage their power needs. Niyi Adenubi stressed that the widespread availability of generators allows start-ups to guarantee a level of power supply, meaning companies are still in a position to be impactful and grow in spite of poor public energy infrastructure.

When considering the Nigerian market, Adewale Odusanya posited that some domestic actors actively encourage misinformation and a higher level of perceived risk to decrease competition from international actors, especially in relation to security concerns. Oligopolistic structures within resource industries and real estate means that higher levels of perceived risk lead to more investment opportunities for incumbents.

Overall, there is a predisposition for fund managers unfamiliar with the SSA environment to take challenges that inhibit economic performance at a macro level and assume that they cannot be managed at a micro level by start-up companies. There can also be a predisposition to believe that risks that are present in specific markets can be aggregated to the wider SSA market, another example of the assumption that SSA markets are homogenous. This bias is reinforced by the reality that the majority of data available to international investors is focused on the macroenvironment.

Improving access to information at the firm level is key to reducing the gap between perceived and actual risk. Rivhatshinyi Mandavha believes that this is already happening to a certain extent, as greater publishing and analysis of micro data allows prospective funds to better understand the investment landscape. Continued growth in invested capital and success stories should lead to more available data points, which is necessary to see true risks of investing in SSA accurately reflected in decision-making of funds.

4.4. Quantitative Data

The findings of our quantitative data are solely a complement to the observations of the investment professionals interviewed and should be accompanied by the qualitative data as the two can vary in findings. The findings indicate that transparency, currency risk and infrastructure are all variables that significantly (transparency and infrastructure at the 1% level and currency risk at the 5% level) affect the transaction volume, we therefore fail to reject our hypothesis. The model explains 42% of the dataset, indicating that there are several other variables that need to be considered in order to fully trust the results.

Table 3
Summary Output

Regression was performed with observations between the years 2013 and 2022. Three stars denote coefficients significant at the 1% significance level; two stars, at the 5% significance level; and one star, at the 10% significance level.

R^2	42.20%							
Observations	1,192							
Groups	127							
Variable	**Name**	**Coefficient**	**Std. Err.**	**z**	**P>|z|**	**[95% conf. interval]**		**Individual R^2**
Dependent	Transactions per capita							
Independent	Transparency	0.048	0.012	4.200	0.000***	0.026	0.071	30.86%
Independent	Currency Risk	-1.849	0.931	-1.990	0.047**	-3.673	-0.026	2.08%
Independent	Infrastructure	1.437	0.244	5.890	0.000***	0.959	1.915	31.56%

4.4.1. Transparency

Refers to the overall level of transparency and corruption in a country. The variable is significant at the 10%, 5% and 1% significance levels. The coefficient between transactions per capita (dependent) and the transparency index (independent) indicate a positive relationship where a higher transparency score, hence a more transparent country, correlates with a higher number of transactions. A panel regression on only transactions per capita and transparency shows that 31% of the variation is explained by the independent variable.

4.4.2. Currency Risk

The currency risk investigates the volatility of the currency where high volatility indicates a larger risk for the investee. Currency risk affects transactions per capita at the 10% and 5% significance levels. The relationship between transactions per capita and currency risk is negative, indicating that the high volatility of a country's currency yields low transaction volumes. A panel regression between transactions per capita and currency risk shows that only 2% is explained by currency risk.

4.4.3. Infrastructure

Infrastructure affects transaction volumes at the 10%, 5% and 1% significance levels. The relationship is positive, meaning that developed infrastructure facilitates transactions. A panel regression between transactions per capita and infrastructure shows that 32% is explained by infrastructure.

4.4.4. Robustness

The model is checked for robustness by adding the variables GDP per capita, GDP growth, and inflation. Due to macroeconomic data not yet being published for 2022, the regression is performed between 2013 and 2021. This regression shows significant variables of infrastructure and GDP per capita at the 10% significance level. However, a correlation matrix over the variables explains that transparency and GDP per capita are multicollinear, creating difficulties for the model to determine the individual effect of each variable. When performing a panel regression, with all variables except GDP per capita, transparency is significant at the 10% and 5% significance levels.

Investigating each variable's explanatory power on transactions per capita, GDP per capita shows the best results with an R^2 of 52% and a correlation of 81%. However, this is not surprising as a high GDP shows a functioning capital market which facilitates transactions.

5. Discussion

In the following section, we discuss our findings based on the research questions we aim to answer and connect to both the research literature and the UN Sustainable Development Goals. In the discussion, the general findings from SSA and the country-specific findings from Nigeria are presented in the same sections. The findings are carefully related to either the region or the country depending on what they refer to. When reading the discussion, it is important to acknowledge the differences in culture and presumptions affecting the investment landscapes of countries in SSA and within the country of Nigeria.

5.1. Disparities between Qualitative and Quantitative Findings

Throughout our qualitative study, we have found that respondents have identified drivers of risk and reward that do not correlate with our quantitative study. We are aware of the limitations of our quantitative study, in particular the currency risk analysis which considers several assumptions and a narrow interpretation of currency risk. However, upon further investigation, it has become apparent that the quantitative data used when performing our panel regressions does not reflect the concerns of investors in a sufficiently nuanced way.

