Unlocking Africa's Potential Through Smart Private Investment

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Contents

01 Six Transformative Insights

02 Setting the Stage: Unveiling Africa's Private Investor Landscape

03 The Time is Now: Compelling Reasons to Invest in Africa

04 Unlocking Opportunities: Four High-Potential Investment Themes in Africa

05 Blueprint for Success: Thriving as a Private Equity Investor in Africa

06 Closing Thoughts: Embrace the Opportunity, Shape Africa's Future

Six Transformative Insights

1 African private deals outpacing global growth, yet total private investment AUM significantly lag global peers

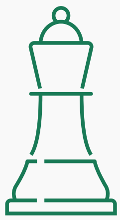
The private investor landscape in Africa has evolved significantly over the past decade, with higher growth in deal volumes and values compared to global (+116% in volumes and +46% in values compared with +18% in volumes and +20% in values, respectively, for deals occurring between 2016–19 and 2020–23). This has been mainly driven by growth in venture capital (VC) investments. Despite this growth, the market remains underpenetrated compared to global benchmarks with fewer than 1% assets under management (AuM) versus GDP (compared to 5% to 7% globally).

2 Average African private capital returns lag developed markets, but there is potential to earn outsized returns

Historically, average African private equity returns have underperformed compared with other global assets, driven by factors such as currency devaluation, political risk, and higher cost of debt. Based on returns from 46 Africa-focused funds over the past ten years, however, there is potential to achieve outsize returns: Twenty-four percent of funds in the sample achieved more than 15% net internal rate of return (IRR) in USD.

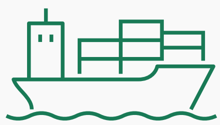
3 Deal concentration in key markets, but Africa is not one country – investment strategies must be tailored by market

Historic PE investments have been concentrated in a select number of African countries, with nine countries—South Africa, Egypt, Nigeria, Kenya, Morocco, Ghana, Uganda, Mauritius, and Côte d'Ivoire —representing more than 85% of deal volumes. These countries are diverse in terms of development, local regulations, and landscape. Thus investment strategies need to be tailored to the nuances of each.



4 There are strong underlying trends shaping Africa' future which make it a robust destination for private capital

Africa plays a critical role in addressing many of the world's most pressing challenges. Its young and growing population creates a large local consumer market with promising long-term potential compared with already well-penetrated industries in OECD countries (e.g., smartphones, data centers, financial services). It also has export potential through its abundance of critical minerals that are essential for decarbonization; and vast arable lands that are essential for ensuring global future food security. New regulations are also facilitating greater investment from private sources—for example, allowing pension funds to allocate a higher percentage of their capital to private investments—making Africa more accessible to global funds.



5 Four key investment themes have emerged as drivers for private investment in Africa over the next decade

a. **Climate and clean energy, driving the transition.** Production and equitable access to renewable energy, critical mineral mining and processing, and downstream use of clean energy.
   - *Key opportunities in South Africa, Morocco, Kenya, Nigeria, Egypt, Zambia*

b. **Growth in digital adoption and financial access.** Mobile money, enabling fintechs and other service businesses (e-commerce, telehealth, education etc.) driven by GenAI and tech enhancing financial inclusion and productivity in Africa.
   - *Key opportunities in South Africa, Nigeria, Ghana, Egypt, Kenya, Senegal, Tanzania, Côte d'Ivoire, Angola*

c. **Efficient infrastructure to support trade.** Infrastructure investments in ports and surrounding Special Economic Zones, transport infrastructure, as well as logistics and distribution infrastructure enabling the African continental Free Trade Area and export opportunities.
   - *Key opportunities in Nigeria, Morocco, Egypt, Kenya, South Africa*

d. **Advancement of essential consumer services**, with room for differentiation at top end: health care (providers, pharma and biotech generation and distribution, and medtech distribution), agriculture (input provision, advanced food processing for high-value products, and agritech), education (primary, secondary, and tertiary education, vocational training, and edtech solutions), and consumer staples (personal hygiene and beauty products and fast-moving consumer goods [FMCG]).
   - *Key health care opportunities in Morocco, Egypt, South Africa, Kenya, Tanzania, Ghana, Senegal, Uganda, Côte d'Ivoire, Rwanda, Tanzania, Cameroon;*
   - *Key agri-food opportunities in South Africa, Uganda, Ghana, Kenya, Mauritius, Côte d'Ivoire, Nigeria, Zimbabwe, Tanzania, Ethiopia, Mozambique;*
   - *Key education opportunities in Morocco, Egypt, South Africa, Rwanda, Mauritius, Senegal;*
   - *Key consumer goods opportunities in Egypt, Kenya, Morocco, Nigeria, South Africa*

