Three key themes for the future of investment in Africa

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As recently as two years ago, a typical conversation with a multinational company wanting to invest in Africa would be peppered with questions around corruption, political stability and sustainability – all reflecting a weight of negative stereotypes that we seemed unable to shake off. These questions were not particularly difficult to address, but they did demonstrate the hurdles left to clear before "business as usual" became the norm.

Anthony Thunstrom, chief operating officer for KPMG's Global Africa Practice

Fast-forward to the past six months, and a very different picture emerges. The old contradictory clichés about Africa as either a hopeless continent or a hopeful continent are finally giving way to a more nuanced, realistic perspective.

At a macro level, hazy intentions to invest in Africa have turned into real commitments and actions. A good example here is the number of ring-fenced Africa funds run by private equity houses. Recently the Carlyle Group, one of the largest global asset management firms, specialising in private equity, closed its maiden Sub-Saharan Africa Fund having attracted investment of around US$700m – about 40% beyond its original target. This has followed the closure of a number of similar Africa funds at anywhere from $350m-$1bn. According to industry norms, these funds will have to be invested in African assets within the next couple of years.

There is now a clear and palpable urgency to discussions about how to invest in Africa, and I am confident that we have just reached what will, in the future, be considered a significant turning point in Africa's economic ascendancy. So, what does the future hold? How will the global desire to invest in Africa play out practically over the next couple of years?

From our perspective, based on dealing with any number of global, regional and emerging local investors in Africa, there are three key themes.

1. Closing the investment gap

Among the factors that will define Africa's economic future are the continent's size and scale, its natural resources and its population. Africa's landmass is significantly larger than that of India, China, North America and Western Europe combined. Moreover, Africa's population already nearly rivals that of India or China, and will accelerate past both in the next decade or so.

The flipside of this huge advantage of scale is, simply, that it is difficult and time-consuming to identify the best investment-grade opportunities. Most investors do not have the luxury of a full-time Africa team on the ground. On the one side, there are record amounts of global capital that have been raised and committed for African investment and are currently seeking a home, and on the other side there are so many solid, successful Africa businesses that offer fabulous investment opportunities, but more often than not these parties have not been able to find each other or fully understand the potential that the combination of external investment and an already thriving local business can generate.

Solving this mismatch between investment-seeking capital and identifiable investment opportunities will be vital to Africa's future growth. In the medium to long term, increased inefficiencies in local capital markets, action by governments and trade organisations to improve the "ease of doing business", and big picture improvements in the economic climate, will all help address the mismatch. In the short term, there is a role for qualified corporate intermediaries to provide guidance, as well as for governments and their investment arms to champion opportunities.

2. Non-negotiable sustainability

Investment into sub-Saharan Africa used to be characterised by extremes. At the one extreme, we had aid-driven or "humanitarian" investment. At the other, we had opportunism – ventures launched with the "get rich and get out" mentality that still, unfortunately, haunts many of Africa's resource-rich regions. Today, a number of factors suggest strongly that when investing in Africa, sustainability in the future will be non-negotiable. Africa's billion-plus population, with its youthful demographic and deep awareness of historical injustices, places powerful pressure on the investment policies and regulations of African governments. Virtually any investment must take local social conditions into account.

In mainstream global investment circles, sustainability is increasingly a fundamental requirement to be considered alongside factors like risk-adjusted returns and political-risk ratings. A sustainable return implies more than a continuous flow of profit. It implies a degree of social responsibility in terms of the type, timeframe and structure of an investment, and also a social compact – an understanding that, if you invest in a region to the genuine benefit of its people, your investment will be repaid with fair and maintainable earnings, quite possibly for decades to come.

Impact investment – that is, investment dedicated to making a benevolent impact, while still earning attractive rates of return – is becoming fashionable. Even in the private equity arena (renowned for its absolute focus on generating average returns in the 30% per annum range, and for exiting investments over an average five-year period), we are seeing new funds with clear mandates around sustainable investment. These offer investors the opportunity to balance philanthropy alongside acceptable financial returns.

3. Maturing motives for investment

What fascinates me is the extent to which motives for investment into Africa have matured to become more commonplace, in the sense that they are the same motives that would apply if, say, a North American company wished to invest in a European one. Africa is filled with African companies that have tremendous talent, a great track record and a more-than-promising future. Naturally, investors from elsewhere would like to partner with them and share in their growth potential. At KPMG's Global Africa Practice, we spend at least a week every month "matchmaking" – introducing investors to suitable African partners; in 95% of cases, a "marriage" results. In the vast majority of partnership negotiations, the agenda is neither opportunistic nor philanthropic – it is simply optimistic. And concern for sustainability is assumed from the start.

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