We find that the indices we have used (in particular the Corruption Perceptions Index) do not consider the subcategories of transparency that PC investors actively consider when deploying capital. Similarly, the role of monetary policy and macroeconomic institutions is central to a thorough examination of currency risk. We, therefore, conclude that PC investors consider these risks in more specific instances, and that their investment decision is driven by preconditions that are only partially covered by these indices.

5.2. What are the Underlying Risks, Challenges, and Opportunities of Sub-Saharan Private Investments?

5.2.1. The Different Perceptions of Risks and Challenges

Previous researchers highlight limited corporate governance, limited legal resources and transparency, inefficient capital markets, political risk, currency exposure and limited data availability as inhibitors of the growth of PC in emerging markets. These are all mentioned by interviewees, however, various depths are put to each risk where currency exposure is argued as the largest risk and inefficient capital markets, limited legal resources and transparency, corporate governance and limited data availability are valued as variably impactful depending on country, sector, and interviewee. Furthermore, investing funds add infrastructure and the need for local offices and networks as a challenge.

Investing Funds Hesitancies, Risks and Challenges

Currency exposure is the effect of a larger problem deriving from illiquidity and demand surplus on capital. Combining a volatile currency market with an unstable political climate causes further risks in the investment landscape. This is explained by interviewees to be the most prominent challenge upon investing. Interestingly, the quantitative analysis yields the least significant value for the currency risk (however, still significant), contradicting the results of the interviews. A reason could be, as stated by interviewees, that currency exposure and political risk are endemic to the SSA and Nigerian investment environment and must be managed for successful investments to take place. As these issues are seen throughout SSA, investors wanting to make these investments have sufficient knowledge regarding the subject and argue that there is little to do.

Just as currency exposure to some degree is caused by illiquidity in capital markets, the same applies to the inefficiencies that are experienced when performing exits. Interviewees argue that capital markets remain illiquid, and investments currently being performed are done with the belief that the market will mature in five to ten years when it is time to exit the fund. Looking at the exit multiples of Acuity Ventures' first exited fund, of 10.9x invested capital, they state the contrary and speak for the potential that could be reached under the right circumstances and showcase a great example of the success stories that are argued to be needed to lure more capital into Nigeria. Some interviewees state that a good company will always be a good company and possible to exit profitably regardless of the country market. Furthermore, it is stated that most exits happen to later-stage investors and very few exits are through public offerings. Previous literature performed on emerging markets state the contrary, showing data which implies that the most common exit route is the public one. The literature also states that holding periods are shorter in emerging markets while the discussions with interviewees in this paper indicate the opposite as funds must be patient for the right exit considering that the market is nascent. This is a clear example of the risk of using aggregated data, as this is true for emerging markets but certainly not for the region of SSA.

Limited legal resources and transparency are argued by research to be an issue. Our qualitative study has shown that there is a greater level of complexity to the role of transparency in SSA, particularly in Nigeria where regulatory risk is a significant hindrance for businesses. Petty corruption is not seen to be a major inhibitor of investment, contradicting the literature and elements of our quantitative study. On the other hand, non-compliance with bribery norms, the concept of state capture and legal hurdles used by state actors to inhibit the operation of non-favoured companies were all seen to have severe impacts on business operations. Nigeria's use of common law was not seen to provide any additional protections to civil systems, in contrast with the literature. Fund managers reflected this view and emphasised that it is a significant disincentive for investment, especially for international investors not familiar with the investment preconditions of SSA and Nigeria. We found that impact of grand corruption was a significant disincentive for PC investors, which more closely reflected the findings of the literature and our quantitative study. The aggregation of different types of corruption into the one literary field has been a significant shortcoming and highlights the misperception of Africa's business environment by both investors and academics. It was found that management of transparency risks was not done through taking majority stakes but (as emphasised in the literature), rather through taking minority stakes in order to diversify risk and be less operationally involved.

Corporate governance and limited data availability are explained by investors to be a less developed area in SSA; however, the funds often see this as an opportunity for them to add value and create internal change and streamlined operations.

Upon visiting Nigeria and performing interviews in the country, limitations that infrastructure could place on businesses were palpable. Interviewees also argued that this could cause hesitancies in investing funds when raising an SSA-focused fund. Being able to experience some of the challenges while performing the research, speaks for the importance of visiting the country. The insufficient infrastructure causes large costs for businesses, having to ensure the continuous connection to expensive power via generators and solar panels as well as having challenges with the transport and logistics of goods.

The importance of having a local presence in the markets invested in was stressed by interviewees. The market of SSA is explained as heterogeneous, where there can be large cultural differences between two neighbouring countries as well as great differences in raw materials and country-specific policies. Foreign investment funds often have investment mandates over a region, and the spread-out investment opportunities create challenges related to establishing offices and creating networks in several countries.

Several findings are in line with previous literature; however, significant contradictions and shortcomings are also observed. The most pertinent is the differing impacts of petty and grand corruption on willingness to invest, which was commonly described by respondents (particularly in Nigeria) but lacking in the literature. Findings also show that currency exposure is the most prominent cause of hesitancy among investing funds across SSA. The risk is discussed in previous research, but the severity of the risk is not reflected in the literature.