6 **Dealmaking will continue to be challenging for investors** due to high interest rates, low liquidity for exits, political instability in some countries, regulatory complexities, and limited access to local expertise and/or data. However, there are several key success factors to maximize returns:

a. **Asset selection: focus portfolio on differentiation.** Focus on investments that support and unlock value in demographics and growth sectors, and that are robust against country-specific or macroeconomic challenges (B2B, assets with pricing advantages and/or consistent demand market, natural currency hedges, low capex, multi-country, etc.). Due diligence on the asset (fundamentals and track record) and partners (target shareholders and management) is essential, ensuring the integrity of the executing team and a fair and objective process, leveraging expert inputs, even in high-performing markets and sectors.

b. **Emphasize value creation over multiple expansion.** Focus on margin expansion within the existing portfolio or asset as the key lever to drive returns (aim for more than 25% p.a. EBITDA growth, in local currency, to achieve approximately 15% net IRR in USD), rather than primarily focusing on multiple expansion. In Africa, only 5% of a typical PE firm's investment team is dedicated to portfolio value creation (PVC), compared with the global median of 11%. Make value creation a focus and ensure dedicated capacity to support portfolio companies in driving growth. This can be achieved by taking an active role in managing growth, costs, and local capacity building, which is more easily done by acquiring majority stakes.

c. **"Start with the exit in mind."** Deliberately consider exit opportunities during the dealmaking stage, by actively considering deal type and corresponding buyer, while maintaining a flexible investment approach in terms of investment horizon and ability to manage macroeconomic fluctuations.

d. **Effectively use innovative financing models such as blended finance.** Embrace blended finance mechanisms to mitigate or reduce investment risk and enhance the viability of investments (for example, first-loss capital, capped returns, contract for difference, partial/full foreign exchange [FX] guarantees).

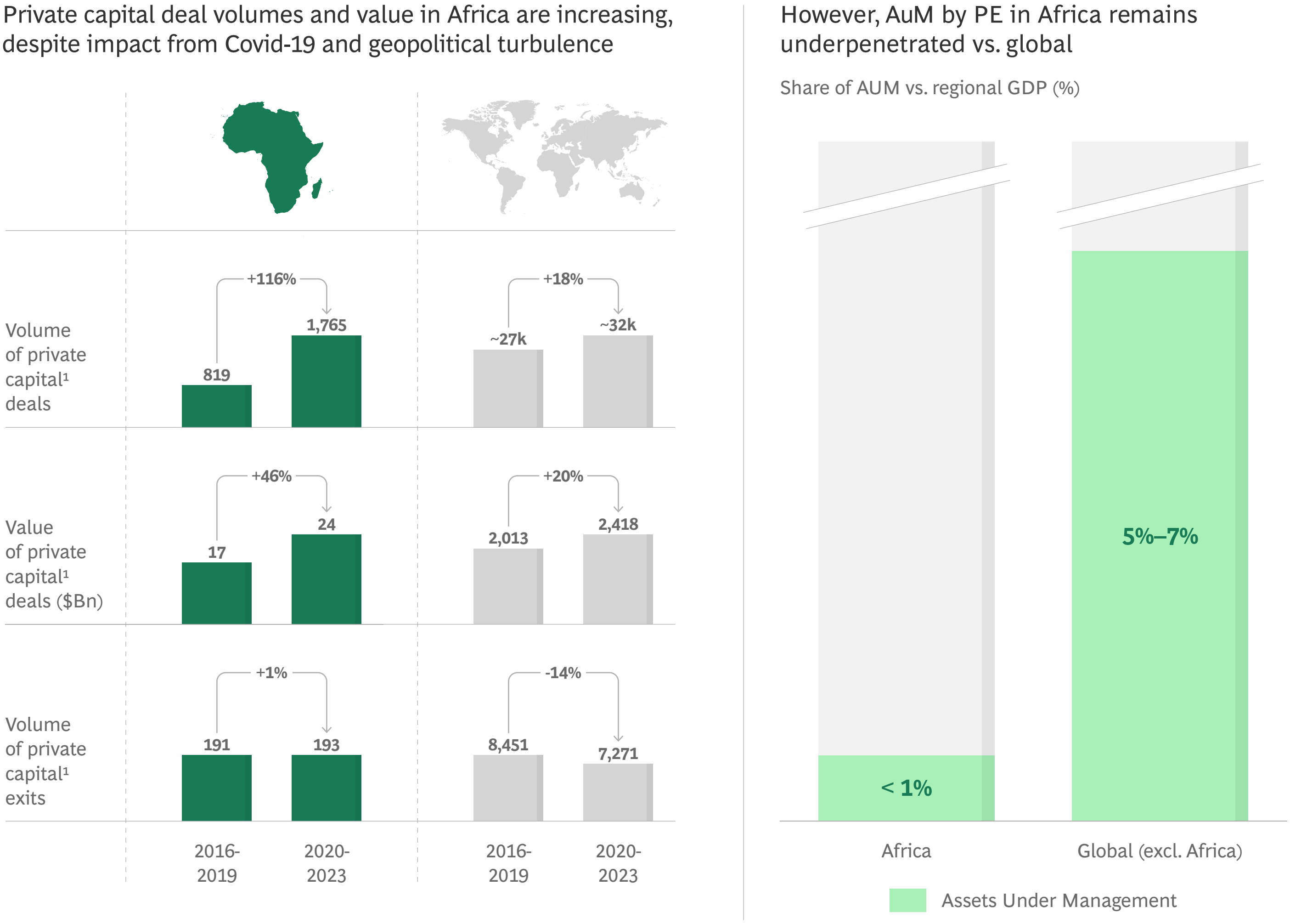
Setting the Stage: Unveiling Africa's Private Investor Landscape

