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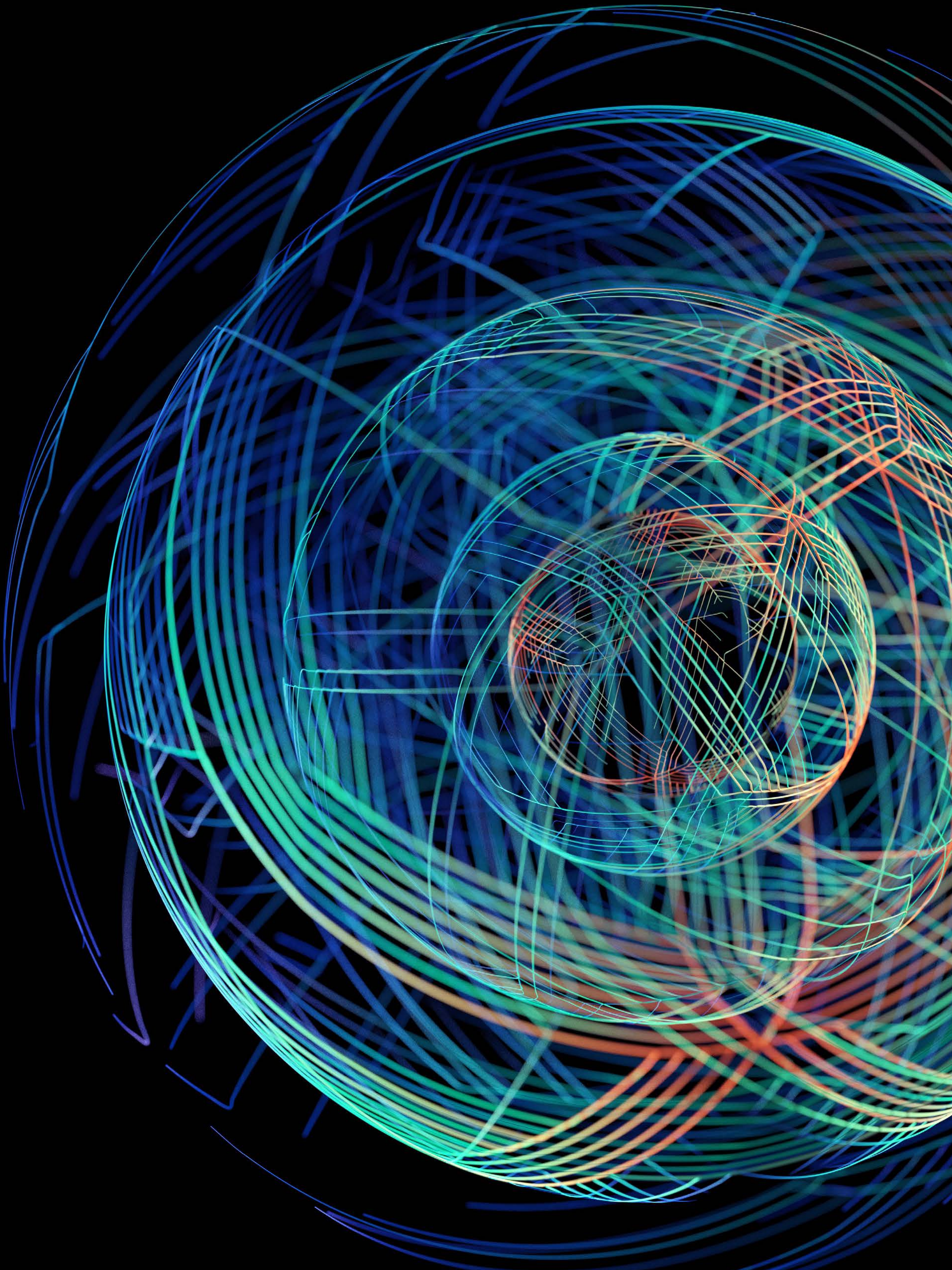
2023 Deloitte Africa Private Equity Confidence Survey

July 2023



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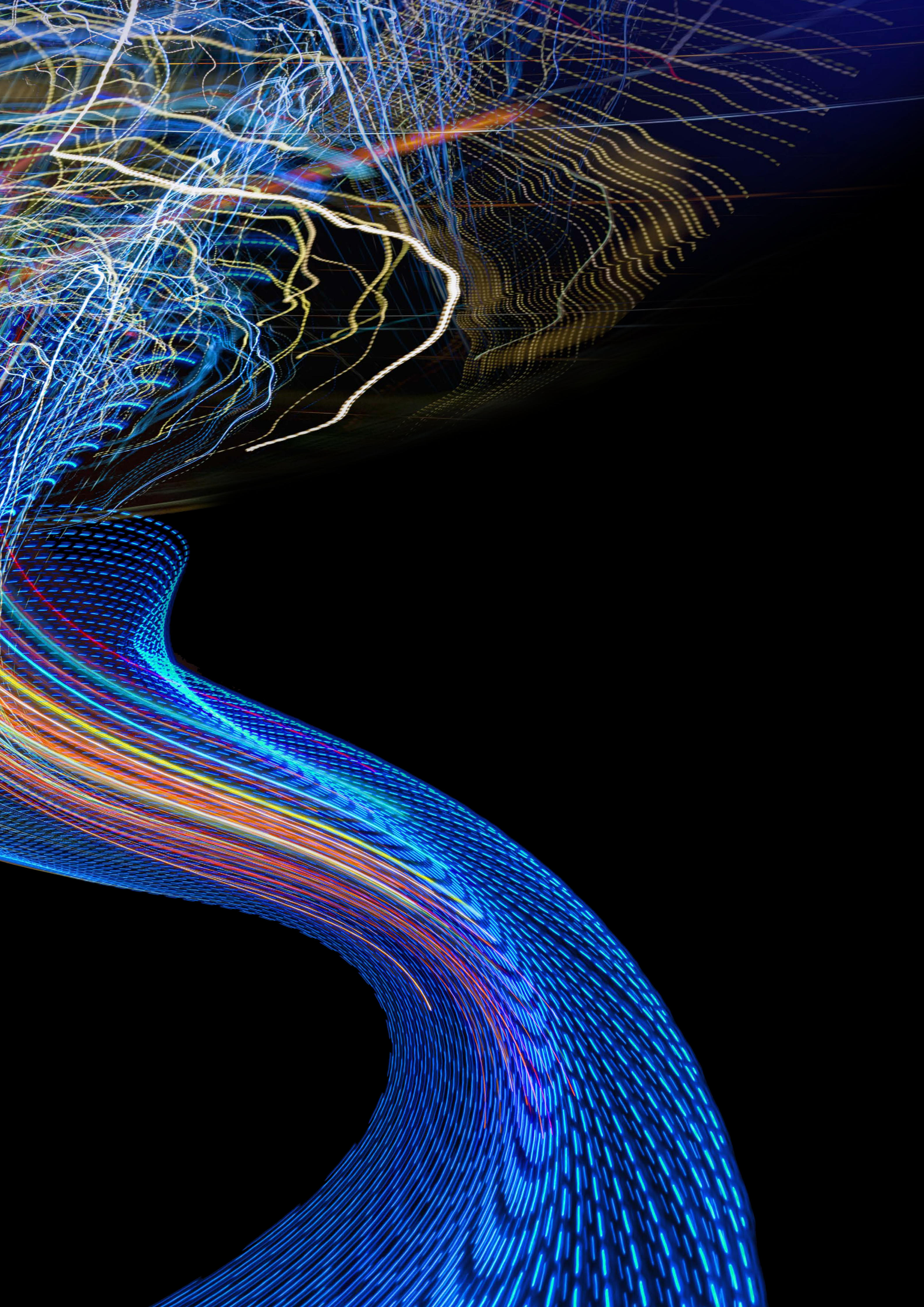

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Foreword

We are pleased to present the *2023 Deloitte Africa Private Equity Confidence Survey* (PECS). The publication provides insight into general partners' (GPs) and limited partners' (LPs) forward-looking views on East, North, Southern, and West Africa, as well as regional macroeconomic perspectives across these regions.

Over the past year, the global and African economy encountered numerous headwinds, which disrupted trading and economic growth trends. This required investors to consistently be resilient despite significant disruptions, such as the Russia-Ukraine war, persistent inflation, and rising interest rates.

Our survey has highlighted that the private equity (PE) industry is expected to continue navigating these challenges and being resilient, with investment expectations still positive despite a high level of economic uncertainty and difficult trading conditions for portfolio companies.

The investment outlook is supported by the expected continuation of a favourable fundraising environment, although PE practitioners will need to be cautious when evaluating investment opportunities to ensure that required returns can be generated from portfolio companies.

Deloitte would like to thank all those PE practitioners who completed the Private Equity Confidence Survey and thereby contributed to us being able to deliver the message of investor confidence for the next 12 months.

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Key highlights

Economic climate

- Real GDP growth in Sub-Saharan Africa (SSA) is projected to decelerate from 3.9% in 2022 to 3.6% in 2023; but is set to improve from 1.7% in 2022 to 4.4% in 2023 in North Africa. Despite tougher conditions in many regional economies the continent remains resilient.
- Respondents expect the economic climate across the four regions to remain unchanged over the next 12 months.

Investment landscape

- Investments are expected to increase over the next 12 months, despite the uncertain economic environment.
- The number of exits is expected to remain the same, given the resilience of the PE industry and required continuance of investment and exit cycles to generate returns.
- Secondary sales to PE and sales to strategic investors continue to be the expected favoured exit routes in the next 12 months.

Fundraising environment

- Fundraising timelines are mostly expected to increase, given the expected increase in due diligence requirements for funders.
- Respondent views are split in North Africa on the expected fund raising environment in the next 12 months, while most respondents in East Africa expect a deterioration in the fundraising environment following an extraordinary post-Covid-19 increase in dealmaking and fundraising.
- In Southern and West Africa, the fundraising environment is expected to remain unchanged over the next 12 months.
- Europe and the United States (US) continue to be the most important sources of capital for private equity in Africa.

Sector focus

- Due to the Russia-Ukraine war and impact of climate change on Africa's agriculture and food security, the Agriculture/Agribusiness and Food and Beverages sectors are expected to be key investment sectors.
- The Financial Services sector is also expected to receive increased investor focus across the region, with Africa having seen growth in the mobile economy and digital payment innovations.

Economic climate

In the past year, the world economy has endured several shocks, including the effects of the Russia-Ukraine war, slower growth in major economies such as Europe, the US, and China, persistently high inflation, and aggressive monetary policy tightening. As a result, global growth has been and is expected to remain sluggish over the next few years.

Following the post-Covid economic rebound of 6.3% in 2021, world real GDP growth declined to 3.4% in 2022 and is forecast to drop further to 2.8% in 2023, according to the International Monetary Fund (IMF).[1] Global growth is expected to remain below the pre-Covid (2000-19) historical average of 3.8% annual real GDP growth.[2]

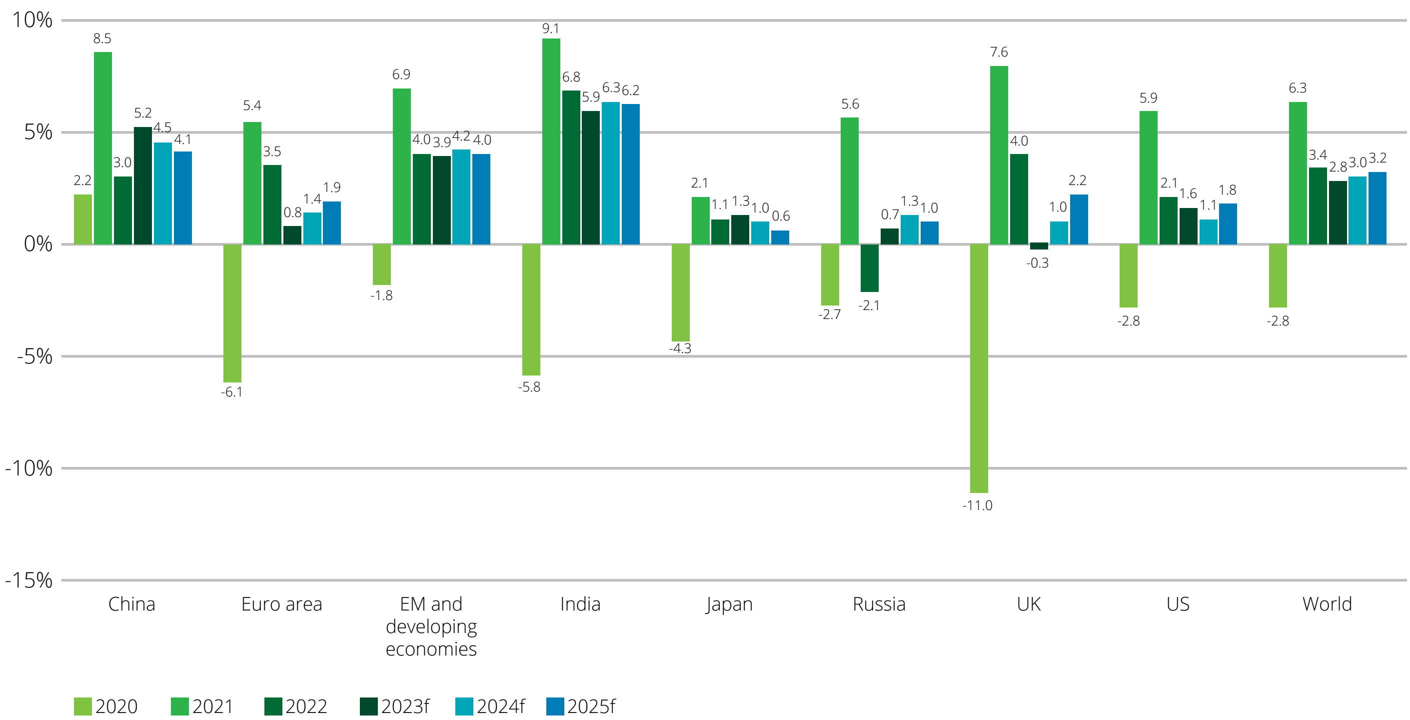
In addition, rapidly rising interest rates have triggered sizable losses on long-term fixed-income assets, causing financial sector instability, notably in the US and United Kingdom (UK), in recent months.[3] With China showing signs of recovery, global growth is forecast to rebound modestly to 3% in 2024.[4] However, downside risks to growth and lack of confidence remain in all major economies and regions.

Rising global inflation risks driven by the war in Ukraine, coupled with tighter monetary policy in advanced economies, have placed extra pressure on African economies. For example, since February 2023, about half of African countries have recorded double-digit inflation.[5] Quickening inflation rates in Africa have eroded living standards and the region's macroeconomic growth rates.

Increasingly, higher interest rates in the US and local currency depreciation have contributed to reduced foreign exchange inflows and the depletion of reserve assets, thereby worsening economies' financial positions and public debt service payments.[6] For example, in December 2022, Ghana's balance of payment challenges resulted in a suspension of payments on most of its external debt.[7]

With Africa's public debt as a share of GDP sitting at 56% in 2022 and with between 20% and 60% of government revenue in 20 African countries dedicated towards debt servicing,[8] debt service burdens could remain a major challenge in the coming year. Likely results are financing constraints for national governments and the inability to respond to key development areas, such as infrastructure.[9]

Figure 1. Real GDP growth (%), 2020-25f



Source: Deloitte Africa analysis based on International Monetary Fund, World Economic Outlook, April 2023.

SSA growth is projected at 3.6% in 2023, a slight decline from the 3.9% estimated for 2022.[10] Some of the region's biggest economies are expected to show slow growth in 2023 due to, for example, cash shortages in Nigeria, power supply constraints in South Africa, and the impact of higher soft commodity prices across the region. These shocks have prompted a cost-of-living crisis, worsening sentiment for both households and businesses.