Hesitancies, Risks and Challenges and Founders and Invested Countries

The risks of PC to the entrepreneur receiving capital in and the host country concerns the impacts of capital being withdrawn. On the company level, interviewees raise the concern of the global macro environment causing foreign funds to withdraw investments, leading to less capital invested in companies. However, recent statistics show that while investments decrease in most other continents, they tend to be stable or even increase in Africa during globally volatile market conditions. The rise in global interest rates and the higher yields on debt in developed markets does however create strong pull for capital that has been deployed in Africa. On the country level, there are also risks of inefficient capital markets and domestic companies choosing to offshore the operations of the company, often through listing on international stock exchanges. Interviewees argue that in some countries, the long-term objective for the company is in fact to off-shore operations, which negatively impacts employment, tax incomes and the flow of capital. Human capital flight was also seen to be a severe risk for invested companies and was considered by some interviewees to be exacerbated by PC, in particular 'hot capital'.

5.2.2. Opportunities Raised

Opportunities for Private Capital Funds

Interviewees claim that the potential to make financial returns above the average seen in developed markets is one of the main motivations for investing in SSA. The lack of a mature exit market has been raised as a concern by international investors, however, evidence from exited funds challenges this hypothesis and suggests that a market is actively forming. All interviewees agreed regarding the future potential of the market, which was seen to be driven by two main forces. SSA's demographic dividend was considered to be the decisive opportunity, with the combination of a fast-growing, young population and an increase in purchasing power creating a dynamic and expanding market for PC investment. The second driver of growth is the widespread expansion of internet access, creating a fertile market for tech-based solutions that have delivered strong returns in other markets.

In addition to promising returns, interviewees highlight the possibility to make an impact, where some domestic investment professionals frame it as giving back to the community and country. Employment opportunities and the knowledge exchange associated with PC fund management are seen to be the greatest areas of contribution to the development space, helping to facilitate the achievement of UN Sustainable Development Goals 8 and 9. The case of South Korea also showcases an example of where a strong private sector facilitates the country's transparency positively and is argued to be one of the main factors encouraging the growth of the South Korean economy. The view on the South Korean case differs among interviewees, where cultural differences are considered to decrease its comparative value. However, the general belief in the power of PC is strong according to both domestic and foreign interviewees stating that change will have to come from private initiatives firstly.

Opportunities for Founders

The opportunities for the invested companies and entrepreneurs, in addition to capital, are mainly argued to be the network and knowledge that investments can contribute, easing the operations and expansion of the company. In addition, investment professionals state that efforts are often put into corporate governance and data availability. Previous research states corporate governance as a challenge, however in interviews it is framed to be more of an opportunity for development once the investment is made. Initiatives such as VC platforms, working with making entrepreneurs investor-ready and pairing entrepreneurs to funding are also starting to rise. As entrepreneurs can report transparent data and connect with funding via platforms facilitating the connection between entrepreneurs and investing funds, the power can shift to the entrepreneurs being able to select the funding partner based on additional criteria to their capital, such as network and expertise.

Opportunities for Invested Countries

A common theme raised by investment professionals active in SSA is their motivation to make an impact and be a part of building a strong society, creating several upsides for countries, such as employment, tax incomes and infrastructure projects. PC investments were also seen to attract international talent, increasing the potential for knowledge transfer and the improvement of human capital at a macroeconomic level.

In addition, interviewees raise the opportunity for domestic value-add as PC investments are targeted to manufacturing industries setting up domestic production and creating foreign incomes from exports, employment, and capital flows. This an example of the impact that private sector investment can have on macroeconomic performance, concurring with previous literature regarding how private efforts can improve the political landscape and stability.

UN Sustainability Goals 8 and 9

After discussions with interviewees regarding the contribution to society that PC can have, several upsides can be connected to the eighth and ninth goals.

Interviewees have emphasised how PC is a strong contributor to employment and labour opportunities as the invested companies grow. Investment funds also state how they actively work with the corporate governance and labour conditions of the invested companies, aligning with the findings of previous literature. Being a portfolio company to a fund automatically puts pressure on the investment funds to align the new portfolio company's operations and governance to the standard set up by limited partners and other stakeholders. DFIs and sector-specific funds also make a large contribution to enabling entrepreneurs to employ employees instead of being dependent on family members acting as employees, by doing so, more children have the opportunity to attend school. These contributions of PC funds are all aligning with the eighth goal of the UN Sustainability Goals.

Interviewees also state how one of PC's large contributors is the capital provided. The ninth goal aims to facilitate credit to small-scale industries. As equity is not debt PC does not directly work to achieve the direct goal, however, equity, in many ways, enables the same opportunities as debt. The ninth goal also aims to facilitate manufacturing in developing countries as these regions have not recovered after the pandemic the same way as developed regions have. Value-add and manufacturing are argued to be areas of future investments for PC funds and hold large upsides for the funds. This is also seen in the case of Taeillo and Sahel Capital, who both have had success in creating and facilitating domestic production. Moreover, the interviewees champion the growth of technology industries, something that the ninth goal aims to facilitate as the industry is more resilient in crises.

Given the alignment between the contributions stated by interviewees and the objectives stated by the UN Sustainability Goals, the conclusion that PC in several ways can facilitate the goals can be drawn.