Private investment has consistently been a cornerstone of economic growth globally, and its transformative impact in Africa is unmistakable. Despite facing unique challenges, such as political instability and currency volatility, Africa's growth drivers—bolstered by rapid urbanization, increased mobile connectivity, and innovative financing solutions—are still robust. This report, drawing on BCG's extensive research and on-the-ground experience across our African offices, offers investors a deep dive into the private investment landscape. It not only highlights the continent's opportunities but also navigates the complexities inherent to these markets. Through exploring key trends, sector-specific insights, key investment themes, and strategies to maximize investment outcomes in the region, we aim to equip stakeholders with the knowledge to unlock Africa's full potential.

Private Investor Landscape in Africa

Over the past decade, the private investor landscape in Africa has evolved significantly. Investment volumes and values have seen higher increase compared with global (+116% in volumes and +46% in values compared with +18% in volumes and +20% in values, respectively[1], for deals occurring between 2016–19 and 2020–23). This is predominantly driven by growth in venture capital, reflecting increased interest from both regional and global investors. Despite this growth, the market remains underpenetrated compared to global standards, with less than 1% AuM versus regional GDP (compared with 5% to 7% globally)[1].

Figure 1: Africa has a large untapped potential for private capital, despite recent growth



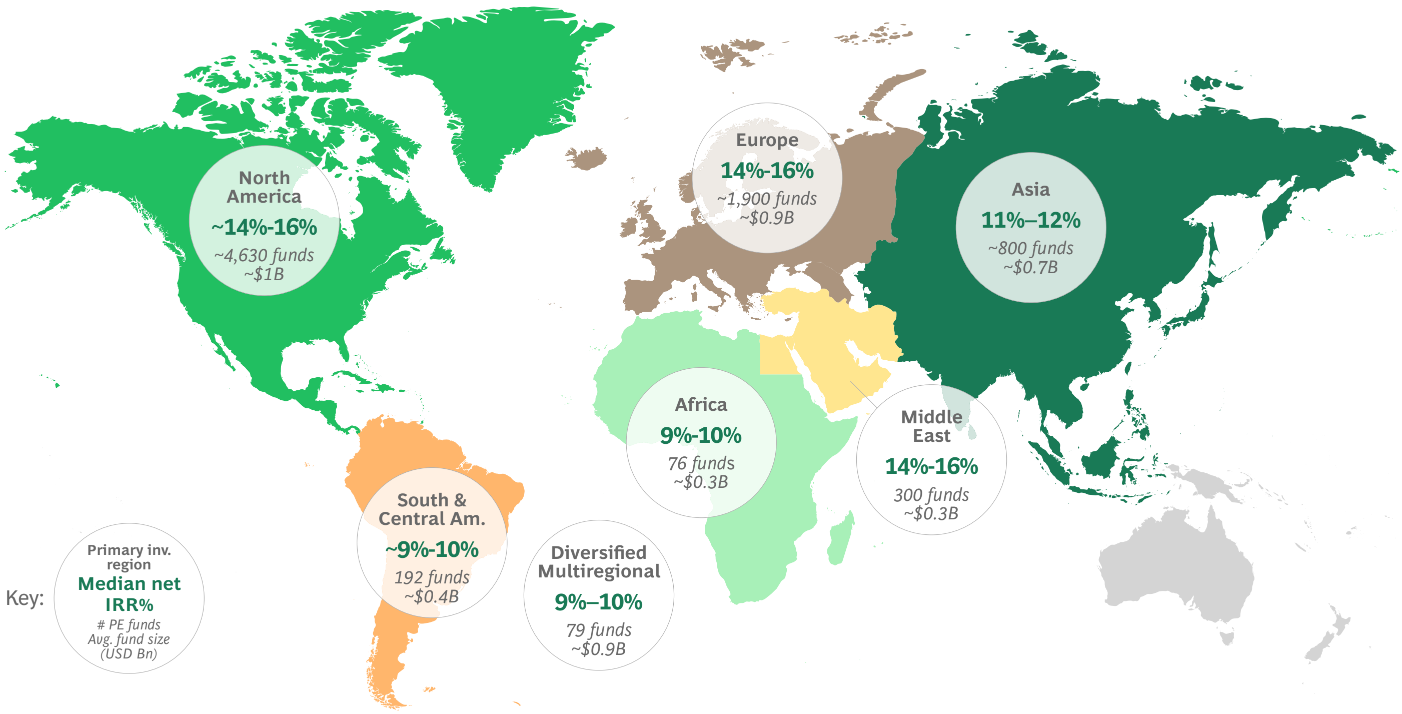
1. Includes venture capital, private equity, infrastructure, private debt, and real estate.
Source: Preqin; BCG analysis.