Nonetheless, growth in SSA is forecast to improve to 4.2% in 2024. The region is expected to outperform the world (in real GDP growth terms), bolstered by favourable commodity prices for oil-exporting countries and relatively strong forecast growth in East Africa. Despite the anticipated headwinds, the region is expected to be resilient and a critical region for higher projected growth rates.

Regional economic outlooks

East Africa

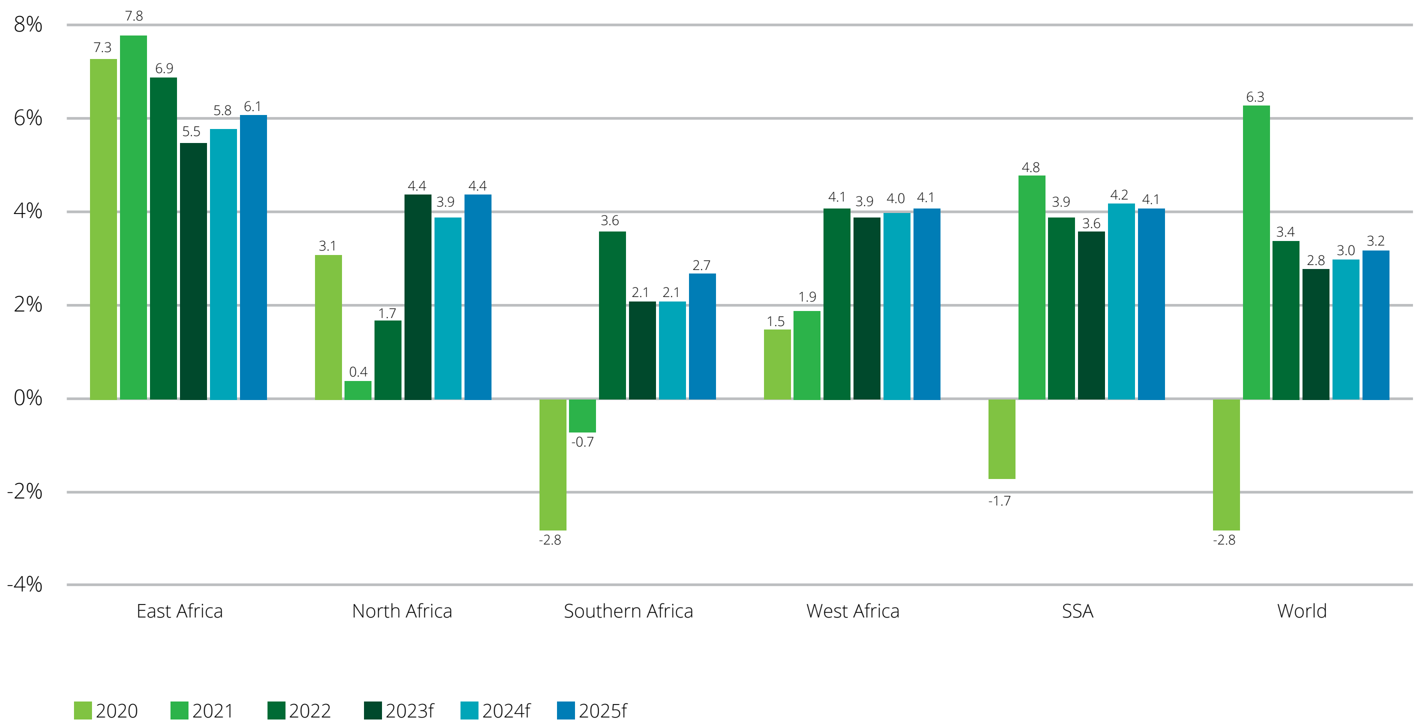
The adverse effects of the war in Ukraine and the climate crisis have not spared East Africa. On the back of these unforeseen events, the region has encountered inflationary pressures and suppressed agricultural production, with lower private consumption and an increased risk of food insecurity.

After sustained growth during the global Covid-related lockdowns, real GDP growth dropped from 7.8% in 2021 to 6.9% in 2022. Growth is projected to decrease to 5.5% in 2023,[11] due to domestic challenges in the region, such as droughts, tighter fiscal policy, currency depreciation, and higher borrowing costs. Real GDP growth in **Kenya** (East Africa's largest economy) is forecast to slow from 7.5% in 2021 to 5.3% in 2023.[12] Kenya, nonetheless, remains one of the fastest-growing African economies. **Ethiopia** (GDP growth of 6.1%), **Uganda** (GDP growth of 5.7%), and **Tanzania** (GDP growth of 5.2%) are also expected to be key drivers of growth in the region in 2023.[13]

North Africa

North Africa saw an increase from a low growth rate of 0.4% in 2021 to 1.7% in 2022.[14] While growth has been suppressed by low rainfall and the effects of the Ukraine-Russia war, the economic outlook is forecast to improve to 4.4% in 2023 as drought conditions subside.[15] However, the 2022 drought has impacted the region's cereal production, which is estimated to be 10% below the previous five-year average.[16]

Figure 2. Weighted regional real GDP growth (%), 2020-25f



Source: Deloitte Africa analysis based on International Monetary Fund, World Economic Outlook, April 2023.

After rebounding from -7.2% in 2020 to 7.9% in 2021, **Morocco's** real GDP growth dropped to 1.1% in 2022, due to an unfavourable agricultural season and lower global commodity prices. The country has experienced the worst drought in years, with wheat production hitting a record low in the 2022-23 season.[17] Growth is forecast to improve to 3% in 2023.[18]

Conversely, **Egypt's** growth increased from 3.3% in 2021 to 6.6% in 2022 owing to a recovery in tourism and remittance inflows. Growth was seen despite the Egyptian pound depreciating by almost 50% since March 2022, following a move to a flexible exchange rate directed by the IMF's financial support package terms.[19] In addition to rising interest rates, high inflation, and suppressed private consumption, increased import prices are expected to impact on the economic growth, with growth in Egypt forecast to reduce to 3.7% in 2023.[20]

Southern Africa

Rising food and fuel prices, a weaker fiscal position, and South Africa's low economic growth performance have impacted on Southern Africa's regional economic growth performance. Following a rebound from a growth rate of -0.7% in 2021 to 3.6% in 2022, growth in Southern Africa is forecast to reduce to 2.1% in 2023.[21]

South Africa endured more frequent and longer power cuts in 2022, making it the worst year of loadshedding (i.e. scheduled power outages to manage demand amid supply deficits) on record. Other challenges include interest rate hikes and persistently high inflation. After rebounding to 4.9% in 2021, GDP growth slowed to 2% in 2022, with an uneven recovery post-Covid. Growth is expected to reduce to near 0% in 2023, with the IMF predicting 0.1% and the South African Reserve Bank 0.3%.[22] This is as the global economy slows, power supply shortages persist, and other supply-side constraints continue. To set itself up for growth and boost investor confidence, South Africa urgently needs to address power and logistics constraints, as well as the grey listing by the Financial Action Task Force (FATF).

Real GDP in **Mozambique** increased from 2.3% in 2021 to 4.1% in 2022. Growth is projected to reach 5% in 2023,[23] due to increased liquefied natural gas and mining production. However, ongoing underperformance in some Southern African countries (for example, Zambia as the country focuses on restructuring its external debt), could suppress regional growth in the near term.

West Africa

West Africa grew by 1.9% in 2021 and 4.1% in 2022, with growth projected to decrease to 3.9% in 2023,[24] as countries battle high inflation and depreciating currencies.

Growth in oil-dependent **Nigeria** is forecast to decrease from 3.6% in 2021 to 3.2% in 2023,[25] as oil production continues to reduce. Cash shortages and the country's grey listing by the FATF may also impact on investor confidence.

On the other hand, the recently implemented policy reforms by the new administration (exchange rate unification, fuel subsidy payments removal) will boost investor confidence as these are strategic reforms that have significant implications. In the short run, the impact is inflationary, implying worsening consumer welfare, but in the medium to long run, the impact is positive for growth and economic development.

Senegal is rapidly emerging as West Africa's fastest-growing economy, with significant opportunities as an oil and gas exporter. Real GDP growth is expected to substantially increase, from 4.7% in 2022 to 8.3% in 2023.[26] Despite delays in starting oil production, increased private investment in mining and improved agricultural production are expected to contribute to the favourable growth outlook.

While prospects seem less optimistic in some African regions, the main influences on growth will be the post-pandemic performance of key trading partners, particularly the US, UK, Europe, and China, as well as vital commodities' price movements. Considering the ongoing Russian-Ukraine war, commodity and food prices will likely remain elevated in the coming months, even though some global commodity prices (including copper, iron ore, and nickel) have fallen sharply since March due to weaker economic activity in China.[27] This suggests that the cost-of-living squeeze will continue, with further monetary policy tightening in 2023 and possible rate cuts from 2024.

Respondents' views on the economic outlook and focus of funds

In early 2023, Deloitte Africa surveyed GPs and LPs to understand their outlook on the economic climate, investment landscape, fundraising environment, and sector focus in East, North, Southern and West Africa for the next 12 months.[28]

A summary of the results (and a graphic comparison to the PECS 2021 results) follows.

Overall perspective

Respondents largely expect the economic climate to stay the same. However, in West Africa, respondents predict a deterioration in the economic outlook. This is discussed further below.

In comparison to 2021, when economies were largely expected to recover and the economic climate to improve post-pandemic, most respondents now expect the economic challenges (upsurge in inflation, interest rates, and exchange rate fluctuations) faced by investors to continue over the next 12 months.

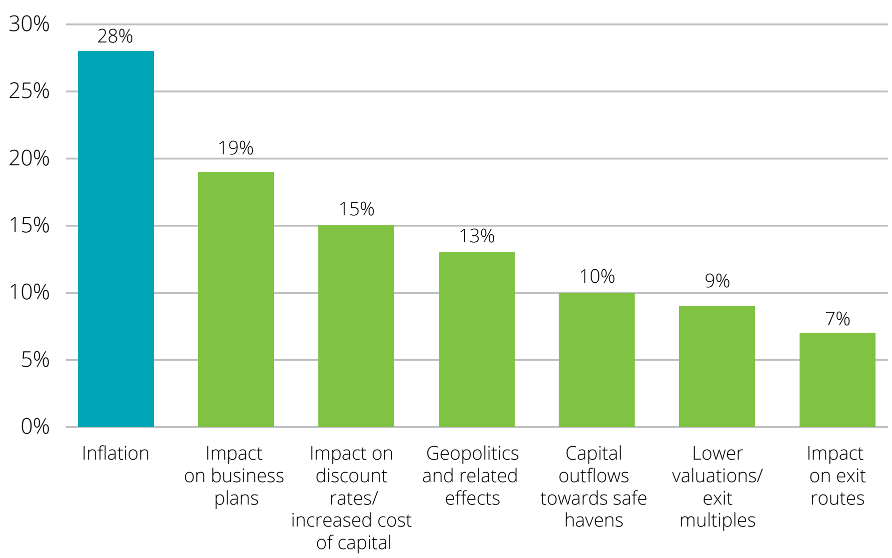
Respondents noted that the Russia-Ukraine war's most significant impact on PE in Africa is inflation. However, the war has also impacted PE business plans, discount rates, cost of capital, and geopolitics.

The African Continental Free Trade Area (AfCFTA) agreement, as well as the *Guided Trade Initiative*, the *e-Tariff Book*, and digital platforms[29] aim to boost intra-African trade, reduce tariff schedules and provide payment services for instant cross-border payments and transfer of funds. These initiatives could be significant drivers of growth in all regions. The World Bank expects the AfCFTA initiative to increase Africa's exports by US$560 billion and lift about 30 million Africans from extreme poverty once fully implemented.[30] – despite ongoing barriers such as limited infrastructure capacity and political unrest.

However, survey respondents are split on whether the AfCFTA (which has been operationalised, and under which seven countries have started trading in 2022 under the *Guided Trade Initiative*)[31] will boost pan-African trade and investment in the next 12-24 months. Half of the respondents suggest that the agreement will see an increase in intra-regional trade and investment, while the other half of respondents urge caution, not foreseeing any impact in this period.

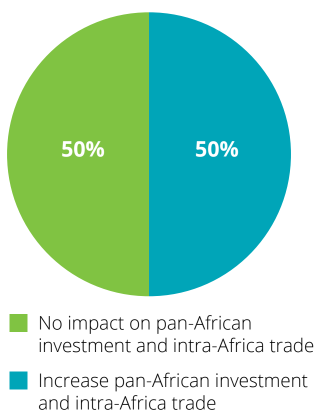
In theory, creating a single continental market for goods and services by lowering tariffs, addressing non-tariff barriers to trade, and constituting a larger market for attracting foreign direct investment (FDI) should spur more (value-added) trade, enhance competitiveness, and boost the economic transformation of African economies. However, there are many complex challenges to overcome for AfCFTA's full impact to be realised and for these economic gains to be unlocked. Significant constraints include the underdeveloped production capacity of economies and companies, poor infrastructure increasing the cost of production, business and transaction costs, a lack of industrial policy coordination among countries, and economic agents' lack of access to information.

Figure 3. Impact of the Russia-Ukraine war on PE in Africa



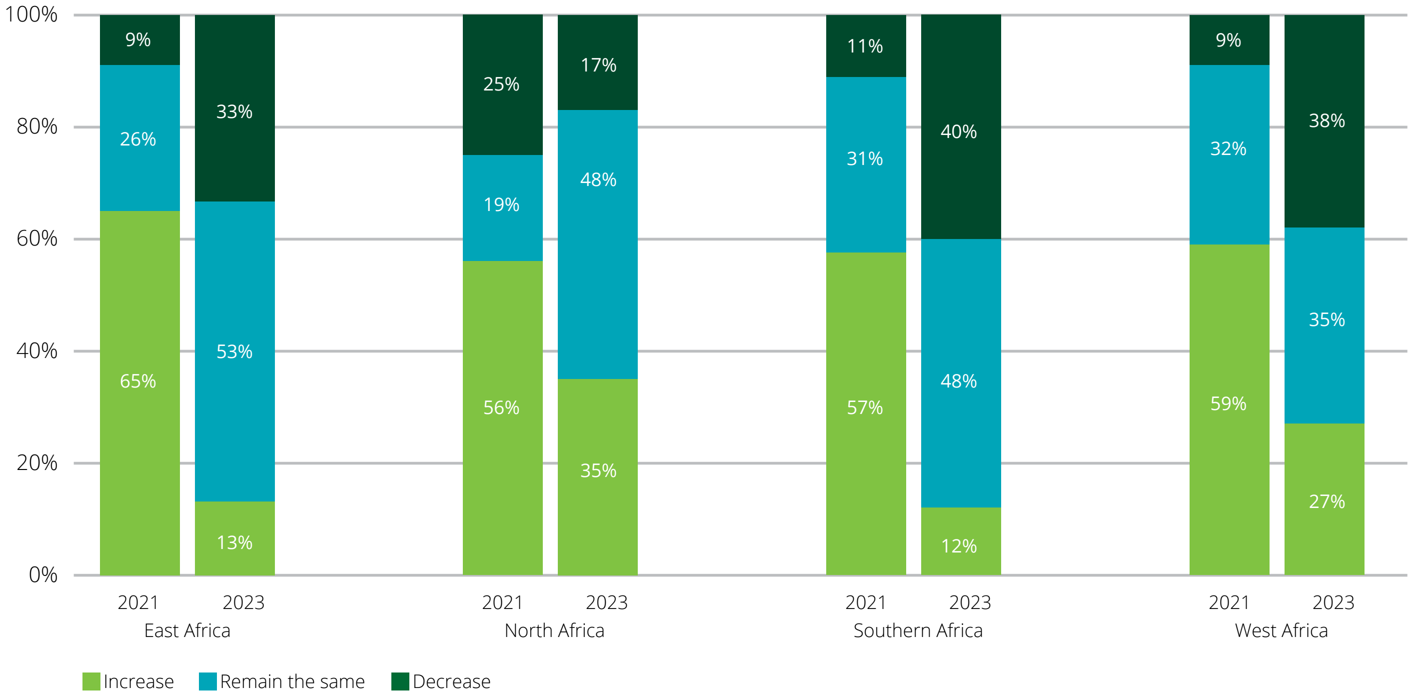
Source: Deloitte Africa analysis based on PECS 2023 results
Note: The number of responses received for this question was 40.