The Weight Between Risks, Challenges and Opportunities

Over the past few years, the balance between opportunity and risk has begun to shift for PC investors in both SSA and Nigeria, leading to significant inflows of capital. After mapping the risk and opportunity landscape, we have looked to analyse the reasons behind the shift in the balance between risk and opportunity.

5.3. How has the Balance Between Risks, Challenges, and Opportunities Changed?

With the recent influx in PC investment (both in SSA generally and Nigeria specifically), many questions can be raised regarding the reasons for this increase. From the literature, our qualitative study, and our preparatory quantitative analysis, we believe there have been some shifts in the balance between risks, challenges and opportunities that have enticed new investments. Progress at a macro and micro level regarding the risk landscape has appeased concerned PC investors, whilst new opportunities have emerged that have created further incentives for investment. Finally, the informational environment has shifted the way in which investors analyse risks and opportunities in the SSA context, which we believe has motivated more investors to begin investing in SSA.

5.3.1. Change in the Landscape of Risks and Challenges

Risks and Challenges That No Longer Disincentivise Investment

A risk that has been discussed throughout our research has been the role of transparency in attracting PC investments. The literature emphasises the importance of transparency, drawing upon several qualitative studies where it is considered to be a significant risk factor along with comparing economic development with the level of institutional transparency. In previous literature, some authors argue it to be considered the most central cause of investor hesitancy when it comes to investing in emerging markets.

In our qualitative study, we found that a lack of transparency within private spheres and lower levels of government were not found to cause hindrances for business at an operational level, nor that petty corruption created issues at a fund management level. Corruption was described by respondents as being an element of the sociocultural ecosystem, but that the nature of petty corruption was not insidious within the corporate contexts they were active within.

Our preliminary quantitative insights suggest that the Corruption Perceptions Index (CPI) is correlated with transaction volumes, although the relationship is relatively weak. The established strong correlation between the CPI and GDP found in previous research indicates that transparency at a macro level fosters better business environments, however the lower correlation found when it comes to PC transactions implies that individual ventures can still be impactful despite operating in corrupt environments. The CPI's focus on 'perceived' corruption is also an element that has been challenged by those who have participated in our research, considering that the perception of SSA and its risk level is considered to differ from actual levels. Most importantly, the CPI does not differentiate between the different manifestations of corruption, which has been a common shortcoming throughout the literature.

Risks and Challenges That Have Been Neutralised

A risk that we have closely analysed is infrastructure and the implications that its reliability can have on investment environments, both at the macro and micro level. Infrastructure is described as a significant hurdle when it comes to PC investments in emerging markets, both in terms of creating a fertile environment for the growth of invested companies and for establishing an effective fund presence. Insufficient infrastructure is singled out as a significant reason behind the reluctance of Western investors to invest in new markets, due to the eradicating cost effects it would have on portfolio returns.

Throughout our qualitative study, infrastructure was identified as a risk that is hindering the development of SSA in general and discouraging investment due to the lack of predictability of operations. Power security, transport and logistics were all identified as key areas of improvement. However, the PC and start-up industries have been uniquely immune from infrastructure hindrances, due mainly to the nature of investments. This is particularly true in Nigeria, where PC investments in the recent boom period have been focused on FinTech and online platforms, with all six of SSA's unicorns being app-based products. Digital start-ups are far less reliant on transport and logistics infrastructure, with access to electricity and the internet being the main prerequisites both for the company and its customers. As a result, ad hoc solutions to guarantee power supply (through generators) have enabled energy security concerns to be managed, and internet telecommunications infrastructure has improved tremendously in Africa over the past decade. Generators create additional costs (especially with rising global energy prices), however these companies have still been able to grow without issues, calling to question the extent to which infrastructure contributes to investor hesitancy in SSA.

Our quantitative analysis showed that infrastructure and transaction volume per capita are weakly correlated. With the growth in SaaS and app-based solutions, ventures are not dependent on the wide range of infrastructure included in the World Bank's Logistics Performance Index (LPI). Success stories in SSA's start-up environment have been able to manage this risk at this point in time, however, the PC industry may be more exposed to infrastructure challenges if there is a shift in industry focus. Investors looking to invest in manufacturing and processing industries (which has been an increased focus from investors due to SSA's dependence on finished product imports) are more like to see infrastructure concerns as material due to the importance of affordable energy and distribution logistics.

5.3.2. Change in Opportunities Landscape

New Opportunities

New opportunities have emerged over recent years which have made investing in SSA increasingly attractive for PC managers. The main shift that has been identified across both our academic research and our discussion with individuals based in Africa is the development of appropriate infrastructures that have been conducive for both mass customer uptake of digital products and reliable technology-based business models.

The expansion of SSA's telecommunications network and the increased affordability of smartphone technology have been catalysts for a complete shift in the SSA business environment. Consistent access to the internet has allowed many services (in particular banking) to be moved online, representing a large opportunity for FinTech start-ups with an understanding of the local environment. The lack of traditional banking infrastructure has also led to fast uptake for a demographic that is severely underbanked. The expansion of the telecommunications network has also helped start-ups operationally. The development of this telecommunications infrastructure is what has given SSA's new FinTech unicorns the customer base required to scale, which has in turn attracted foreign investors.