1. Preqin data.

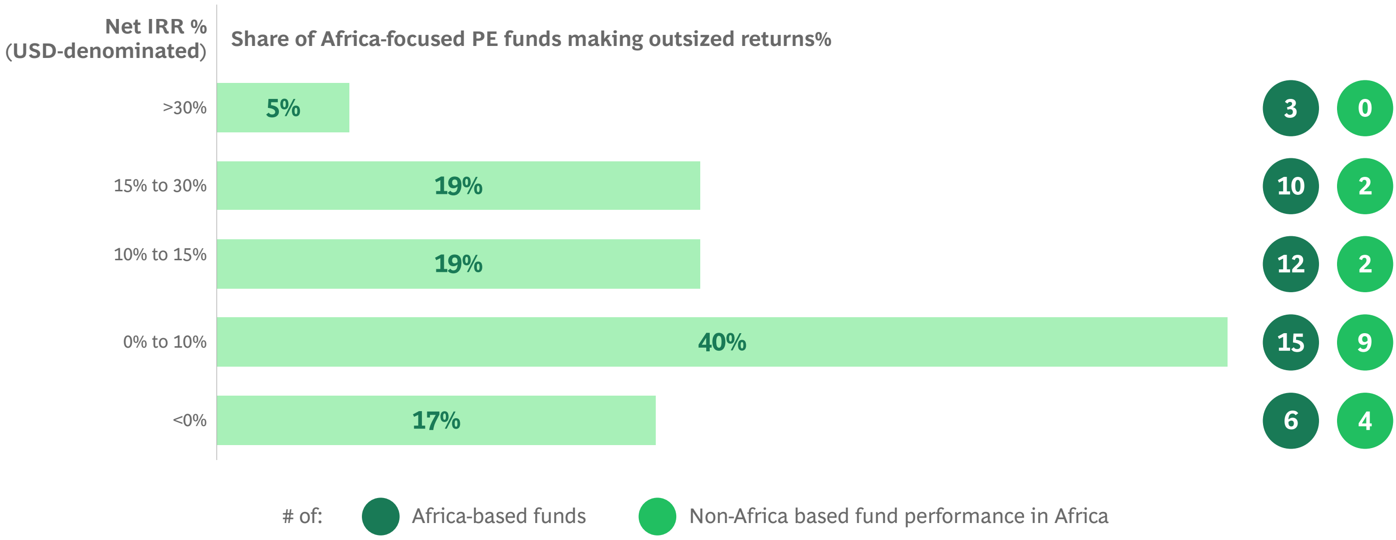
Historic average African PE returns have underperformed compared with other global assets, driven by factors such as currency devaluation, political risk, and higher cost of debt, making investors wary of the risk-return profile of Africa. There is potential, however, to achieve outsize returns, that is, more than 15% net IRR in USD)[1]. (See Figure 2.)

Figure 2: Private equity returns

PE funds with primary Africa focus performed below global median in the past 10 years (USD net IRR 9%–10%)