Figure 4: Sentiment on AfCFTA's potential to boost African trade and investment over the next 12-24 months



Source: Deloitte Africa analysis based on PECS 2023 results
Note: The number of responses received for this question was 40.

Figure 5. Expected change in the economic climate by region over the next 12 months



Source: Deloitte Africa analysis based on PECS 2023 results
Note: Regional totals may not add to 100% due to rounding.

Regional insights

In **East Africa**, most respondents see the economic climate remaining relatively stable in the coming 12 months. Global commodity prices and supply chain disruptions are expected to ease during 2023, leading to a tapering down of East Africa's inflation rate. Nonetheless, current account deficits and large external debt stocks threaten to expose East Africa's economies to balance-of-payment stresses. Furthermore, climate risks will likely pose a downside risk to growth, given rain-fed agriculture's contribution to East Africa's GDP.

After two years of war and instability in Ethiopia, the peace accord signed between the Tigray People's Liberation Front (TPLF) and the Ethiopian government in November 2022 represents light at the end of the tunnel. However, the security situation is still fragile, and there is a high risk of renewed conflict, further exacerbated by falling foreign reserves, that could impact on Ethiopia's economic outlook.

48% of respondents expect the economic climate in **North Africa** to remain the same. However, compared to other regions, a larger share of respondents expect the outlook to improve, with the flat sentiment driven by the region's disparities on the political and economic fronts. New initiatives and policies by governments in the region have not yet met the high expectations for improvements, as seen in the *2021 Deloitte Africa Private Equity Confidence Survey* (PECS 2021) results.[32]

In **Southern Africa**, respondents' sentiment on economic climate has changed between 2021 and 2023. In 2023, most respondents either expect the economic climate to remain the same or deteriorate over the next 12 months. These expectations are likely linked to the ongoing energy crisis in South Africa, the low growth outlook, the economic impact of the Russia-Ukraine conflict, an uneven recovery from the Covid-19 pandemic, and political uncertainties ahead of the country's 2024 elections. Upward interest rate cycles have also impacted on the investment climate.

In **West Africa**, respondents are somewhat more split, with 38% of respondents expecting the region's investment climate to deteriorate, 27% of respondents expecting the economic environment to improve, and 35% of respondents expecting no change. Investors are concerned about governments resorting to new and increased taxes for government revenue, which could adversely affect businesses and the economy. Looking back at 2021, the larger economies in West Africa were hard hit by the Covid-19 pandemic, bringing in economic challenges, which led to downgrades by rating agencies. These downgrades are unlikely to be reversed in the next 12 months, with the situation expected to deteriorate before meaningful economic recovery.

Regional insights into focus of funds

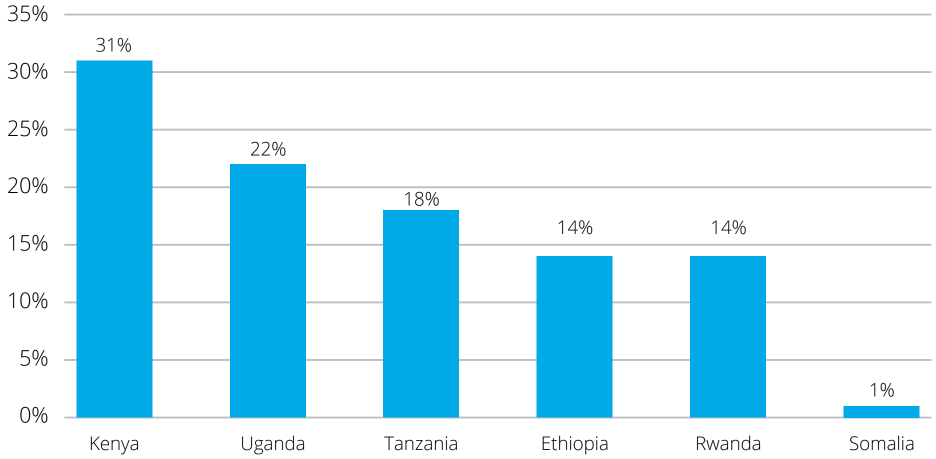
Although **East Africa** has historically been a smaller PE investment destination, the share of both volume and value of PE deals increased between 2016 and 2022. According to the African Private Equity and Venture Capital Association (AVCA), East Africa's share of African deals by value was 12%, versus 13% for Southern Africa in 2022. Similarly, by volume share, East Africa recorded 18% of PE deals, while North Africa and Southern Africa recorded 18% and 19%, respectively, in the same year.[33] The relative gap to other regions has narrowed.

Most respondents expect their funds to focus on Kenya over the next 12 months (as in the PECS 2021 results).[34] In 2022, Kenya accounted for 68% of all deals completed in East Africa. The country's attractiveness to investors continues to be driven by a diverse economy, improved infrastructure, and technological advancements.

The second focus of funds in East Africa will be on Uganda, with Tanzania third, ahead of Ethiopia and Rwanda. The growing PE interest in Ethiopia stems from investor-friendly economic reforms, the sheer size of the country's population, limited funding supply from local financial institutions to meet demand, and the forecast 6.7% real GDP growth by 2027.[35] East Africa's relatively better economic outlook makes it an attractive investment destination.

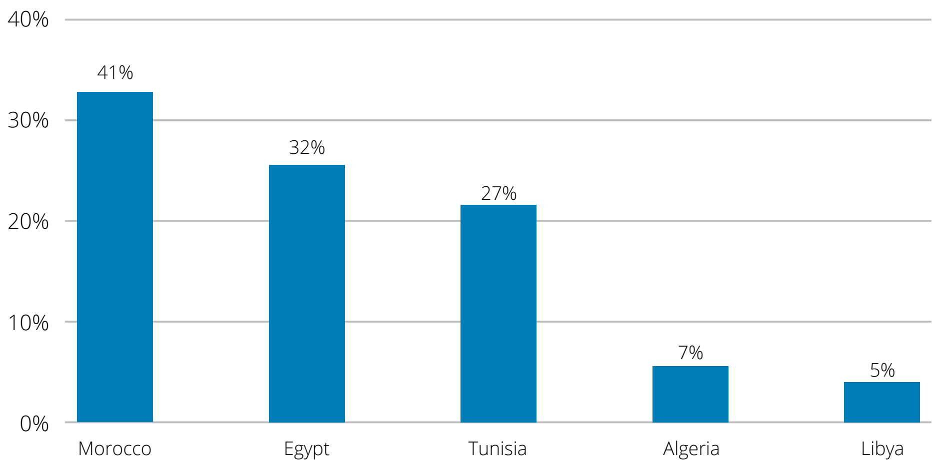
As per the PECS 2021 survey,[36] Morocco and Egypt are expected to be the key focus of funds in the **North Africa** region, given growth prospects of 3% and 3.7%, respectively, in 2023.[37] Despite a decrease in FDI flows in 2021, Egypt saw inflows more than double to US$11bn in 2022.[38]

Figure 6. Countries in East Africa that funds aim to focus on over the next 12 months



Source: Deloitte Africa analysis based on PECS 2023 results
Note: Totals may not add up to 100% due to rounding.

Figure 7. Countries in North Africa that funds aim to focus on over the next 12 months



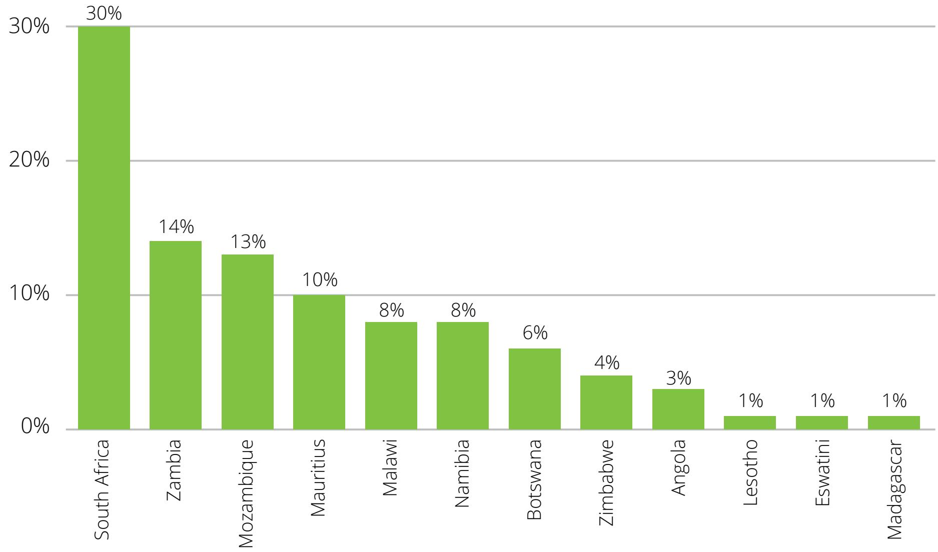
Source: Deloitte Africa analysis based on PECS 2023 results
Note: Totals may not add to 100% due to rounding.

South Africa remains the top investment destination for PE in **Southern Africa**, despite the country's low growth outlook, as PE has historically proven to be an agile asset class in the region. PE funds have navigated portfolio companies effectively through uncertainties such as the pandemic and the Russia-Ukraine war. With South Africa being the region's largest and most diversified economy, PE investors are again expected to target quality and well-priced assets that could become available due to the challenging trading and economic environment. South Africa is followed by Zambia and Mozambique, both of which have strong medium-term growth prospects. However, Zambia will need to resolve its debt crisis[39] and Mozambique will need to address security challenges, which have delayed two major liquefied natural gas projects.[40]

Overall, Southern Africa's share of volume of PE deals in Africa has reduced, from averaging 25% of deals in 2016-20 to about 19% by 2022, while the region dropped to being the fourth largest FDI recipient in 2022.[41]

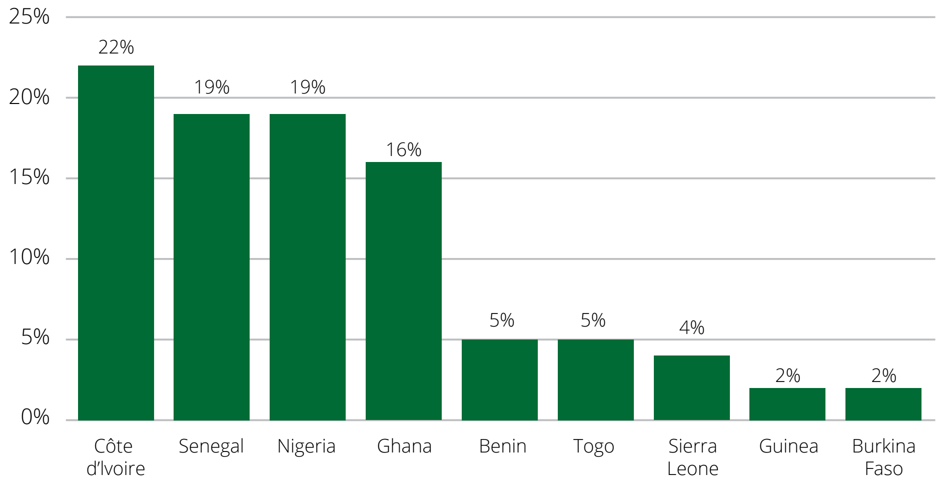
In contrast, **West Africa's** share of deals increased from 23% in 2016-20 to above 30% in 2021-22.[42] After North and East Africa, the region was the third largest recipient of FDI flows in 2022.[43] Although Nigeria and Ghana are included in the key countries of focus over the next 12 months, Nigeria shares second place with Senegal. Respondents consider Côte d'Ivoire the top country of focus in West Africa. The top countries are larger markets (in terms of GDP and population), are relatively more politically mature and stable, have higher levels of industrialisation with a growing influence of information technology on economic activities, and are seen as easier to repatriate profits from.

Figure 8. Countries in Southern Africa that funds aim to focus on over the next 12 months

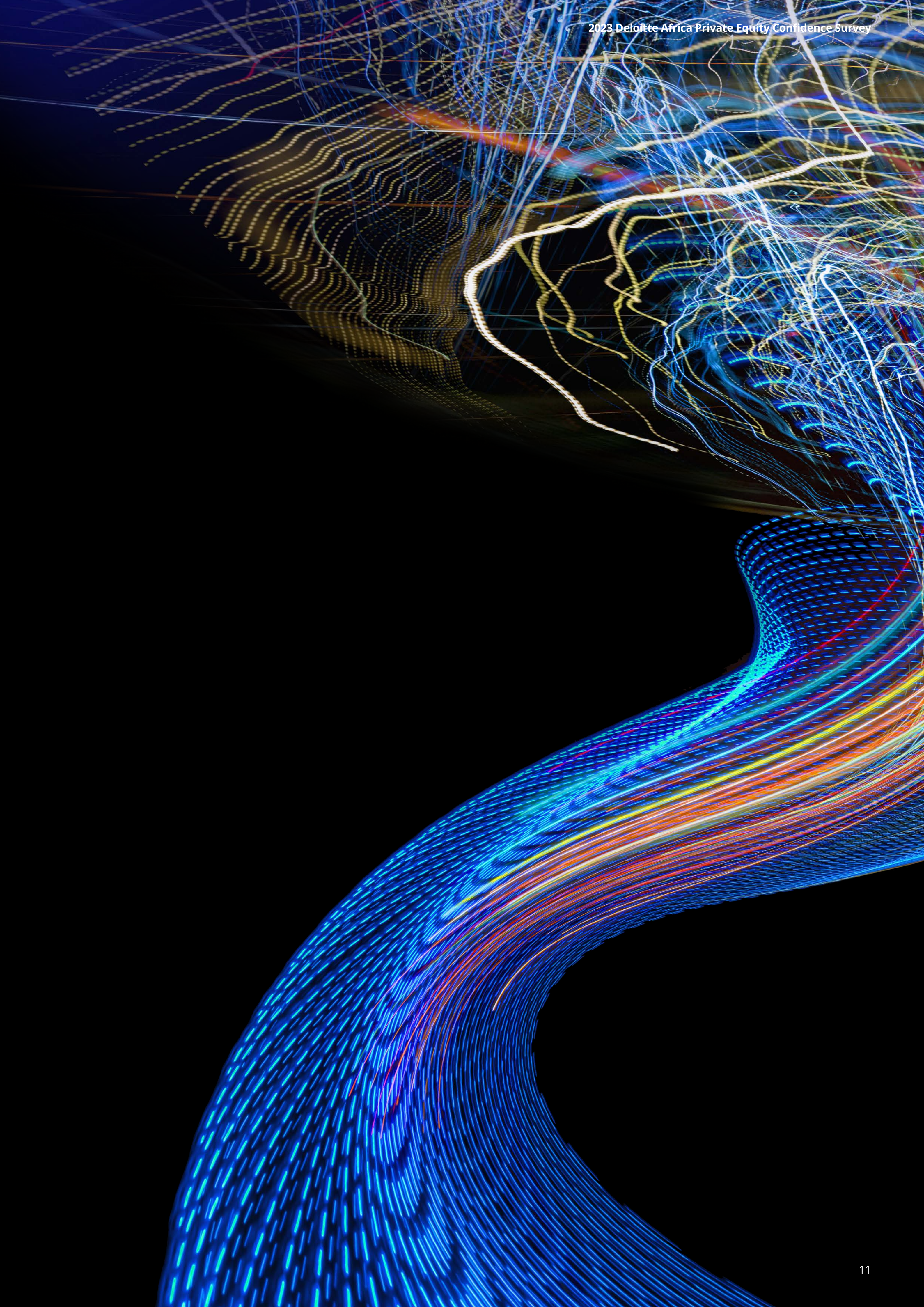


Source: Deloitte Africa analysis based on PECS 2023 results
Note: Totals may not add to 100% due to rounding.