In addition to this, the wider macro shift that has made generators more accessible to SSA households has increased access to power and its reliability. As mentioned previously, the rise in global energy prices has limited the benefits of generators for businesses and made operating them too expensive for many households. However, increased access to power and the ability to supplement inconsistent power supplies makes commerce in SSA far more stable, allowing start-up companies to be internationally competitive. This shift has made investing in SSA ventures far more attractive for foreign investors, attracting new capital to the market.

Opportunities That Have Grown in Relevance

Various macroeconomic and global socio-cultural trends have made investing in SSA more attractive and impactful than previously. The demographic dividend associated with Africa's young and fast-growing population has become even more pointed, especially as the demographic tax associated with ageing populations is worsening in European and East-Asian markets that have traditionally generated growth (e.g. Korea, China, and Japan). This demographic dividend has been the main cause of investor interest in SSA in the recent period and its relevance is only increasing, reinforcing the concept that SSA is the last frontier of growth.

Further to this, there has been a global rise in the development agenda, ESG and the role that private investments can play in contributing to development outcomes. The role of the diaspora is also important in SSA communities, with Nigeria in particular experiencing large capital inflows from wealthy members of the diaspora looking to give back to the community.

Finally, meagre economic conditions in developed economies since the Global Financial Crisis combined with an extended period of low interest rates and the COVID pandemic has led to a general decrease in positive NPV projects in traditional markets. As a result, PC investors have had to look to new markets to deploy their capital to ensure returns above the market can be achieved. SSA has become comparatively more attractive to alternative markets, increasing its attractiveness as a high growth ecosystem.

5.3.3. Change in Perception of Challenges and Opportunities

With risks being managed or diminishing in materiality, along with the emergence of new opportunities and the expansion of existing ones, there has been a rebalancing of the risk and reward equation that PC managers must consider when making their investment decisions. The level of risk seen in the environment has decreased, whilst the potential returns (especially in comparison to opportunities available in other markets) have substantially increased. However, our qualitative investigation has also shown us that the aperture between actual and perceived risk has also begun to shrink. This has to a large extent been driven by the success stories seen in SSA's PC ecosystem in recent years (both in terms of start-up success and portfolio exits at high multiples), along with increasing access to fiscal data and financial information to help inform investors. Respondents have said that they believe the shrinking of this gap will create a snowballing effect, whereby more capital is attracted to the market leading to more standardised data and as a result less asymmetric information. With more capital, risks are in a better position to be managed and both operational and developmental opportunities have more space to grow. The fluid interaction between risk and return has characterised the SSA PC market, and now that the balance has shifted it can be expected that large investment inflows will continue to increase over the coming years.

5.3.4. Differences Observed Between Sub-Saharan Africa and the Nigerian Market

Throughout our analysis, we have observed that the underlying foundation of the Nigerian and SSA PC ecosystems are fundamentally similar, which can help explain their similar development experiences. However, in mapping the risks and opportunities in markets specifically, some unique differences have been observed.

Currency risk was found to be a significant driver of risk and a key cause of investor hesitancy in both markets, however this risk was seen to be more acute in Nigeria due to the severity of foreign exchange illiquidity and monetary policy decisions taken by the Nigerian Central Bank. Further to this, the consequences of the currency volatility were seen to be graver, impacting firms at the operational level (specifically in relation to supplies), funds at the management level (through repatriation risk) and all actors through the cost of debt.

Regulatory risk is a significant risk in SSA, however was seen to be the largest impediment for entrepreneurship in Nigeria and a severe fundraising risk. State capture and grand corruption were seen to be insidious in the Nigerian market and continue to limit PC inflows into the country.

On the other hand, infrastructure risks were seen to be a greater concern in SSA, where alternative solutions to securing electricity and internet were not as accessible. Significant investments were required from Nigerian entrepreneurs to independently guarantee access to these resources, however easy access to the energy-producing capabilities protects the Nigerian market from the same infrastructure concerns observed in SSA.

6. Conclusion

6.1. Concluding Remarks

This case study examines the PC landscape in sub-Saharan Africa, with a specific focus on the development of private capital in Nigeria. The paper focuses on the challenges and opportunities PC faces and what it can contribute to the region and invested companies.

During discussions and interviews, the most prominent findings are that the largest hindrance to private investments in SSA is currency exposure, while the least prominent challenge is petty corruption. However, field work analysis in Nigeria highlighted the destructive impact that grand corruption and regulatory risk can have upon investment industries, reinforcing the insufficiencies of existing literature when it comes to contemplating transparency. The quantitative study implied that the largest risk in SSA was transparency, which can be considered to partially concur with our qualitative findings considering that the CPI is an amalgam of different corruption measures. Furthermore, our qualitative study implies that infrastructure, costs associated with establishing a local presence, and illiquid exit markets are significant hindrances for PC investors.

We consider the qualitative findings based on investment professionals with extensive experience in both SSA and Nigeria to bear significantly more weight in our analysis. We are aware of the limitations of our quantitative study (both due to sample sizes and the ability of chosen indices to truly capture the risk profiles of different investor challenges) and are hesitant to draw discursive conclusions based on this analysis. Our findings contradict previous literature, stating that listing is the most common exit strategy, and instead posit that exits to later-stage funds are a more realistic and profitable option considering SSA's capital market preconditions. A negative impact of PC on a country level is creating avenues for successful companies to relocate operations overseas more easily, exacerbating brain drain and current account deficit concerns.