However, there is potential for outsized returns

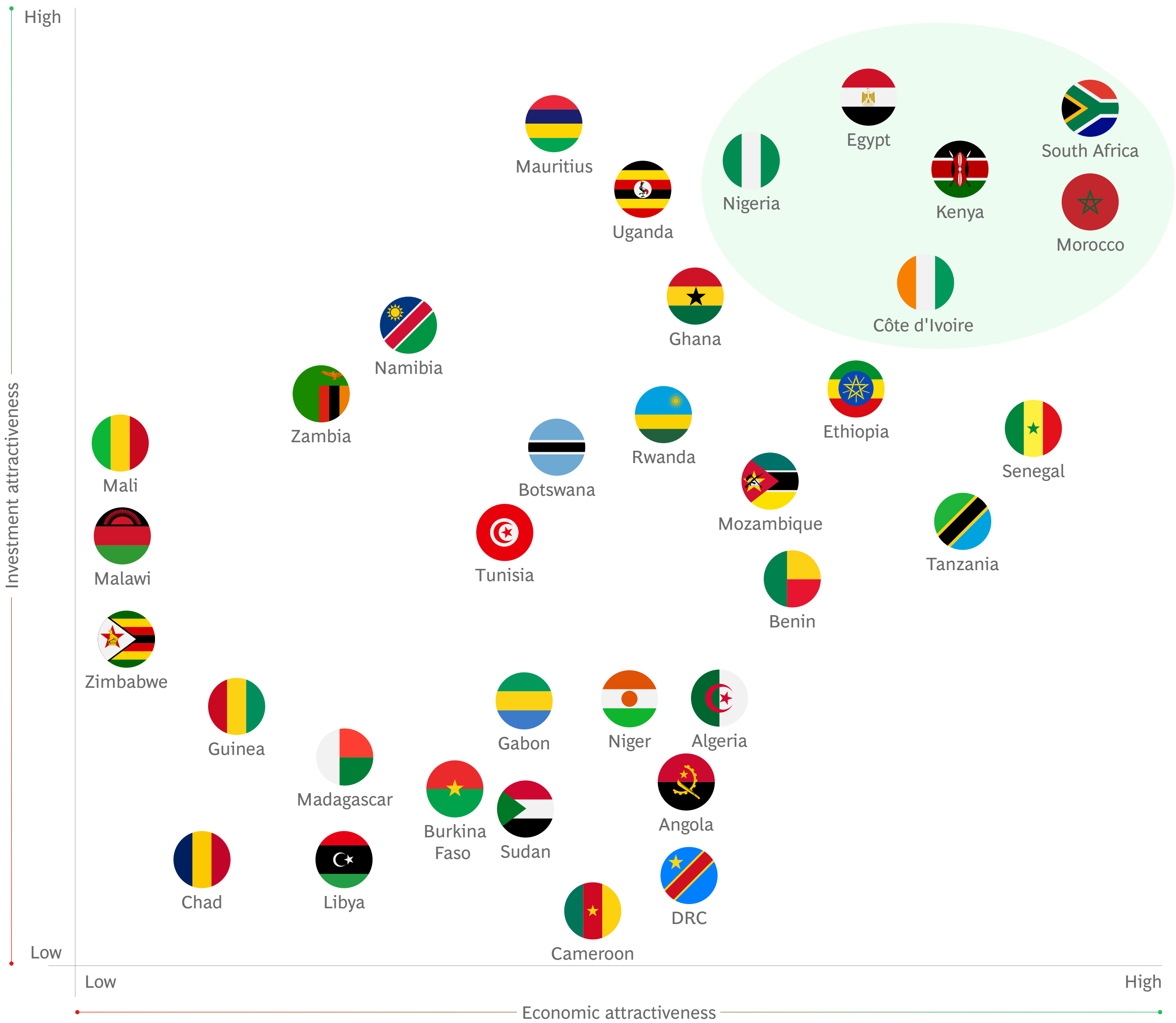


Source: Preqin PE data; BCG analysis.
Note: USD-based IRR shown lower in Africa due to currency devaluation in African countries of –20% (Moroccan dirham), to –125% (South African rand), up to –240% (Egyptian pound) absolute reduction compared with USD between 2013–2023. Data only includes PE funds performance, reported post-2013; Helios included in Africa-based funds.

1. Preqin data.

Historic PE investments have been concentrated in a select number of African countries, with nine countries—South Africa, Egypt, Nigeria, Kenya, Morocco, Ghana, Uganda, Mauritius, and Côte d'Ivoire—representing more than 85% of deal volumes. The countries are very diverse in terms of development, local regulations, and landscape. Thus investment strategies need to be tailored to the specifics of each.

Figure 3: 6 countries drive private capital investments in Africa



Investment attractiveness factors

- Deal flow[1]
- PE deals as % of total transactions[1]
- # of exits[1]
- Ease of doing business[2]

Economic attractiveness factors

- Projected real GDP 2030[3]
- Projected real GDP growth % (2023-2030)[3]
- Projected population size (2030)[3]
- Overall economic risk[3]
- Political stability risk[3]
- FDI inflow[4]
- Currency stability[3]

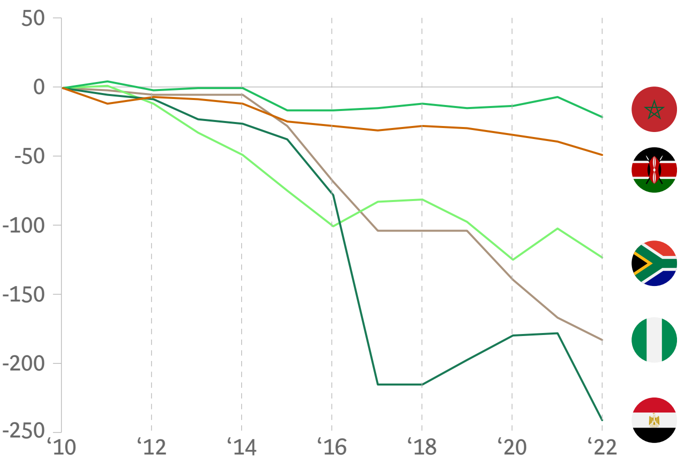
Sources:
1. Preqin,
2. World Bank,
3. Oxford Economics,
4. UNCTAD; BCG analysis.