Figure 9. Countries in West Africa that funds aim to focus on over the next 12 months



Source: Deloitte Africa analysis based on PECS 2023 results
Note: Totals may not add to 100% due to rounding.



Expert insights: Understanding the correlation between ESG scores and the value of a company

Environmental, social, and governance (ESG) concerns have gained significant attention in the business world. Deloitte's recent global survey *Capital allocation and resilient portfolios* reveals that ESG is a growing factor in mergers, acquisitions, and divestments. As per the survey results, 57% of businesses indicate that ESG would be considered in acquisitions, while 27% would consider divesting assets for ESG reasons.[44] As a result, investors consider ESG scores a key metric when estimating the value of a company. But what is the correlation between ESG scores and the value of a business?

Another global study carried out by Deloitte indicates that a company's ESG score has a significant impact on its enterprise value to earnings before interest, taxes, depreciation, and amortization (EV/EBITDA) multiple, even after allowing for the impact of other variables generally considered to be value drivers of a business.[45]

However, attempts to replicate the study for companies in Africa revealed less significant results, possibly attributable to the infantile stage of ESG in the continent, with insufficient regulations and initiatives compared to other regions where ESG disclosures are mandatory. Another reason for less significant results would be a greater concern for financial performance.

It has become clear, though, that a company's positive performance in ESG practices enhances its reputation and stakeholder trust while reducing the risk of value deterioration (due to environmental or social incidents). Studies suggest that companies with high ESG ratings tend to demonstrate more robust financial performance, lower volatility, and higher profitability due to reduced risk.[46]

By integrating sustainability practices into their business strategies, companies can drive innovation and gain a competitive edge in the market thanks to a strengthened customer position. Furthermore, companies with high ESG scores may have improved access to capital markets and other various funding sources, enjoy more favourable and cheaper borrowing terms, are correlated with well-managed organisations, and lead changing market demand.

These factors can have a material impact on a company's risk profile, outlook, growth, cost of capital, investor and workforce attraction, long-term sustainability, and, ultimately, its value. It is, therefore, essential to incorporate ESG considerations into traditional valuation models to capture their potential impact on a company's cash flows, cost of capital, and growth rates.

However, quantifying the value-creation potential of ESG-related efforts which do not have a direct cash flow impact is complex and requires increased subjectivity. In addition, the lack of consistent and comparable ESG scoring data makes it harder to incorporate ESG considerations into valuations.

It is also important to note that not all industries are equally impacted, nor are the ESG metrics or scores similarly relevant to each sector. It is, therefore, crucial to understand the relevant ESG metrics concerning the key value drivers of the company being valued and the industry and geography in which it operates.

Sectors that are expected to have a higher correlation between ESG scores and valuation multiples include clean energy, consumer goods, financial services, and technology, for the following reasons.

- **Clean energy:** Given the focus on environmental sustainability and renewable energy sources, companies in the clean energy sector with strong ESG performance are likely to be viewed more favourably by investors, driving up valuations and multiples.
- **Consumer goods:** Consumers are becoming more conscious of products' social and environmental impact, leading to greater demand for companies that prioritise ESG practices. This results in enhanced brand reputation, customer loyalty, and, in turn, higher valuations.
- **Financial services:** Financial institutions are increasingly integrating ESG considerations into their investment decisions and risk management practices. Companies with strong ESG performance are often seen as more resilient, better managed, and less exposed to potential risks, leading to higher valuations.
- **Technology:** Given the significant societal impact of technology companies, stakeholders have become more attentive to issues such as data privacy, cybersecurity, and responsible innovation. Companies that demonstrate strong ESG practices are often perceived as more trustworthy and better positioned for long-term success, which can translate into higher valuations.

ESG scores have become increasingly important indicators of a company's long-term value and sustainability. By prioritising environmental stewardship, social responsibility, and effective governance practices, companies can enhance their reputation, mitigate risks, attract capital, and achieve superior financial performance. As investors and stakeholders continue to recognise the correlation between ESG scores and company value, it is critical to incorporate ESG considerations into traditional valuation models to capture their potential impact on a company's cash flows, cost of capital, and growth rates.

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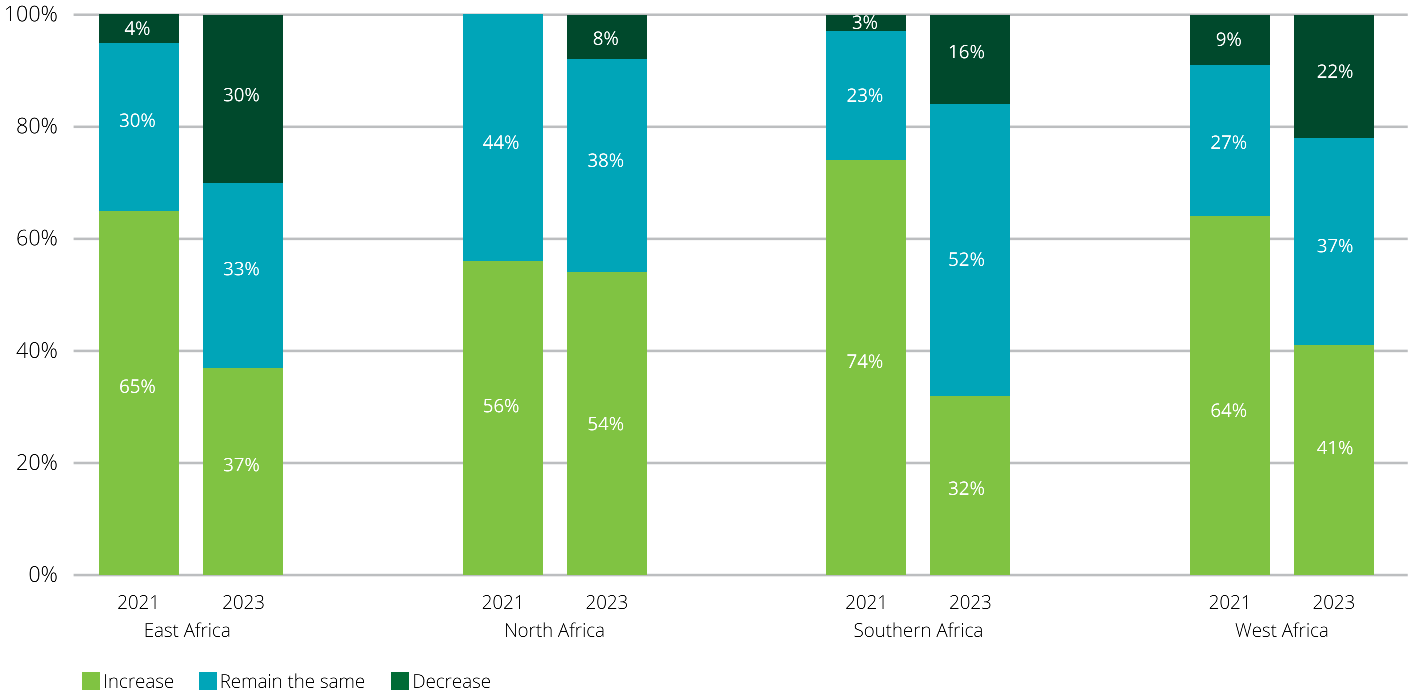
Investment landscape

Figure 10. Expected PE activity by region over the next 12 months



Source: Deloitte Africa analysis based on PECS 2023 results
Note: Regional totals may not add to 100% due to rounding.

Overall perspective

Most African regions expect PE activity to increase over the next 12 months, although the share of respondents that expect an increase has decreased somewhat compared to the 2021 PECS, driven by the current economic uncertainty.

Regional insights

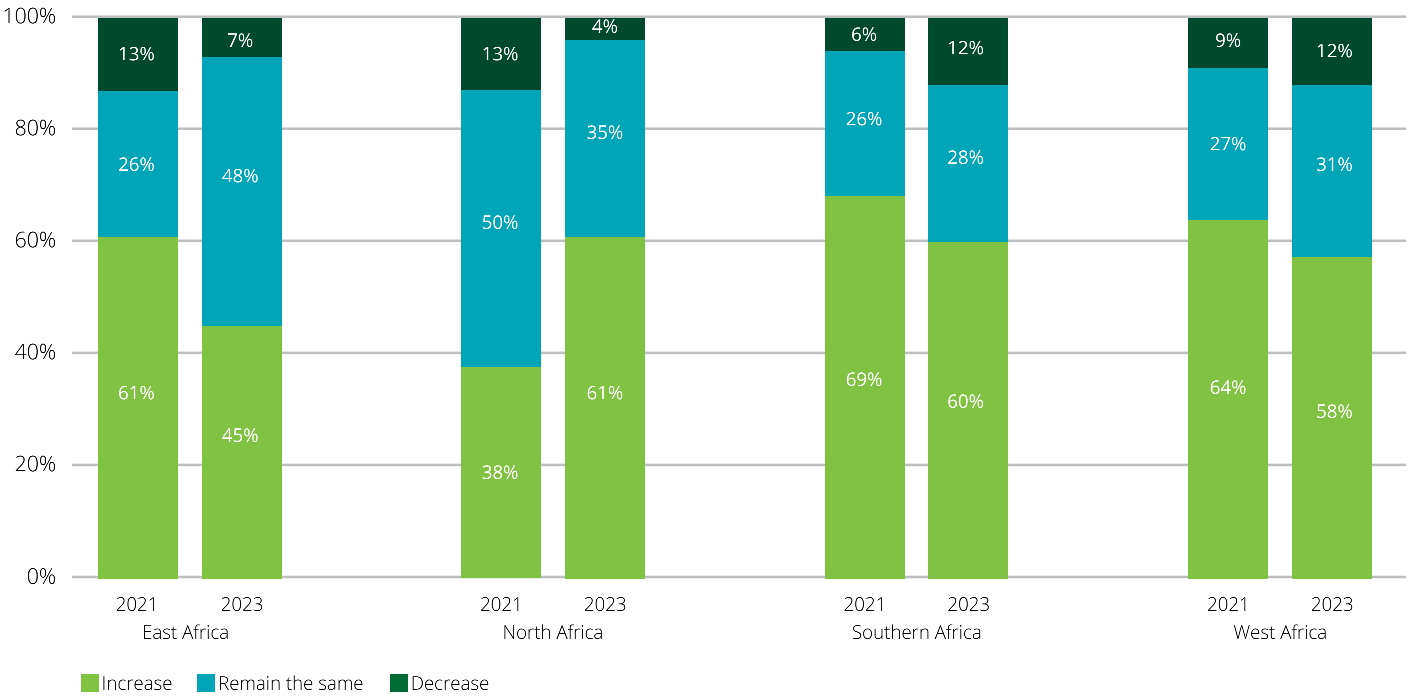
Respondents in **East Africa** are divided on their sentiment towards PE activity: 37% expect an increase, 33% to remain the same, and 30% to decrease. The divergent views reflect the impact of the economic uncertainty on investment activity in East Africa. The global economic slowdown (resulting from the combined effects of the Russia-Ukraine conflict, fluctuating commodity and oil prices and tighter monetary policy) has weakened consumer and business confidence, making it harder for PE firms to anticipate the short-term outlook for PE activity in East Africa, although many still expect investment activity to increase, given the attractiveness of the region.

Respondents' expectations for PE activity in **North Africa** remain strong, following the steady growth of PE and venture capital deals in size and volume between 2016 and 2022.[47] However, rising interest rates to combat inflation in 2022 restrained PE activity growth in North Africa.

In **Southern Africa**, most respondents expect PE activity to remain the same, contrary to the increased expectations recorded in 2021. Funders and investment committees continue to expect increased due diligence and strong deal rationale to justify investments in the current challenging economic environment. However, required investment strategies and targeted returns for PE funds will need capital deployment at some stage. Therefore, the market is expected to have competition for quality investment opportunities and extended transaction negotiations to ensure that appropriate deal valuations are concluded (both for buyers and sellers).

Despite the economic challenges, most respondents expect investment activity to increase in **West Africa**. The increase is expected to be driven by investment opportunities stemming from economic recovery policies, growth expectations linked to the new administration in Nigeria, and Ghana's economic turnaround given the approval of the US$3 billion IMF Extended Credit Facility Arrangement, including an immediate disbursement of US$600 million.[48]

Figure 11. Anticipated investments by region over the next 12 months



Source: Deloitte Africa analysis based on PECS 2023 results
Note: Regional totals may not add to 100% due to rounding.

Overall perspective

The net sentiment (the difference between those anticipating an increase and those anticipating a decrease) for anticipated investments is positive across all regions for the next 12 months.

Regional insights

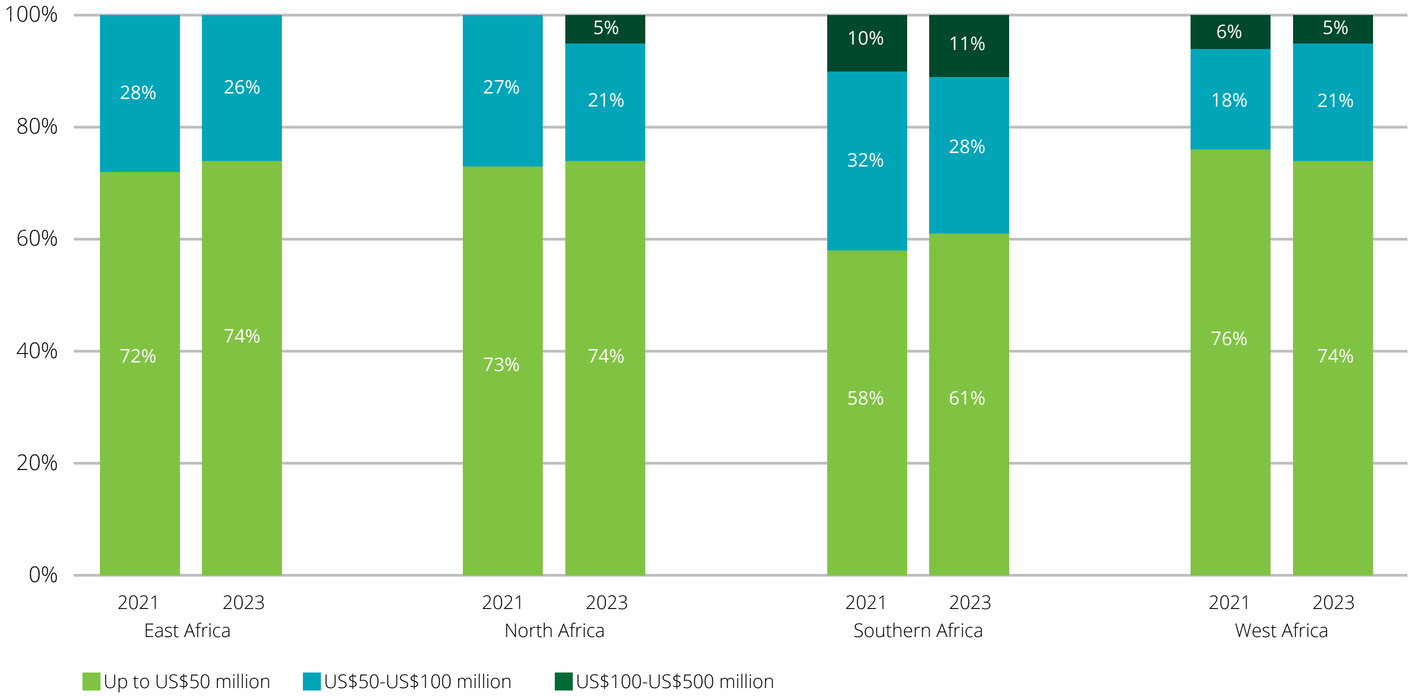
East Africa's investment outlook is largely split between the investment outlook remaining the same (48%) and an expected increase in investments (45%). This reflects both the potential opportunities in the region, as well as the cautious outlook of PE investors, given the various challenges that may need to be managed in the investment environment, specifically high inflation, and persistent currency depreciation, which continue to reduce purchasing power and business profitability in a primarily net-importing region. In addition, political unrest and violence, such as in Ethiopia's Tigray region and the border tensions between the Democratic Republic of the Congo (DRC) and Rwanda, add a layer of instability and uncertainty.