When considering opportunities, the ability to achieve returns above traditional PC markets and create development impact were seen as the two predominant opportunities in the SSA context. The drivers of superior returns were seen to be SSA's demographic dividend, along with the increased access to internet technology allowing for the growth of new digital sectors. Our qualitative analysis agrees with the thesis stated in the literature that contributing to the UN Sustainable Development Goals is seen as a priority and an opportunity for fund managers in the SSA ecosystem. From the perspective of invested companies, the greatest opportunities are seen to lie in the capital provided, extended networks and knowledge exchange.

Through considering the literature, qualitative insights, and quantitative sources with the backdrop of SSA's recent boom in PC activity, we have investigated the dynamic nature of different risks and opportunities in the SSA investment space. We find that certain risks have either dissipated or been managed by start-up companies and fund managers. We also find that a series of new opportunities have emerged at the nexus between infrastructural progress and SSA's industry niche, whilst existing opportunities have become more lucrative in a macroeconomic context. Through considering the Nigerian context, we have also been able to compare the specific risks and opportunities available in Africa's largest economy, allowing a more thorough investigation of the development of private capital and preconditions for growth on the last frontier of growth.

6.2. Future Research

Reflecting upon the limitations of our study, the case study method, and our general findings, we have identified some areas of future research that would offer applicable and relevant insights to the topic of PC development in SSA.

First, a larger quantitative focus on the different risks and opportunities would offer more concrete insights into the hesitancy of investors and the potential for growth in the SSA ecosystem. This would offer a more tangible perspective on the drivers of risk and return and allow for more aggregable results that would allow for cross-country comparison. This is especially true for the role that currency risk plays in the investment decision, where existing research does not holistically consider the role of central bank policy in foreign exchange risk and does not sufficiently consider mitigating strategies in a SSA context.

In addition to this, country-specific studies that take into greater consideration the socio-economic preconditions of the market would further strengthen the analysis of the shift in investor sentiment over time, allowing for greater consideration of the future development of PC in SSA. Conducting quantitative analysis at the country level would allow for further comparison between SSA's heterogenous reasons, providing more relevant and reliable information about these markets' preconditions and their experience with PC.

7. References

Africa Development Bank. (2012). *Private Equity Investments in Africa. In Support of Inclusive and Green Growth*. Retrieved from https://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/Private%20Equity%20Investment%20in%20Africa%20-%20In%20Support%20of%20Inclusive%20and%20Green%20Growth.pdf

AVCA. (2023A). *African Private Capital Activity Report*. Retrieved from https://www.avca.africa/media/4dpoq3hr/02177-avca-apca-report-2023_public-version.pdf

AVCA. (2023B). *VC in Africa Report 2022*. Retrieved from https://www.avca.africa/media/m3db4yt0/02175-avca-vc-report-2023_4-final-1.pdf

Bailliu, J. (2000). *Private capital flows, financial development, and economic growth in developing countries* (No. 2000-15). Bank of Canada.

Bhorat, H. Chelwa, G., Naidoo, K., & Stanwix, B. (2019). *Resource dependence and inequality in Africa: impacts, consequences and potential solutions.* In Income Inequality Trends in sub-Saharan Africa (pp. 128–152). United Nations.

Burnside, Eichenbaum, M., & Rebelo, S. (2001). Prospective Deficits and the Asian Currency Crisis. *The Journal of Political Economy*, 109(6), 1155–1197.

Cagiza, C. (2022). *Towards economic growth and development: the role of development finance institutions in fostering foreign direct investment in sub-Saharan Africa.* The University of Southern Mississippi.

Central Intelligence Agency. (2023). *Country Comparisons – Population*. Retrieved from https://www.cia.gov/the-world-factbook/field/population/country-comparison

Cohen, M. (2007). *Bain capital agrees to buy Edgars for 25 billion rand*. Bloomberg.com. Retrieved from https://www.bloomberg.com/news/articles/2007-02-08/bain-capital-agrees-to-buy-edgars-for-25-billion-rand#xj4y7vzkg

Cumming, D. & MacIntosh, J. G. (2006). Crowding out private equity: Canadian evidence. *Journal of Business Venturing*, 21(5), 569–609.

Cumming, D., Siegel, D. S., & Wright, M. (2007). Private equity, leveraged buyouts and governance. *Journal of Corporate Finance (Amsterdam, Netherlands)*, 13(4), 439–460.

Curtin, P. D. (1972). *The Atlantic slave trade: a census*. Univ of Wisconsin Press.

Crush, J. (2002). The global raiders: Nationalism, globalization and the South African brain drain. *Journal of International Affairs*, 147-172.

Demaria, C. (2013). *Introduction to private equity: venture, growth, lbo and turn-around capital*. John Wiley & Sons.

Demographic Dividend. (2023). *Nigeria*. Retrieved from https://demographicdividend.org/nigeria/

Dickinson, D. (2007). *Private Equity: Helping Fill Africa's Financing Gap?* OECD.org. Retrieved from https://www.oecd.org/dev/41301882.pdf

Di Giovanni, J., & Shambaugh, J. C. (2008). The impact of foreign interest rates on the economy: The role of the exchange rate regime. *Journal of International Economics*, 74(2), 341-361.