Key challenges that have affected the viability of PE investor returns in the past:

MACROECONOMIC ENVIRONMENT

- Currency devaluation[2] is reducing foreign-denominated investment returns exacerbated by sovereign debt servicing.
- Inflation has increased from +9% pre-COVID to +15% p.a. post-COVID[3].
- The average political instability index of Africa is 5.7, with high disparity between countries, which range from 2.8 to 9.2. In contrast, the global average is 4.9[4].
- The COVID-19 crisis and global geopolitical tensions in the past few years have exacerbated macroeconomic challenges, resulting in general cautiousness among international investors.

Currency devaluation vs. USD, %



Currency risk is region-dependent, with Morocco and South Africa being relatively more stable over the past eight years, followed by Eastern Africa. Western Africa's and Egypt's currencies are currently the most volatile. However, Francophone West Africa offers greater stability as its currency (the CFA Franc) is pegged to the Euro, reducing volatility and providing a more predictable investment environment.

DEALMAKING AND EXITS

- **Competition:** Africa is predominantly small and medium-size enterprises (SME), with a small number of companies valued at more than $100 million (72% of PE investments in Africa in the past ten years were less than $100 million[5]). This has led to increased competition, raising valuations, and multiples paid for the few available sizable assets (more than $100 million).
- **Data scarcity:** Access to information is limited, and as a result many potential opportunities go unnoticed. The lack of data availability also makes it more challenging to do thorough due diligence.
- **Exits:** 71% of limited partners (LPs) consider a perceived weak exit climate and unpredictable exit windows as the biggest challenge for investing in Africa[6], driven by less sophisticated stock exchange and limited secondary sales due to low liquidity.

OPERATIONAL COMPLEXITY

- **Geographical and logistical fragmentation:** Companies in Africa have to operate across multiple fragmented markets with little or limited economies of scale benefits, which makes it challenging to create sufficient scale. Among the obstacles is the 12-hour average flight time between major cities, compared to three hours in Europe and seven hours in East Asia[7]. Intra-regional trade costs 320% of ex-works value (cost of product when exiting factory) compared to 90% in Europe and 140% in East Asia[8].
- **Presence of original owners and founders:** In Africa, many companies are still run by their founders or by the founders' families, many of whom are unsure to relinquish control to new investors due to their unfamiliarity with working with external private investors and PE funds. For VC-backed companies, however, the inverse is true, with the hiring of CEOs willing to take on founder-like economies a challenge.
- **Local ownership and local regulations:** Some African countries have laws and regulations that require local ownership of a business, limiting the ownership percentage of PE firms, e.g., Broad-Based Black Economic Empowerment in South Africa.

2. Oxford Economics, currency exchange rates vs. USD 2010-2022.
3. Oxford Economics, pre-COVID 2014-2019 CAGR and post-COVID 2020-2024 CAGR.
4. Oxford Economics, Political stability risk rating, EPRE score, 2024. Scores range from 1 to 10, with 1 being the lowest risk.
5. Preqin, share of deal volume based on 183 reported PE deals incl. deal value between 2013–23.
6. AVCA, 2023 African PE Industry Survey.
7. Flight search engine.
8. Economic and Social Commission for Asia and the Pacific, ESCAP-World Bank Trade Cost Database, July 31, 2024.

The Time is Now: Compelling Reasons to Invest in Africa

Over the past ten years, Africa's GDP has grown faster than developing economies (+3.3% p.a. compared with +2.6% p.a.)[9]; only Southeast Asia has performed better (+3.6% p.a.). Among the countries that stand out are, Ethiopia (+7.6% p.a.), Rwanda (+6.7%), Côte d'Ivoire (+6.1%), and Guinea (+6%)[10].

Africa is a **significant parameter in the equation of many of the world's biggest challenges.** The continent's young and growing population, projected to reach 2.5 billion by 2050, represents the largest consumer market worldwide; critical minerals are pivotal for global decarbonization efforts; and its vast arable lands are essential for ensuring world food security.

BCG has conducted thorough research to deepen our understanding of these parameters and key trends shaping Africa's future, synthesizing these insights into a "5G" framework: Generation Alpha, GenAI, Green, Geopolitics, and Global Debt. These five elements will be pivotal in molding the continent's trajectory and substantiate Africa's robust potential as a destination for private capital investment.

9. Oxford Economics, 2015–2023 CAGR.

10. Tanzania, Benin, Senegal, Democratic Republic of the Congo, Niger, Togo, Uganda, Burkina Faso, Kenya, Seychelles, Egypt, Gambia, Ghana, and Mali are all growing between 4% to 6% p.a.