Expectations of an increase in investments in **North Africa** increased from 38% in 2021 to 61% in 2023, with fewer expectations of a decrease. With the post-Covid recovery and the dynamism of the venture capital (VC) ecosystem, increased investments are expected in the region. Morocco and Algeria implemented policies in 2022 to boost certain sectors, attract investments, and provide more flexibility to foreign investors.[49] Together with Africa's growing VC industry, these strategies are expected to boost investments in the coming year by driving innovation, entrepreneurship, and investment.

Investments are still expected to increase in **Southern Africa** over the next 12 months, due to the strength of the PE industry in South Africa and resilience of PE investors. The continued growth in the mid-market fund space and number of mid-market investors will also contribute to the increased investment activity, as the competition for quality assets will drive up investment demand.

Despite uncertain expectations of **West Africa's** economic climate, respondents anticipate an increase in investment over the next 12 months. This is attributable to the region's expected economic recovery and favourable economic policies.

Figure 12. The average deal size expected by region over the next 12 months



Source: Deloitte Africa analysis based on PECS 2023 results
Note: Regional totals may not add to 100% due to rounding.

Overall perspective

The average size of PE deals has decreased over the last few years. According to AVCA, although 2022 saw a record high for private capital[50] deal volumes in Africa (626 deals), with the second highest deal value recorded (US$7.6 billion), the average private capital deal size in 2022 was about US$17 million.[51] Across all regions, most respondents expect average deal sizes to remain below US$50 million, with similar average transaction sizes anticipated over the next 12 months.

Regional insights

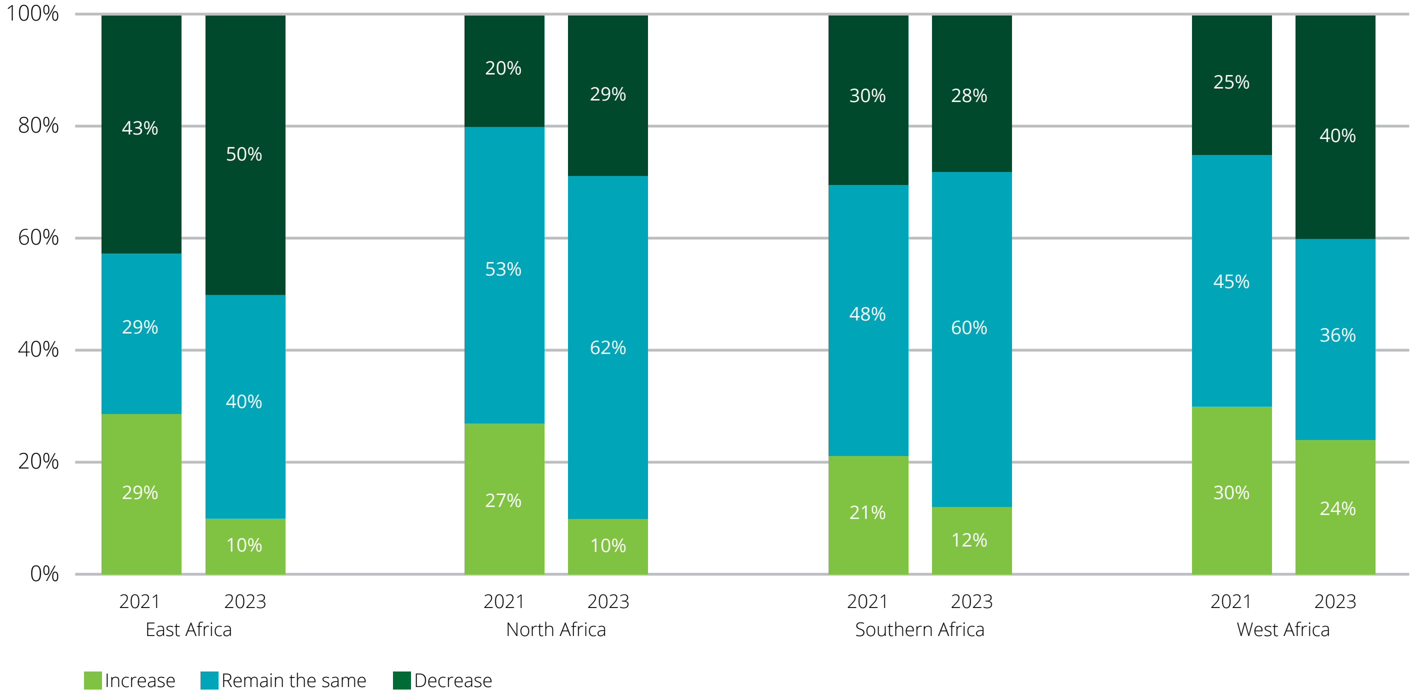
In **East Africa**, most respondents expect average deal sizes to remain below US$50 million. Deal sizes should continue ranging between historical bounds of US$10 million and US$20 million due to the focus on small and medium-sized enterprises (SMEs) in the region.

Similarly, most respondents anticipate that the average deal size in **North Africa** will remain under US$50 million. According to the 2022 African Private Capital Activity VC Report, the average VC deal size for North Africa is US$6.18 million.[52]

There has been continued growth in the mid-market fund space in **Southern Africa**, which generally targets investments of less than US$50 million. Therefore, most respondents expect an average deal size below US$50 million. However, relative to other regions, there does seem to be more appetite for larger deal sizes in the market, given the maturity of the private equity industry in South Africa, although negotiations for larger deals are likely to face more scrutiny and longer timeframes, given the challenging economic conditions and various headwinds facing portfolio companies in the region.

The average deal size of below US$50 million is expected in line with historical trends in **West Africa**, due to the limited number of businesses able to support more significant investments. Furthermore, the region has seen growth in the number of early and mid-stage companies requiring investments of US$50 million and below.

Figure 13. Expected entry multiples on transactions by region over the next 12 months



Source: Deloitte Africa analysis based on PECS 2023 results
Note: Regional totals may not add to 100% due to rounding.

Overall perspective

East and West Africa largely expect a decrease in entry multiples on transactions. In contrast, North and Southern Africa expect them to remain the same.

Regional insights

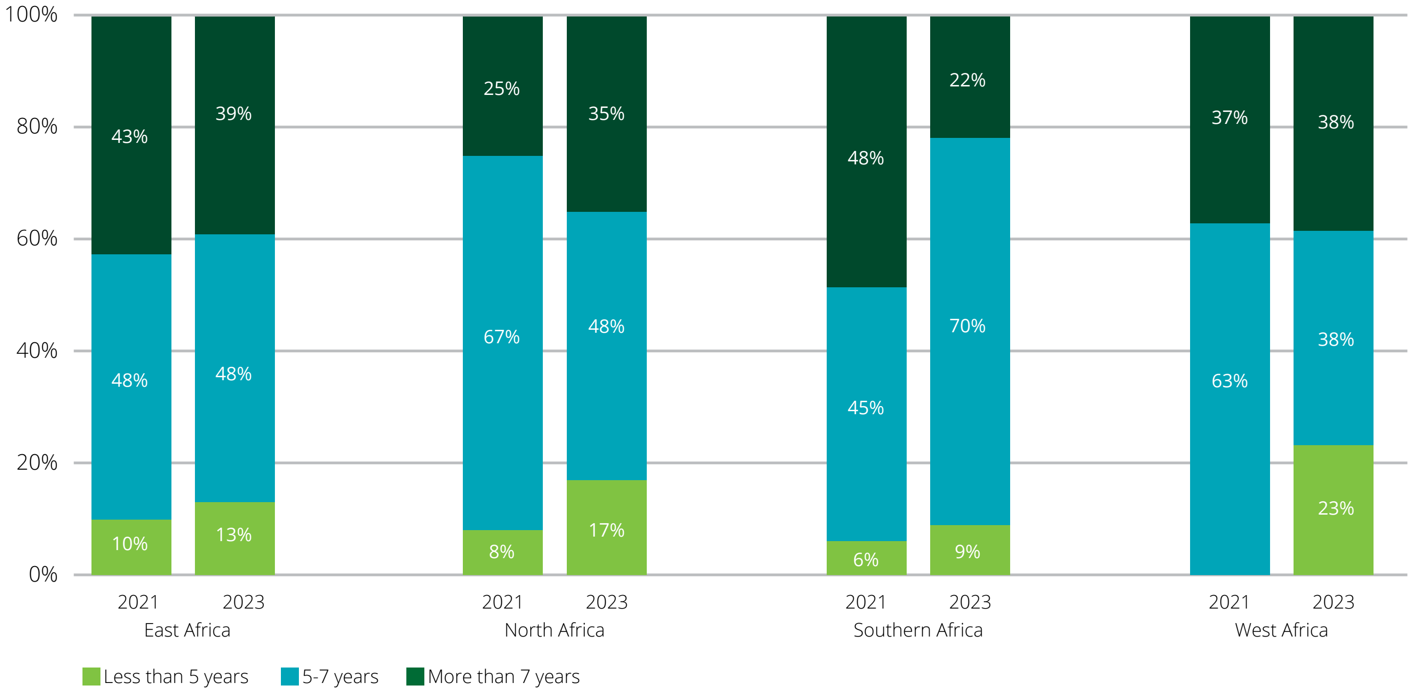
Increased volatility in the global market and tighter monetary policy are expected to lead to higher discount rates in **East Africa**. Therefore, most respondents anticipate entry multiples in the region to decrease over the next 12 months, with earnings also anticipated to decrease for target companies.

In **North Africa**, respondents largely expect the entry multiples to remain unchanged. However, 29% of respondents do expect a decrease in entry multiples. Respondents' sentiments are likely aligned with expected stabilisation of the level of multiples post the Covid-19 period.

Pre-Covid-19, transaction multiples across **Southern Africa** were on the rise. In 2021, most respondents expected multiples to remain the same, with the potential to decrease when the economy improved. In 2023, respondents expect entry multiples to stay the same due to the continued competitive investment environment and demand for quality assets in the current uncertain environment (including South Africa's energy crisis).

In contrast to 2021's expectations, entry multiples in **West Africa** are expected to largely decrease over the next 12 months due to the increased volatility in the region's economic climate compared to pre-pandemic levels, which impacts on transaction multiples and investor requirements.

Figure 14. Expected average lifecycle from initial investment to exit for investments made during the next 12 months



Source: Deloitte Africa analysis based on PECS 2023 results
Note: Regional totals may not add to 100% due to rounding.

Overall perspective

Most respondents expect an average lifecycle of five to seven years from initial investment to exit across all regions, except for West Africa, where respondents are split between five to seven years and more than seven years. This aligns with 2022's average recorded holding period of 6.6 years from initial investment to exit.[53]

Regional insights

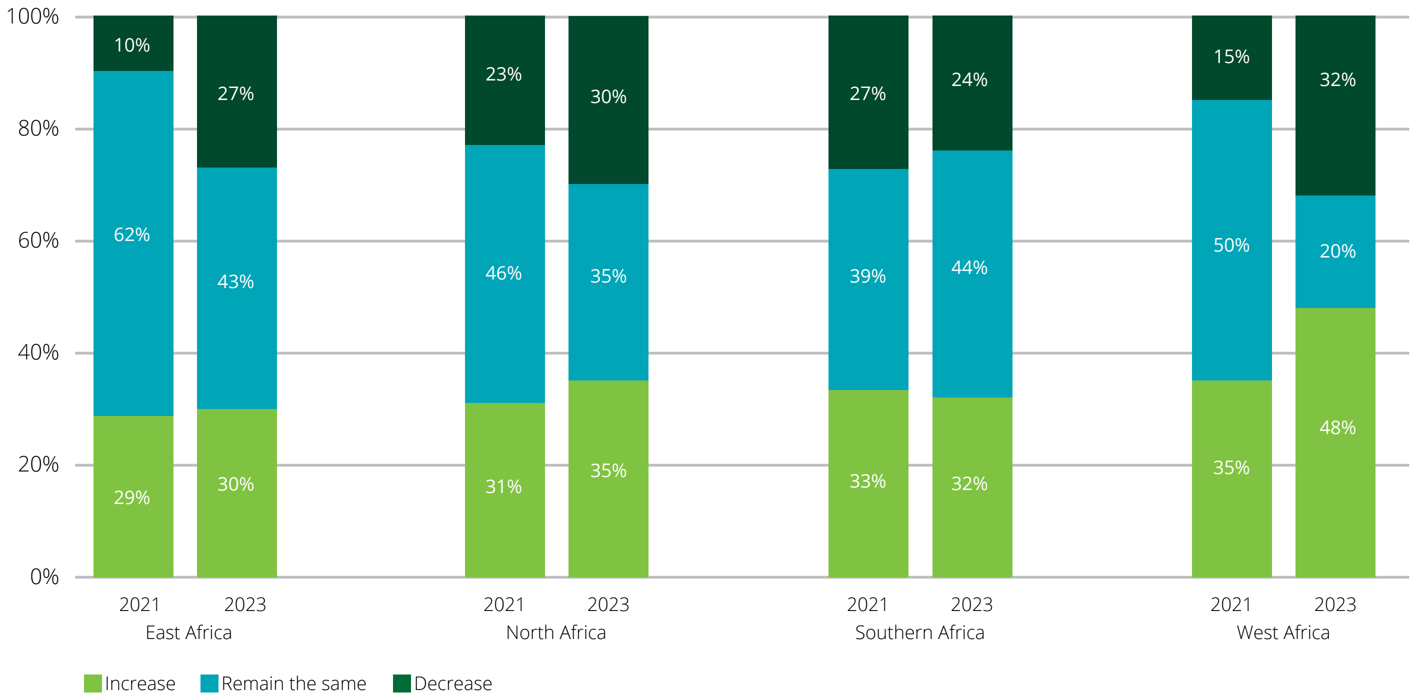
The holding period in **East Africa** is expected to largely range between five and seven years. However, 39% of respondents also expect holding periods greater than seven years. Investments are likely to take longer to be profitable, as such PE funds will need to postpone exits to achieve the required valuations.

In **North Africa**, most respondents expect an average lifecycle of five to seven years, but the expectations on the holding period have shifted from 2021, with more respondents (35% vs. 25%) now anticipating longer holding cycles for investments. The increased role that Development Finance Institutions (DFIs) are playing in the region contributes to the longer investment cycles in 2023.