Djankov, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2003). Courts. *The Quarterly Journal of Economics*, 118(2), 453–517.

Donahue, D. & Timmerman, M. (2021). Private equity investment opportunities in Africa: Evaluation of the growth opportunities and risks in a global context. *The Journal of Alternative Investments*, 23(4), 61–83.

Enhancing Financial Innovation & Access (EFInA). (2021). *EFInA Access to Financial Services in Nigeria 2020 Survey*. Retrieved from https://efina.org.ng/wp-content/uploads/2021/10/A2F-2020-Final-Report.pdf

Gerken, & Whittaker, W. A. (2014). *The Little Book of Venture Capital Investing : Empowering Economic Growth and Investment Portfolios*. (1st ed.). John Wiley & Sons, Incorporated.

Gompers, P. & Lerner, J. (2001). The Venture Capital Revolution. *The Journal of Economic Perspectives*, 15(2), 145–168.

GSMA. (2023). *The Mobile Economy 2023*. Retrieved from https://www.gsma.com/mobileeconomy/wp-content/uploads/2023/03/270223-The-Mobile-Economy-2023.pdf

Hainley, L. (2023). *AfricArena Cairo Summit 2023*. Africa Arena. Retrieved from https://www.youtube.com/watch?v=6tRvvbZSwZw

Hausmann, R., Panizza, U., & Rigobon, R. (2006). The long-run volatility puzzle of the real exchange rate. *Journal of International Money and Finance*, 25(1), 93–124.

Ibrahim, Darian, M. (2010). Debt as venture capital. *University of Illinois Law Review*, 2010(4), 1169–.

Idowu, O. E. (2016). Criticisms, constraints and constructions of case study research strategy. *Asian Journal of Business and Management*, 4(5).

IFC. (2023). *Impact Investing at IFC*. Retrieved from https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/development+impact/principles

International Trade Administration. (2023). *Nigeria – Country Commercial Guide.* Information and Communication Technology. Retrieved from https://www.trade.gov/country-commercial-guides/nigeria-information-and-communications-technology

Jensen, Michael. (1989). Eclipse of the Public Corporation. *Harvard Business Review*, 67(5): 61–74.

Kaplan, S.N., & Sensoy, B. A. (2015). Private Equity Performance: A Survey. *Annual Review of Financial Economics*, 7(1), 597–614.

Kaplan, S.N., & Strömberg, P. (2009). Leveraged Buyouts and Private Equity. *The Journal of Economic Perspectives*, 23(1), 121–146.

La Porta, R., Lopez-De-Silanes, F., Shleifer, A., & Vishny, R. W. (1997). Legal Determinants of External Finance. *The Journal of Finance (New York)*, 52(3), 1131–1150.

Leeds, R.S., & Sunderland, J. (2003). Private Equity Investing in Emerging Markets. *Journal of Applied Corporate Finance*, 15(4), 111–119.

Leeds, R. S., & Satyamurthy, N. (2015). *Private equity investing in emerging markets: Opportunities for value creation*. Palgrave Macmillan.

Lerner, J., Ledbetter, J., Speen, A., Leamon, A., & Allen, C. (2016). Private Equity in Emerging Markets: Yesterday, Today, and Tomorrow. *The Journal of Private Equity, 19*(3), 8–20.

Lerner, J. & Schoar, A. (2005). Does Legal Enforcement Affect Financial Transactions? The Contractual Channel in Private Equity. *The Quarterly Journal of Economics*, 120(1), 223–246.

Lerner, J., Sorensen, M., & Strömberg, P. (2009). *What drives private equity activity and success globally?* World Economic Forum, Globalization of Alternative Investment Working Papers Volume 2.

Liedong, T.A., Aghanya, D., Jimenez, A., & Rajwani, T. (2023). Corporate political activity and bribery in Africa: Do internet penetration and foreign ownership matter? *Journal of Business Research*, 154, 113326–.

Lingelbach, D. (2012). Private Equity in South and Sub-Saharan Africa. *Private Equity in Emerging Markets: The New Frontiers of International Finance*, 225-239.

McKellar, R. (2010). *A Short Guide to Political Risk*. Taylor & Francis Group. P. 3

Merriam, S.B. (1994). *Fallstudien som forskningsmetod*. Studentlitteratur.

OECD. (2023). *Private finance mobilised by official development finance interventions.* Opportunities and challenges to increase its contribution towards the SDGs in developing countries.
Retrieved from https://www.oecd.org/dac/2023-private-finance-odfi.pdf

Pinaud, N & Grandes, M. (2005). *Reducing Capital Cost in Southern Africa*. OECD Publishing.

Popogbe, O. & Adeosun, O. T. (2022). Empirical analysis of the push factors of human capital flight in Nigeria. *Journal of Humanities and Applied Social Science*, 4(1), 3–20.

Shobande, O.A. (2022). Does FDI Promote the Resource Curse in Nigeria? *Journal of Risk and Financial Management*, 15(9), 415–. https://doi.org/10.3390/jrfm15090415

Soludo, C. (2006). *Nigeria: Economic Growth Drivers and Financing Challenges*. Central Bank Nigeria.
Retrieved from https://www.cbn.gov.ng/out/speeches/2006/govadd%2018-1-06.pdf

Stake, R. E. (2005). Qualitative Case Studies. In N. K. Denzin & Y. S. Lincoln (Eds.), *The Sage handbook of qualitative research* (pp. 443–466). Sage Publications Ltd.