1 **Generation Alpha:** In five years, 50% of Africans will be Generation Alpha (that is, born after 2010). That is 30% of the world's total Generation Alpha population. This demographic shift is forecast to create the world's largest workforce, with the working-age population expected to reach 1.1 billion by 2030. With high population growth comes rapid urbanization: urban areas in Africa will attract an additional 1 billion residents by 2050. The urban population is expected to triple and the number of megacities—densely settled areas with 10 million or more residents—to more than quadruple[11].

2 **GenAI and digital transformation:** A new wave of opportunities for Africa, both in terms of social inclusion and productivity, has been created by the tech sector, much like the "mobile miracle," the single biggest source of growth and productivity during the golden decade (2000–10). This mobile penetration is expected to continue, with smartphone penetration, at 51% today, forecast to grow to 87% by 2030[12].

3 **Green:** Despite Africa accounting for less than 3% of global CO_2 emissions, it will be the most affected, with 35 out of 50 high-risk countries in Africa[13]. Despite this threat, significant tailwinds support green growth in Africa. Its unparallelled renewable resource quality—particularly in wind and solar—and spacial availability provides a structural advantage. The continent also has highly productive ecosystems for carbon sequestration and an abundance of critical minerals for the low-carbon future. In addition, the adoption of regenerative practices presents opportunities for massive gains in agricultural productivity, which represents 15% of GDP in Africa and reaches more than 50% in some countries, with an average yield approximately 64% below the global average. Furthermore, the ongoing liberalization of power sectors across many African countries is enhancing potential in grid infrastructure, gas-to-power, renewables, trading, and green hydrogen.

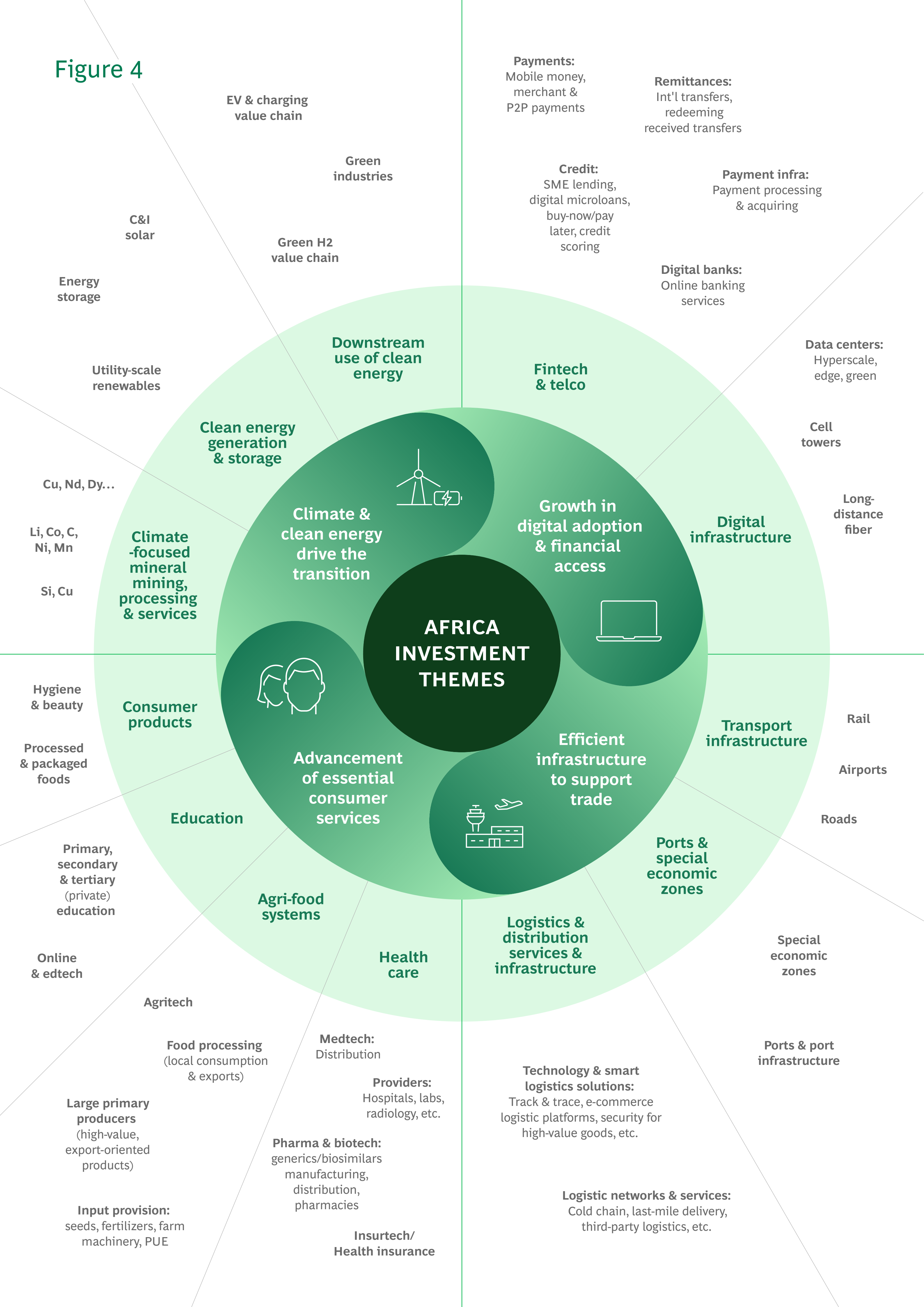
4 **Geopolitics:** Geopolitics has increasingly influenced the strategies of African companies and governments, highlighted by the tensions between China and the US and war in the Middle East and in Ukraine. These global shifts, a resurgence of protectionism, are reshaping trade routes, diminishing the traditional trade volumes between China/Russia and the US (and Europe). Africa is poised to play a pivotal role in the emerging world order by capitalizing on nearshoring opportunities, particularly between North Africa and Europe, and by supplying critical minerals. In addition to global dynamics, regional cooperation and integration within Africa is expected to significantly improve through the African Continental Free Trade Area (AfCFTA), which could boost intra-African trade by approximately 32% by 2035[14], promoting regional self-sufficiency and lifting existing barriers to trade. This boost in trade is supported by regional initiatives to increase exports through a more unified local market and enhanced international cooperation. Critical to supporting the increased trade flow are investments in infrastructure (projected infrastructure investments for the next ten years are more than $600 billion[15]), the development of special economic zones, and the privatization of existing rail and road networks, alongside scalable logistics services and visas.