Given the increase in traditional mid-market funds in the **Southern Africa** region, most respondents expect the average lifecycle to be five to seven years, although 22% of respondents also expect timeframes of greater than seven years. Despite the economic pressures and headwinds in the region, there will be pressure on the traditional funds to only hold investments for the five to seven year-term, however, where funds have the ability to extend investment holding periods, the practitioner outlook suggests that extended holding periods will be adopted.

Historically, the average lifecycle of investments made by PE firms in **West Africa** has been at least five years. However, given the current economic challenges, longer holding terms are expected to be used to achieve required returns on funds. Respondents either expect five to seven years (38%) or more than seven years (38%) as holding periods in the region.

Figure 15. Exits expected by region in the next 12 months



Source: Deloitte Africa analysis based on PECS 2023 results
Note: Regional totals may not add to 100% due to rounding.

Overall perspective

Overall, the level of exits is expected to remain largely the same across most regions, given the resilience of the private equity industry and required continuance of investment and exit cycles to generate returns. In West Africa, however, the number of exits in the coming 12 months is expected to increase. According to AVCA, the number of full private capital exits across Africa reached a record 82 in 2022, the highest number of exits in a single year.[54]

Regional insights

Respondent sentiment is split on anticipated PE exits in the next 12 months in **East Africa**, although many expect these to remain the same. The number of PE exits has been fluctuating year on year.[55]

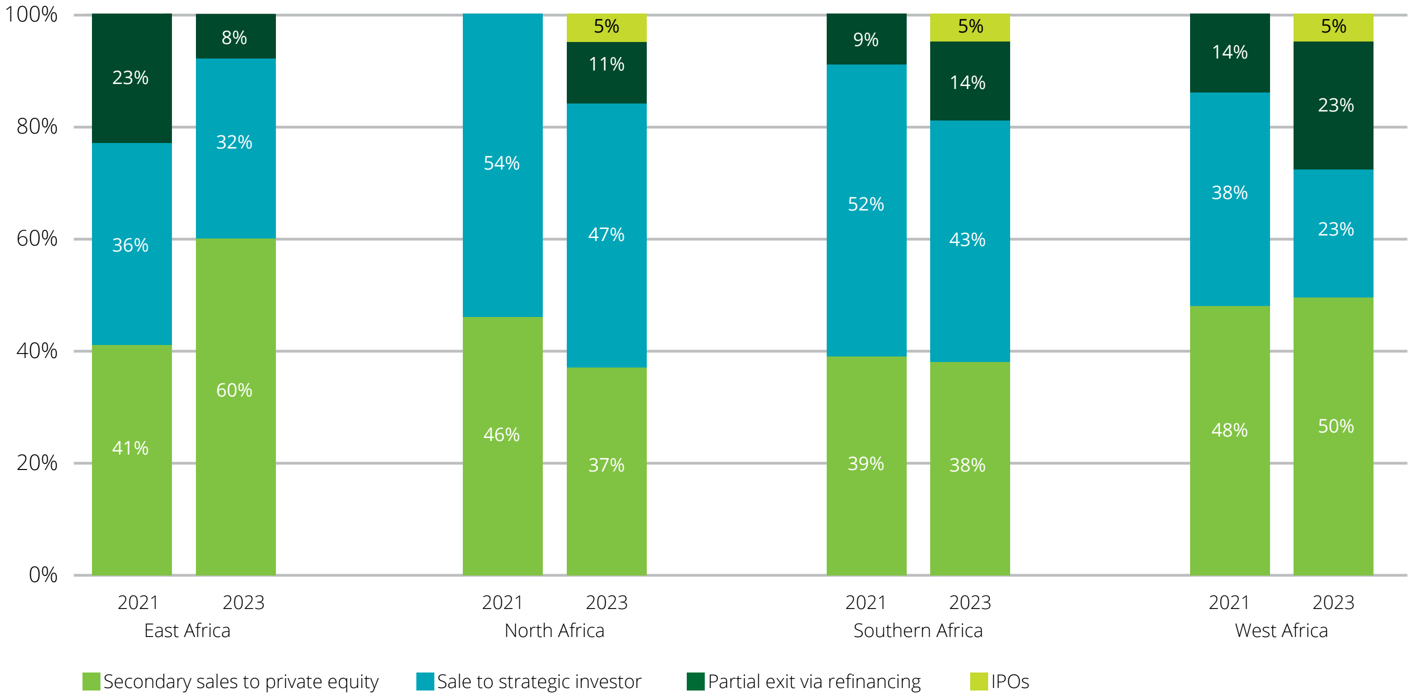
Persistent currency depreciation against the US dollar, exacerbated by inflationary pressures, has negatively impacted PE funds' returns. This has driven down portfolio performance and consequently caused the postponement of expected exits.

In 2021, almost 50% of the respondents expected the number of exits to remain the same in **North Africa**. In 2023, the expectations are divided. The duality of PE and start-up growth in the region and reigning economic uncertainties contribute to the different exit expectations.

In **Southern Africa**, economic challenges in the post-Covid-19 environment have been exacerbated by the energy crisis in South Africa and uncertainty stemming from the Russia-Ukraine conflict. Most respondents expect exits to remain the same, with exit activity being impacted by sellers and buyers struggling to find common ground on valuations.

Most respondents expect increasing exits in the next 12 months in **West Africa**. A key contributor to this outlook will be that the PE respondents largely have portfolios nearing contracted exit dates.

Figure 16. Most dominant exit routes per region over the next 12 months



Source: Deloitte Africa analysis based on PECS 2023 results
Note: Regional totals may not add to 100% due to rounding.

Overall perspective

In East and West Africa, secondary sales to PE are expected to be the favoured exit routes, while sales to strategic investors are expected in Southern and North Africa. According to AVCA, in 2022, trade sales were the most active private capital exit route.[56]

Regional insights

In **East Africa**, secondary sales to PE are expected to be the most favoured exit route, as these deals typically close quickly with immediate liquidity post-sale. The second most favoured route is sales to strategic investors as these sales tend to attract higher valuations. Strategic buyers operate in the same or adjacent industries to the target, typically paying a premium for potential synergies.

Sales to strategic investors continue to be the most common exit strategy in **North Africa**, followed by secondary sales to PE. Respondents see partial exits via refinancing and IPOs as options not featured in the 2021 results.

In **Southern Africa**, the dominant exit route is expected to be sales to strategic investors (similar to the 2021 results), followed by secondary sales to PE. Strategic investor sales will likely remain key drivers of projected investment activity over the next 12 months, as these sales tend to attract higher valuations, given the potential premium for synergies.

In **West Africa**, half of the respondents anticipate secondary sales to PE to be the most dominant exit route. This is driven by the large number of active PE market participants and their knowledge of the market dynamics.

Expert insights: Earn outs: Bridging value gaps in M&A transactions

Earn-outs have always been a commonplace mechanism to bridge value gaps in uncertain times, particularly in PE deals. They are a popular choice, allowing buyers to hedge against macroeconomic uncertainties that might impact a target company's future growth. Earn-outs are also an effective mechanism to incentivise sellers of owner-managed businesses to meet growth targets in the short term.

Some practical ways to avoid the common pitfalls associated with earn-outs that will help protect value through the process include:

1. **Timely inclusion in the deal process:** A well-thought-out earn-out mechanism at the early stage of the deal process (i.e., when negotiating heads of terms) is likely to result in both parties taking a reasonable and objective approach to the mechanism, rather than making it a last-ditch attempt to bridge a value gap late in the negotiation phase.
2. **Measurable, fair, and objective targets:** The conditions attached to any earn-out clauses should be described objectively, considered fair by both parties, and be measurable with limited subjectivity. If the targets set are unreasonable or not within the seller's influence, the relationship between the transacting parties and the business may be damaged over the long term. It is in both parties' best interests to achieve the earn-out targets.
3. **A well-drafted earn-out schedule:** Generally, a dispute is likely if the sale and purchase agreement (SPA) has no separate schedule accompanying it, listing specific accounting policies to determine how the earn-out will be calculated, or if the schedule is poorly drafted and includes limited detail. This is because each party will have a different interpretation of how the earn-out should be calculated. A schedule needs to be well-drafted to avoid ambiguity and acknowledge known and anticipated changes to the business during the earn-out period. The general rule is that the more detailed the earn-out schedule, the better, especially as these policies (i.e., "rules for formulation") are negotiated and agreed a significant time before the earn-out is calculated.
4. **Compare apples with apples:** Parties must ensure that actual performance during the earn-out period is measurable on the same basis as performance when the earn-out targets were set. Post-closing, will the newly acquired business be ring-fenced from the rest of the group during the earn-out period, or will the target business be integrated from day one? If integrated, how will the expected synergies, buyer's plans to improve the business, and other changes to systems and personnel be treated as part of the earn-out measurement?

To conclude, the SPA must be drafted clearly and unambiguously to minimise the risk of dispute, which may be a lengthy and costly process that both parties would prefer to avoid.

At Deloitte Africa, the SPA advisory team includes specialist accountants who provide both pre-signing and post-signing support on financial aspects of the purchase price mechanics, thus seeking to optimise value for clients, while reducing the risk of dispute. The team is well-placed to assist parties considering adopting complex pricing mechanisms as part of their deal.

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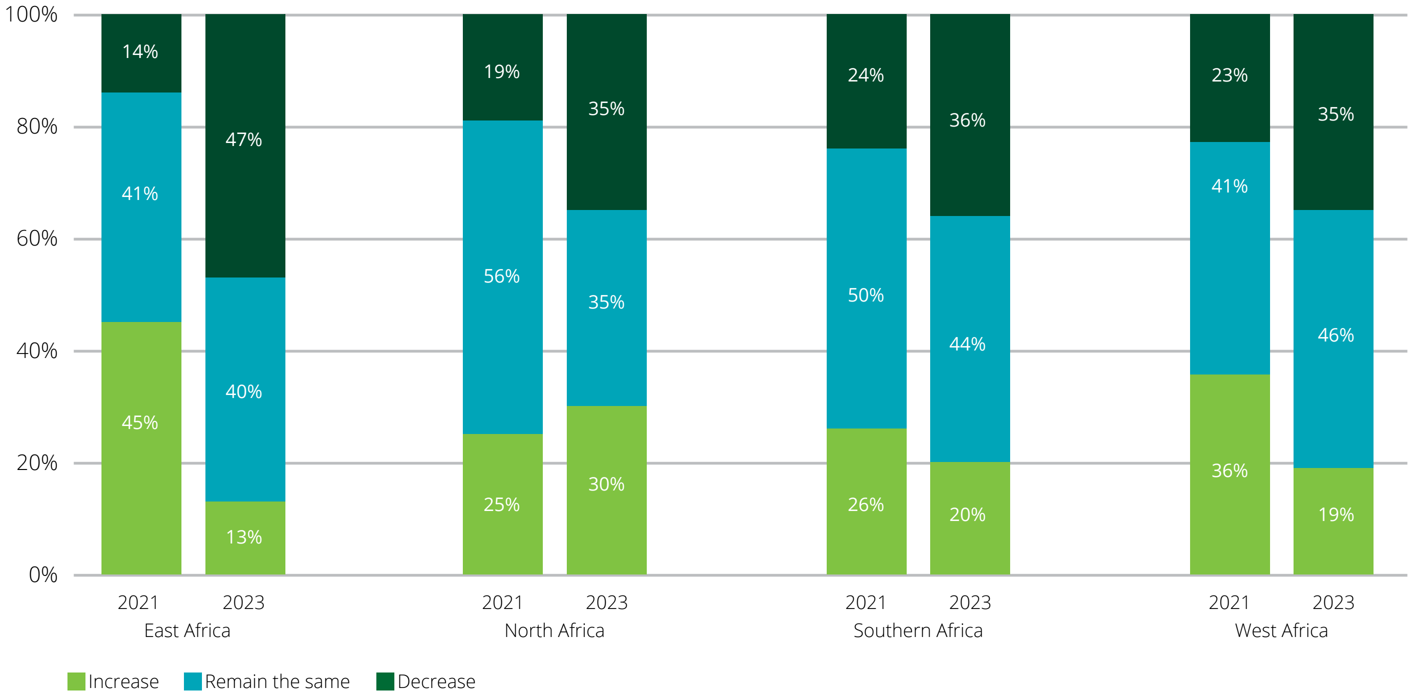
Fundraising environment

Figure 17. Expected changes in the regional fundraising environment over the next 12 months



Source: Deloitte Africa analysis based on PECS 2023 results
Note: Regional totals may not add to 100% due to rounding.

Overall perspective

The value of private capital fundraising in Africa dropped by 54% between 2021 and 2022.[57] The drop was primarily driven by the global macroeconomic decline, stemming from rising interest rates, high inflation, and geopolitical uncertainty, which dampened foreign investor confidence. For the 12 months ahead, respondent views are split in North Africa. Most respondents in East Africa expect a deterioration in the PE fundraising environment. In contrast, those in Southern and West Africa largely expect the environment to remain unchanged over the next 12 months. AVCA notes that instead of raising capital in the current uncertain climate, some fund managers are likely to focus on dealmaking and exiting existing portfolio companies.[58]

Regional insights

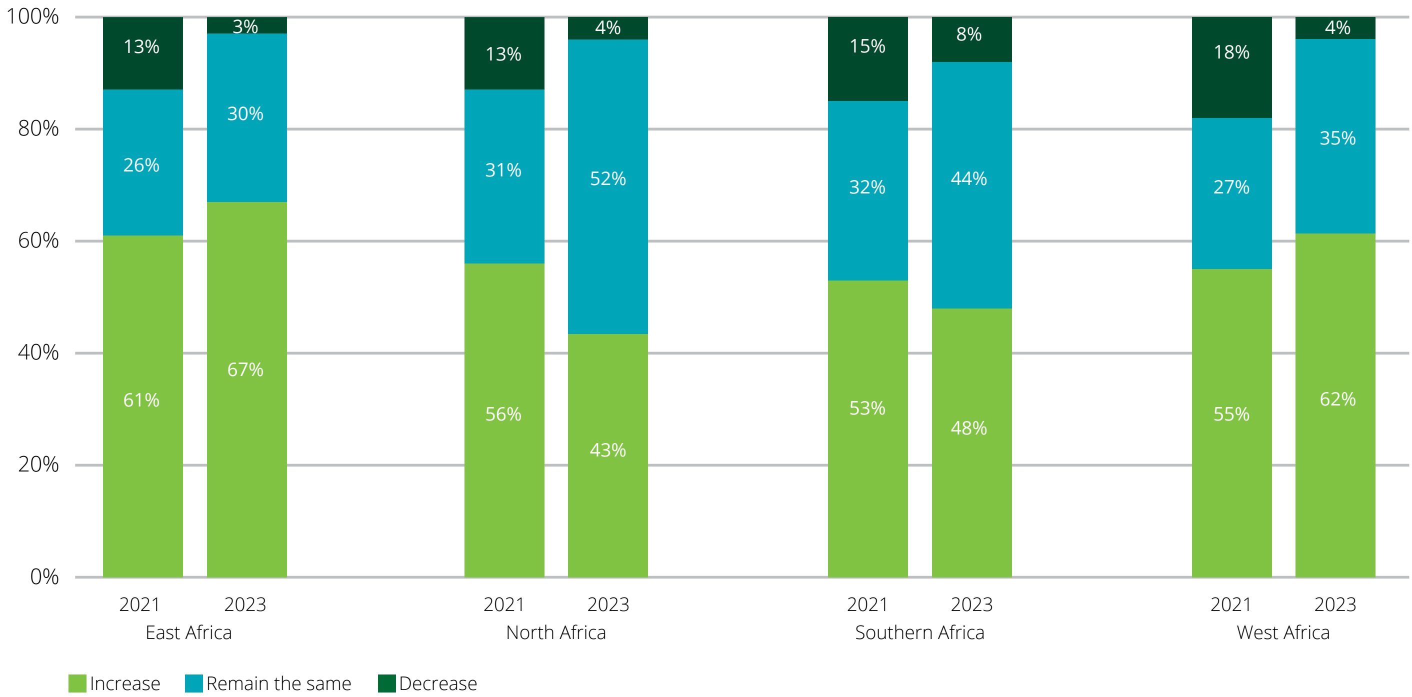
In **East Africa**, almost half of the respondents expect the fundraising environment for PE to deteriorate, although 40% expect the fundraising environment to remain the same over the next 12 months. The momentum of the favourable performance of PE in 2021 carried on into the first half of 2022. However, spiking interest rates and inflation resulted in a sharp decrease in PE activity in the second half of 2022, signalling a turn in the cycle. Inflation and rising rates have impacted on the extraordinary post-Covid-19 increase in dealmaking and fundraising, with fundraising activity expected to largely decrease or remain the same for the next 12 months.