Stromberg, P., Martel, F., & Kaplan, S. N. (2003). *How Do Legal Differences and Learning Affect Financial Contracts?* NBER Working Paper Series, 10097–.

Strömberg, P. (2009). *The economic and social impact of private equity in Europe: summary of research findings.*

The World Bank. (2023A). *The World Bank in Africa*. Retrieved from https://www.worldbank.org/en/region/afr/overview

The World Bank. (2023B). *GDP Growth (annual %) – Nigeria.* Retrieved from https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=NG

The World Bank. (2023C). *Lending interest rate (%) – Nigeria, South Africa, United States.* Retrieved from https://data.worldbank.org/indicator/FR.INR.LEND?end=2022&locations=NG-ZA-US&start=2001&view=chart

The World Bank. (2023D). *GDP growth (annual %) – Nigeria.* Retrieved from https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=NG

The World Bank. (2023E). *Individuals using the Internet (% of population) - Sub-Saharan Africa.* Retrieved from https://data.worldbank.org/indicator/IT.NET.USER.ZS?end=2021&locations=ZG&start=2008

The World Bank. (2023F). *Population, total - Sub-Saharan Africa.* Retrieved from https://data.worldbank.org/indicator/SP.POP.TOTL?locations=ZG

The World Bank (2020). *The African continent free trade area*. Retrieved from https://www.worldbank.org/en/topic/trade/publication/the-african-continental-free-trade-area

United Nations. (2021). *Population Division*. Department of Economic and Social Affairs. UN Population Division Data Portal. Custom Data. Retrieved from https://population.un.org/dataportal/home

United Nations (2023). *The 17 goals*. Department of Economics and Social Affairs. Retrieved from https://sdgs.un.org/goals

Van Greuning, H. & Bratanovic, S. S. B. (2020). *Currency Risk Management*.

Vasvari, F. & Talmor, E. (2011*). International Private Equity*. (2nd ed.). John Wiley & Sons, Incorporated.

Wong, H. (2002). Why Seed? Why Now? An Investor's Perspective: The Case for Seed Stage Venture Investing Today. *The Journal of Private Equity*, 6-17.

Yin. (2014). *Case study research: design and methods* (5. ed.). SAGE.

8. Appendix

8.1 Appendix 1: Division and Inclusion in Used Terms and Graphs

World Bank's (2023) definition of Sub-Saharan Africa

Angola	Chad	Ethiopia	Liberia	Niger	South Africa
Benin	Comoros	Gabon	Madagascar	Nigeria	South Sudan
Botswana	Congo, Dem. Rep.	Gambia, The	Malawi	Rwanda	Sudan
Burkina Faso	Congo, Rep.	Ghana	Mali	Sao Tome And Principe	Tanzania
Burundi	Cote D'ivoire	Guinea	Mauritania	Senegal	Togo
Cabo Verde	Equatorial Guinea	Guinea-Bissau	Mauritius	Seychelles	Uganda
Cameroon	Eritrea	Kenya	Mozambique	Sierra Leone	Zambia
Central African Republic	Eswatini	Lesotho	Namibia	Somalia	Zimbabwe

United Nation's (2023) definition of developed countries

Europe	Northern America	Australia	New Zealand	Japan

8.2 Appendix 2: Robustness Regression

Robustness Regression

Regression was performed with observations between the years 2013 and 2021. Three stars denote coefficients significant at the 1% significance level; two stars, at the 5% significance level; and one star, at the 10% significance level.

R^2	61.10%							
Observations	1,030							
Groups	125							
Variable	**Name**	**Coefficient**	**Std. Err.**	**z**	**P>|z|**	**[95% conf. interval]**		**Individual R^2**
Dependent	Transactions per capita							
Independent	Transparency	0.008	0.012	0.690	0.493	-0.015	0.031	30.86%
Independent	Currency Risk	-1.457	0.997	-1.460	0.144	-3.412	0.498	2.08%
Independent	Infrastructure	0.473	0.242	1.950	0.051*	-0.002	0.948	31.56%
Independent	GDP Growth	1.054	2.341	0.450	0.653	-3.534	5.641	0.00%
Independent	Inflation	0.004	0.008	0.450	0.649	-0.012	0.019	0.55%
Independent	GDP per Capita	-0.000	0.000	13.430	0.000***	0.000	0.000	52.01%

8.3 Appendix 3: Correlation Matrix

Correlation Matrix

	Transaction per Capita	**Transparency**	**Currency Risk**	**Infrastructure**	**GDP Growth**	**Inflation**	**GDP per Capita**
Transactions per capita	1.000						
Transparency	0.637	1.000					
Currency Risk	-0.152	-0.170	1.000				
Infrastructure	0.623	0.658	-0.170	1.000			
GDP Growth	-0.027	-0.065	0.015	-0.112	1.000		
Inflation	-0.109	-0.170	0.387	-0.147	-0.081	1.000	
GDP per Capita	0.810	0.738	-0.158	0.738	-0.085	-0.133	1.000