In 2021, 81% percent of the respondents expected the fundraising environment in **North Africa** to improve or remain the same. In 2023, this expectation has dropped to 65%, as 35% of the respondents expect the regional fundraising environment to deteriorate. This trend follows the disruption of the region's fundraising efforts due to the Covid-19 pandemic.

In **Southern Africa**, although most respondents expect the fundraising environment to remain the same, 36% expect it to deteriorate, with fundraising activities being impacted by the challenging macro-economic environment and requirement of strong returns for funders.

Although almost half (46%) of the respondents expect the fundraising environment in **West Africa** to remain the same, an increased proportion expect the fundraising environment to deteriorate relative to expectations in 2021. The fundraising environment is impacted by the increased credit risk of major regional economies, due to the downgrading of credit ratings in Nigeria and Ghana.

Figure 18. Expected fundraising timelines by region over the next 12 months



Source: Deloitte Africa analysis based on PECS 2023 results
Note: Regional totals may not add to 100% due to rounding.

Overall perspective

Respondents largely expect fundraising timelines to increase across most of the regions, given the expected increase in due diligence requirements for funders. In North Africa, there is a stronger sentiment that timelines for fundraising will remain the same. According to AVCA, the average fundraising time for funds that closed in 2022 was two years.[59]

Regional insights

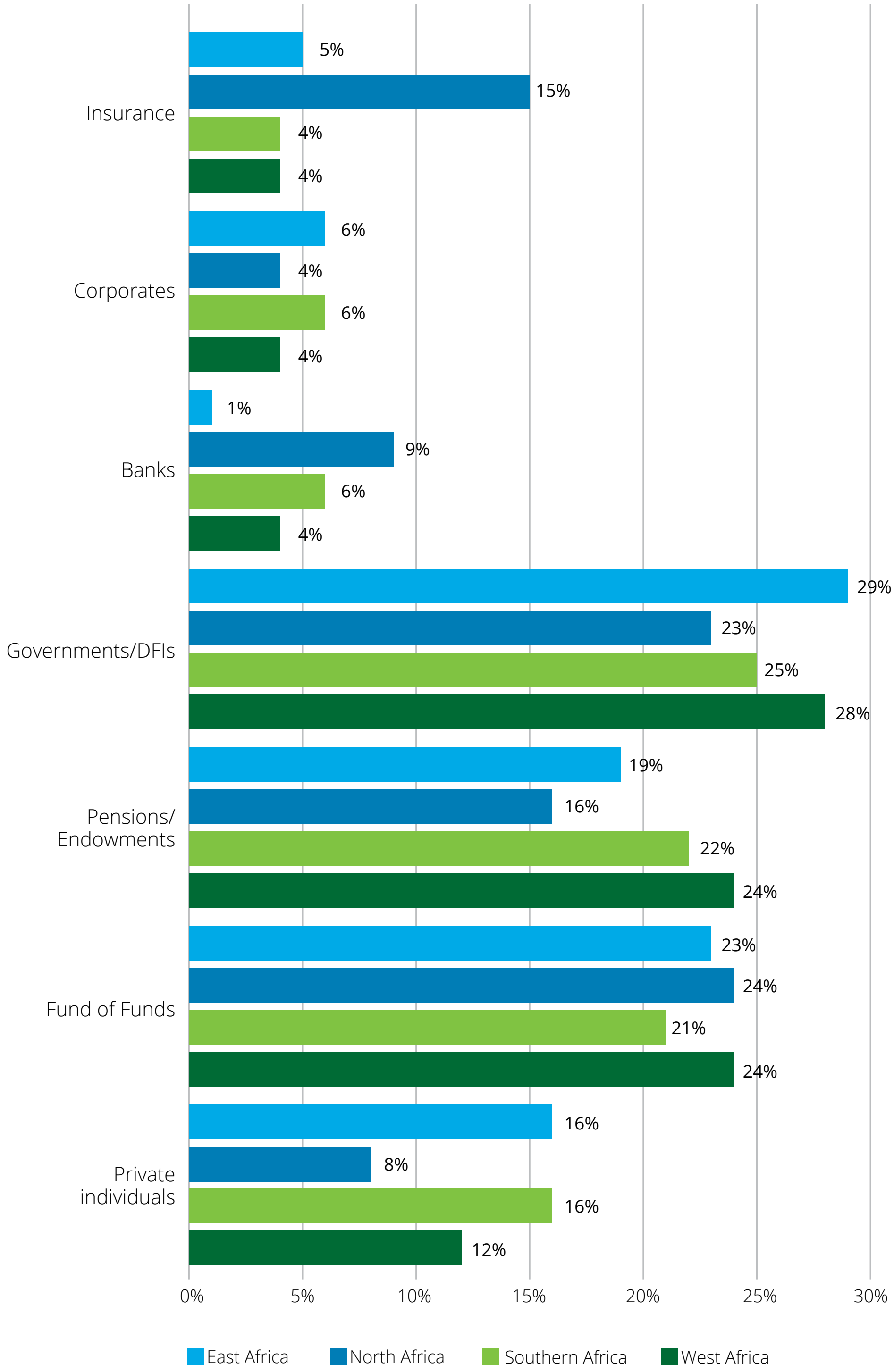
Fundraising timelines in **East Africa** are expected to increase over the next 12 months. High inflation, plus general subdued economic prospects in developed markets, are likely to impact on long-term foreign investor commitments in East Africa. The current macroeconomic environment has created extremely challenging fundraising conditions for fund managers in East Africa and Africa as a whole.

In **North Africa**, 52% of respondents expect the fundraising timeline to remain the same, and 43% expect an increase. Despite the challenges, longer-term fundamentals continue to attract investors to the region, and capital raising continues.

Fundraising timelines are expected to increase (48%) in **Southern Africa** or to remain the same (44%). Longer fundraising timelines are attributed to impact of adverse economic conditions and increased scrutiny by funders to ensure that capital is being deployed for quality assets at the right price. This results in increased due diligence requirements for funders.

As the top credit-rating agencies have downgraded major economies in **West Africa**, a more thorough assessment of investment risk and due diligence will be required to facilitate successful fundraising activities. Such thorough review and assessment processes are expected to prolong fundraising timelines.

Figure 19. Preferred third-party sources of funding to be used by region in the next 12 months



Source: Deloitte Africa analysis based on PECS 2023 results
Note: Regional totals may not add to 100% due to rounding.

Overall perspective

DFIs have been the largest private capital funders in Africa, accounting for 59% of the total fundraising value in 2022.[60] They play an important role in African projects, often seen as de-risking projects considered too high risk. Governments/DFIs are expected to remain the preferred third-party funding source across regions over the next 12 months.

Regional insights

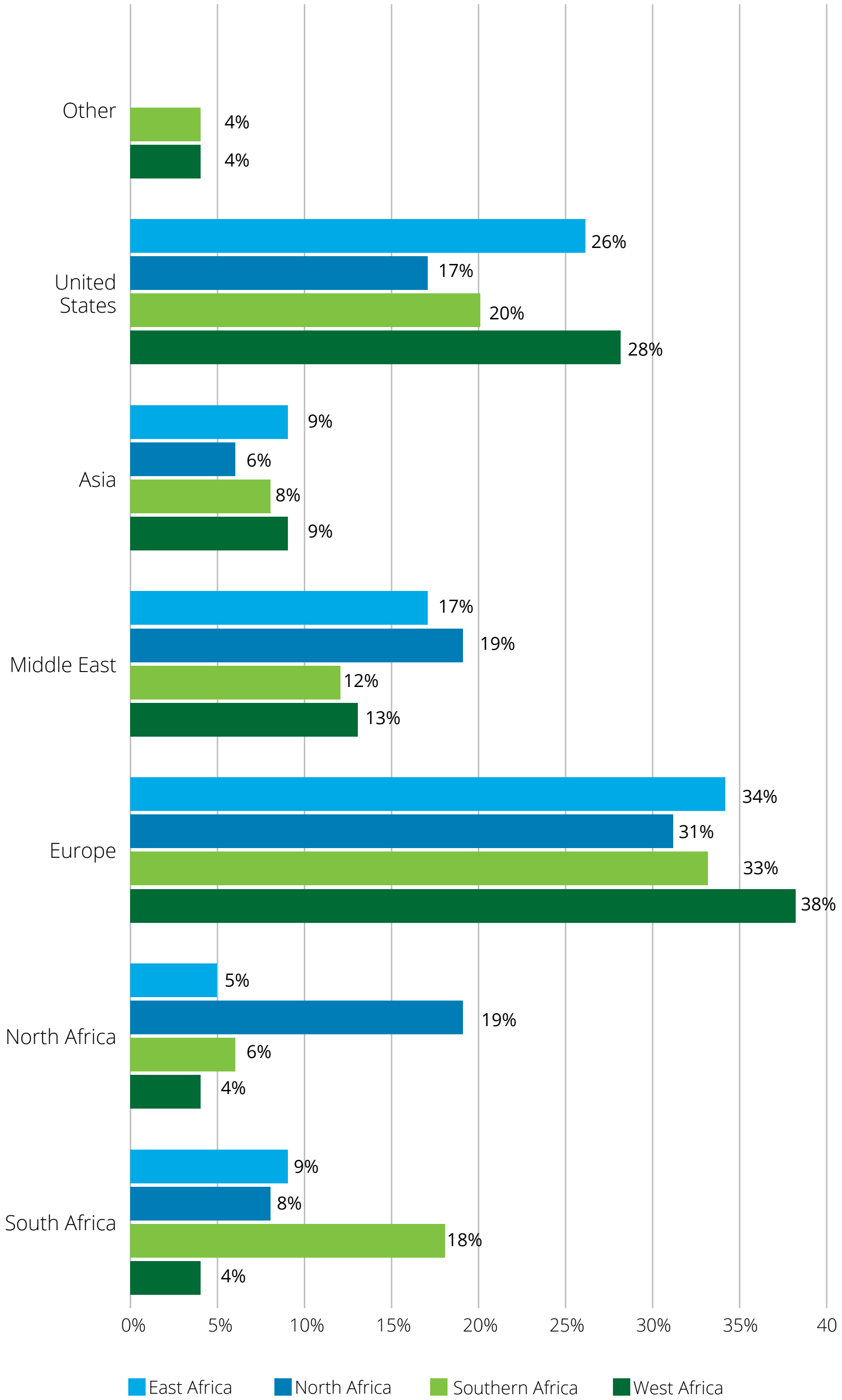
Respondents in **East Africa** expect to use Governments/DFIs as the preferred third-party source of funding, followed by Fund of Funds. DFIs in East Africa have steadily increased investments over the years, with Kenya securing the highest number of commitments. The focus on Kenya can be attributed to significant investments in renewable energy projects in the country's growing energy sector.[61]

In **North Africa**, the preferred source of funding in the 2023 survey is Fund of Funds, compared to Governments/DFIs in the 2021 survey. The new trend is due to the attractiveness of new Fund of Funds implemented in 2022 or yet to be implemented. An example is the Anava initiative, financed by the World Bank.[62]

In **Southern Africa**, Governments/DFIs are expected to be the largest source of funding, followed by Pensions/Endowments, and then Fund of Funds. Yet, in 2021, the Southern African Venture Capital and Private Equity Association (SAVCA) reported that Pension/Endowment funds accounted for 54.4% of total funds raised, with most of the Pension/Endowment funds coming from South Africa.[63]

In **West Africa**, Governments/DFIs' funding is expected to be the significant third-party source of funding. This is mainly owing to several developmental opportunities that meet DFI investment goals in West Africa. Pensions/Endowments and Fund of Funds follow.

Figure 20. Geographical sources for raising capital for investment activities by region within the next 12 months



Source: Deloitte Africa analysis based on PECS 2023 results
Note: Regional totals may not add to 100% due to rounding.

Overall perspective

PE funding has predominantly been raised from outside of Africa, particularly from Europe and the US. In 2022, 86% of private capital funds raised were from international capital.[64] This trend is expected to continue, with Europe as the most significant source of capital for all regions, followed by the US.

Regional insights

Most respondents in **East Africa** expect capital to be raised from Europe and the US over the next 12 months. However, due to the current global macroeconomic challenges, most funds will seek commitments from existing investors, as adding new LPs has been difficult in the region.

Europe continues to be **North Africa's** largest geographical source for fundraising, given its proximity and strategic role in the region. The Middle East, North Africa itself, and the US are anticipated to provide increased sources of funding.

South Africa is a critical funding source for **Southern Africa**; however, Europe is expected to be a the most important source of funding for the region. The US is also expected to be a key source of funding for the region. Given South Africa's established financial markets and possible higher returns for potential funders, long-term economic fundamentals continue to attract funds to the region.

Major economies in **West Africa** remain beneficiaries of development-focused cross-border funds from advanced economies. Many ongoing projects in West Africa are backed by funds from European countries and the US government. This is expected to continue over the next 12 months.

Expert insights: Understanding distressed assets/restructuring

Financial and operational distress is not sudden; it creeps up on a company. Unfortunately, if financial distress is not quickly identified and dealt with, it may lead to a loss of confidence in management's abilities to run the company at best and threaten the survival of the company at worst.

As seen in the *Deloitte Restructuring Survey 2023*, most C-suite executives and restructuring lenders in Africa are pessimistic about businesses' growth prospects, with the likelihood of more distressed businesses in the short to medium term.[65] This is premised on poor power supply, infrastructural challenges, lower crude oil pricing, currency volatility, price instability, and dwindling consumer confidence.

Importance of early detection of warning signs and intervention

Companies must realise that the earlier the signs of distress are identified and adequately addressed, the higher the probability of a successful turnaround. An early start allows for exploring many more options to rescue the business, as there is generally sufficient cash runway to investigate all possible alternatives and remedies.

Typical indicators, which sometimes are not deciphered as early warning signs, include:

- declining revenue with an increased cost base
- inability to pay creditors
- challenges paying monthly salaries, resulting in staff turnover
- rising debt levels and borrowing costs
- inadequate working capital levels
- decreasing credit ratings
- reduced dividends
- low return on assets.

Addressing these symptoms promptly may save a company from a costly formal rescue process, which typically involves court-led or supervised procedures with the appointment of an external administrator.

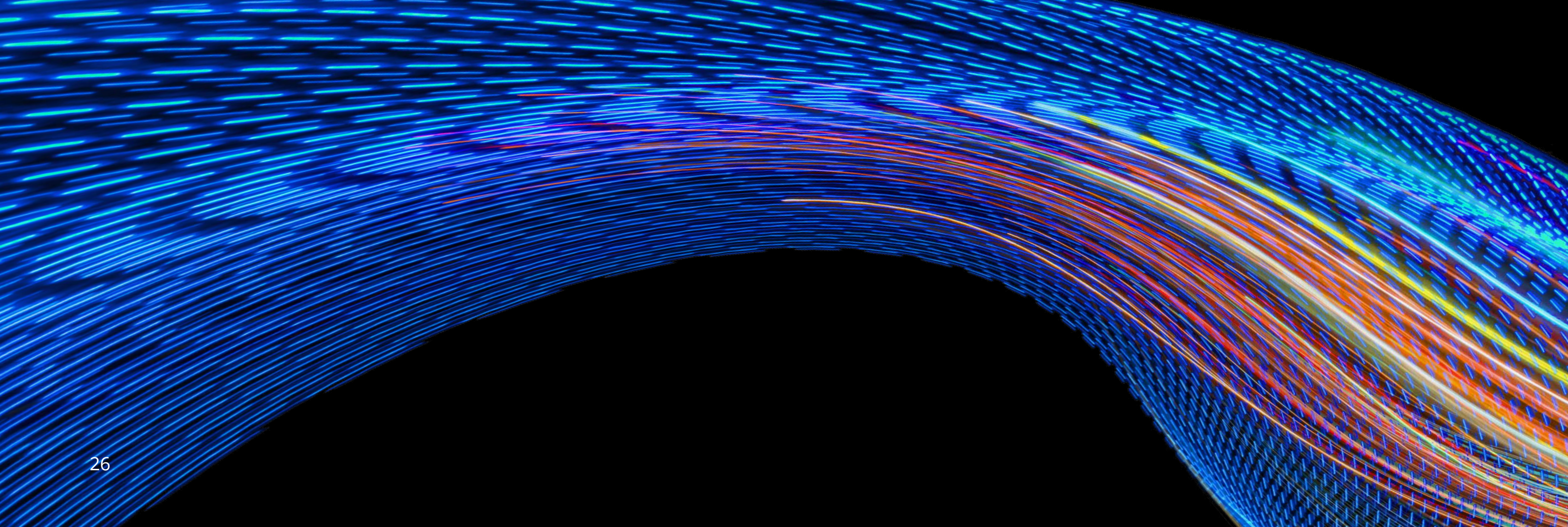
Pursuing an informal approach, on the other hand, protects value. Informal processes differ from formal processes: the company works with its creditors to negotiate payment terms or amendments to loan terms to maintain short-term viability, improving its business strategies and operations without the intervention of a court-appointed administrator.

The *Deloitte Restructuring Survey 2023* finds that informal restructuring mechanisms are seen as most likely to rescue a company. Time and stakeholder buy-in are both required for effective informal restructuring. Intervention should occur when red flags from tracking the right indications of financial distress appear; and management must demonstrate competence and deliver quality financial information in order to achieve lenders' buy-in.

This implies that a successful informal restructuring process depends on the early identification of warning signs and engagement with stakeholders, maximising options available to solve financial distress.

After identifying the warning signs of financial distress, the next step is to track the right indicators or root cause of the problem. Management also needs to prioritise protecting the business and its market share, and preserving cash.

The informal restructuring process is typically an all-consuming exercise that stretches management beyond its breaking point. Instead, appointing a Restructuring Office (led by an experienced restructuring advisor) takes the pressure of the restructuring process off management, allowing them to focus on the day-to-day business operation. Where distress indicators are ignored, and stakeholder intervention comes too late, a formal restructuring process or insolvency becomes inevitable, resulting in value destruction (as seen with Lehman Brothers and Silicon Valley Bank).[66]



Typical mistakes in addressing financial distress

The first mistake when addressing financial distress is not seeking appropriate professional help: instead, management wants to avoid appearing incompetent to stakeholders, particularly financial stakeholders. However, without professional help, combining the running of a business with the development and implementation of a turnaround plan can be well nigh impossible.

Another common mistake is not acting early enough. Waiting too long to address financial issues can lead to more serious problems that are much harder to fix, with limited options for recovery or survival.

Lastly, not having a plan can make a turnaround clumsy. It is vital to have a plan in place to address local and global risks. Most businesses in Africa, understandably, prioritise local political and economic risks. However, with the recent Russia-Ukraine war, it has become imperative for business leaders to be aware of global risks and their impact.

Management can better prepare companies for unforeseen events by starting with actions within their control, such as diversification, establishing crisis committees, and appointing trusted advisors.

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Sector focus

Following the Covid-19 pandemic, Deloitte Africa's 2021 PECS respondents anticipated directing their investment strategies across sectors such as Healthcare and Pharmaceuticals, Green Energy, Technology, Media and Telecom (TMT), and Infrastructure.[67]

This expectation has changed, as Agriculture/Agribusiness and the Food and Beverages sectors become increasingly strategic investment opportunities for investors, particularly in light of the Russia-Ukraine war, and the impact of climate change on African agriculture (about 95% of the continent's food production is rainfed).[68]

Although the world has made significant progress in reducing hunger and malnutrition over the past few decades,[69] the uptick in malnutrition since 2015 has been particularly prevalent in Africa.[70] More than one in four people in Africa face starvation.[71] Disruption in food production and distribution, and unstable and unreliable climatic conditions have increased malnutrition and hunger.

Despite external shocks and demographic trends, the Food and Beverages sector has shown resilience and persistent demand. With DFIs expected to be preferred third-party funding sources, investment in developmental social-economic initiatives in Africa is crucial (e.g., curbing food insecurity by modernising agricultural techniques). Mobilising private and public investment and applying innovative approaches to agri-food systems will harness agriculture's full potential in Africa and support sustainable economic growth.

Financial Services is another key sector. In 2022, the Financials sector was the most active sector by private capital deal volume (29%), attracting the largest share of private capital deal value (32%).[72] Africa presents an attractive and fertile ground for digital and innovative solutions, particularly in the fintech start-up space due to widespread mobile adoption rates. Fintech was the most funded tech start-up sector in Africa in 2022.[73]

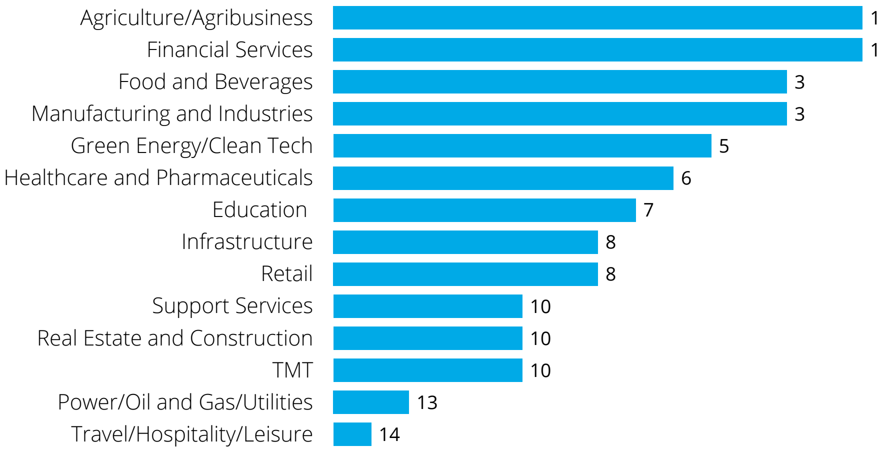
In **East Africa**, Agriculture/Agribusiness, Financial Services, Food and Beverages, and Manufacturing and Industries are the highest-ranking sectors of interest. This is a shift from the 2021 preferred sectors of interest, Infrastructure, Green Energy, and TMT.[74]

Importing large volumes of packaged food in East Africa creates an opportunity for local food production, thereby driving interest in both the Agriculture and Food sectors.

The Financial Services sector is expected to generate interest from the huge informal economy in East Africa, with innovative solutions expected to enhance payment and credit solutions for small businesses, as well as financial inclusion in the region.

Figure 21. Sectors of interest per region (ranked)

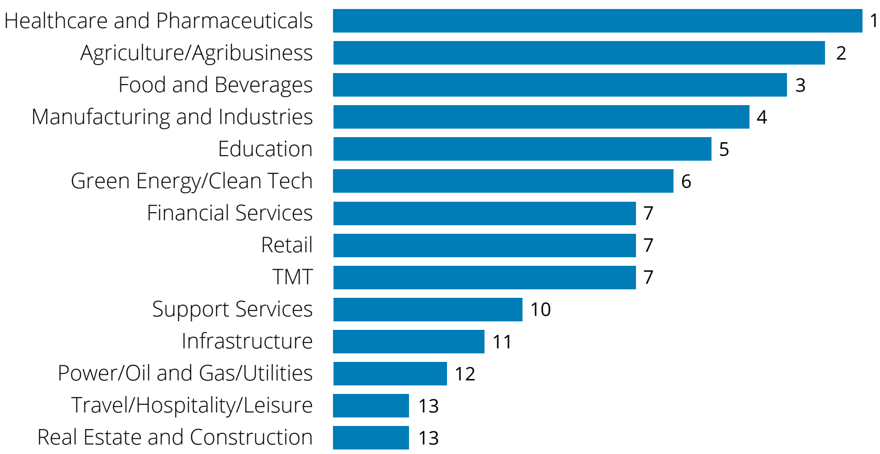
East Africa



Source: Deloitte Africa analysis based on PECS 2023 results

Figure 22. Sectors of interest per region (ranked)

North Africa



Source: Deloitte Africa analysis based on PECS 2023 results

In **North Africa**, possible sectors of interest over the next 12 months include Healthcare and Pharmaceuticals, Agriculture/Agribusiness, and Food and Beverages. This contrasts with TMT, Manufacturing and Industries, and Infrastructure, highlighted in the 2021 survey.[75]

Arguably, the post-Covid-19 environment has shifted the focus to essential businesses. Additionally, the agricultural sector faces challenges driven by climate change, with the Middle East and North Africa (MENA) region warming at twice the global average, and climate projections indicating less precipitation and intensified water scarcity.[76]

On the other hand, growth drivers such as rising population, a growing middle class, and increased urbanisation create opportunities for the Agriculture/Agribusiness and Food and Beverages sectors. Fund managers are also showing interest in meeting needs in the healthcare system.

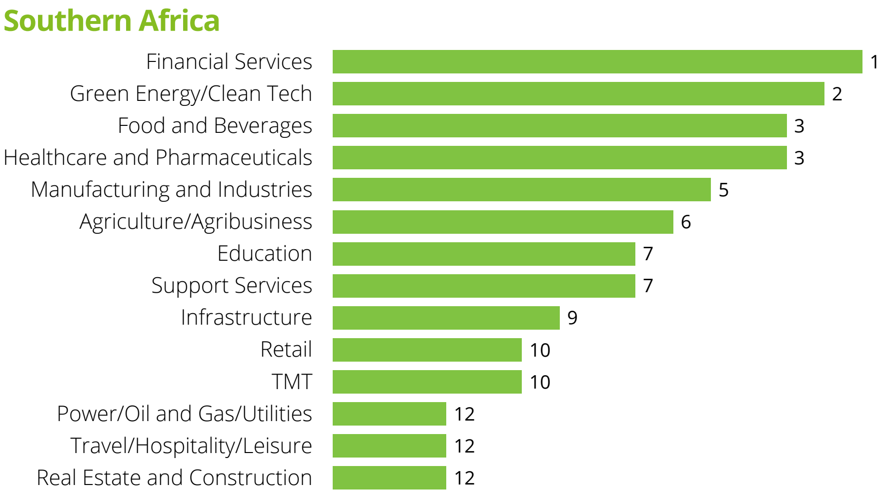
The sectors of interest in **Southern Africa** have also shifted to Financial Services, Green Energy, and Food and Beverages. In 2021, post-Covid-19, respondents were focussed on TMT, Healthcare and Pharmaceuticals, and Education.[77]

This year's survey highlights an increased focus on net-zero emissions, sustainable practices, solving the ongoing energy crisis, continuing to drive innovation and investments in the Green Energy sector. The region's growing middle-class population motivates investors to focus on consumer-related sectors such as Financial Services, and Food and Beverages.

In 2021, Green Energy, TMT, and Infrastructure were the top three sectors of interest for PE investments in **West Africa** post-Covid-19.[78] According to Deloitte's 2021 Africa Construction Trends report, the region recorded the highest number of projects on the continent (153 projects) in 2021.[79]

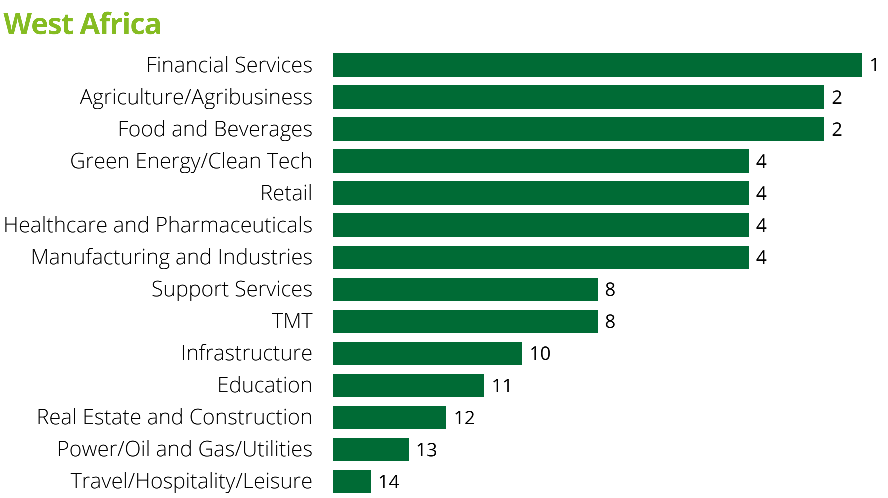
In 2023, Financial Services, Agriculture/Agribusiness, and Food and Beverages top the sector focus in the region. The focus on the latter sectors is largely attributed to the region's growing population and middle-income bracket.

Figure 23. Sectors of interest per region (ranked)



Source: Deloitte Africa analysis based on PECS 2023 results

Figure 24. Sectors of interest per region (ranked)



Source: Deloitte Africa analysis based on PECS 2023 results

Acronyms

AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
AVCA	African Private Equity and Venture Capital Association
DFI	Development Finance Institution
DRC	The Democratic Republic of the Congo
ESG	Environmental, Social and Governance
EV/EBITDA	Enterprise value to earnings before interest, taxes, depreciation, and amortization
FATF	Financial Action Task Force
FDI	Foreign direct investment
GDP	Gross domestic product
GP	General partner
IMF	International Monetary Fund
IPO	Initial public offering
LP	Limited partner
M&A	Mergers and acquisitions
MENA	Middle East and North Africa
PE	Private Equity
PECS	Private Equity Confidence Survey
SAVCA	Southern African Venture Capital and Private Equity Association
SME	Small and medium-sized enterprise
SPA	Sale and purchase agreement
SSA	Sub-Saharan Africa
TMT	Technology, Media, and Telecommunications
UK	United Kingdom
US	United States
VC	Venture Capital

Methodology

The 2023 Deloitte Africa Private Equity Confidence Survey focuses on four African regions, namely East Africa, North Africa, Southern Africa, and West Africa. The country categorisation of these regions follows that of the African Development Bank (AfDB):[80]

- **East Africa:** Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Rwanda, Seychelles, Somalia, Sudan, Tanzania, and Uganda
- **North Africa**: Algeria, Egypt, Libya, Mauritania, Morocco, South Sudan, and Tunisia
- **Southern Africa:** Angola, Botswana, Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Zambia, and Zimbabwe
- **West Africa:** Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, São Tomé & Principe, Senegal, Sierra Leone, and Togo.

Unless otherwise noted, the report is based on responses collected from GPs and LPs across the four regions that participated in the survey between February and April 2023. 104 usable responses were obtained across the regions.

The questions posed to respondents were adapted from those asked in previous editions of the Deloitte Africa PECS.

Due to rounding, not all values will add up to 100% in the figures based on survey responses.

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