5 **Global Debt:** Over the past few decades global debt levels have surged, with Africa facing particularly acute challenges. The sectors it has prioritized—energy, agri-food, health, education, and infrastructure—are not only capital intensive but Africa is also subject to interest rates 0.3% to 0.8% higher than those of other emerging markets[16]. The rates are elevated due to investor perceptions of higher risk, frequent default rates, and foreign exchange volatility, making the mobilization of both public and private capital crucial for success. Catalytic investments, usually by development finance institutions (DFIs) and multilateral development banks, are being used to eliminate scaling barriers and de-risk investments, helping bring down the overall cost of capital. New regulations, such as the amendment to South Africa's Pension Funds Act that allows pension funds to allocate a higher percentage of their capital to private investments, are also facilitating greater investment from private sources. This should expand the investor landscape and make Africa more accessible to global funds.

Refer to our publication "In Today's 5G World, Africa Has an Opportunity To Accelerate" for a further deep dive on BCG's 5G framework.

11. United Nations Department of Economic and Social Affairs;, World Bank.
12. Mobile Economy, 2023.
13. Maplecroft: Climate Change Vulnerability Index, 2022.
14. Standard Bank, The African Continental Free Trade Area (AfCFTA) Agreement, 2022.
15. UN Conference on Trade and Development, 2022.
16. Expert estimate.

Figure 4



AFRICA INVESTMENT THEMES
Climate & clean energy drive the transition
Growth in digital adoption & financial access
Efficient infrastructure to support trade
Advancement of essential consumer services
Downstream use of clean energy
EV & charging value chain
Green industries
Green H2 value chain
Clean energy generation & storage
C&I solar
Energy storage
Utility-scale renewables
Climate -focused mineral mining, processing & services
Cu, Nd, Dy…
Li, Co, C, Ni, Mn
Si, Cu
Fintech & telco
Payments: Mobile money, merchant & P2P payments
Remittances: Int'l transfers, redeeming received transfers
Credit: SME lending, digital microloans, buy-now/pay later, credit scoring
Payment infra: Payment processing & acquiring
Digital banks: Online banking services
Digital infrastructure
Data centers: Hyperscale, edge, green
Cell towers
Long-distance fiber
Transport infrastructure
Rail
Airports
Roads
Ports & special economic zones
Special economic zones
Ports & port infrastructure
Logistics & distribution services & infrastructure
Technology & smart logistics solutions: Track & trace, e-commerce logistic platforms, security for high-value goods, etc.
Logistic networks & services: Cold chain, last-mile delivery, third-party logistics, etc.
Health care
Medtech: Distribution
Providers: Hospitals, labs, radiology, etc.
Pharma & biotech: generics/biosimilars manufacturing, distribution, pharmacies
Insurtech/ Health insurance
Agri-food systems
Agritech
Food processing (local consumption & exports)
Large primary producers (high-value, export-oriented products)
Input provision: seeds, fertilizers, farm machinery, PUE
Education
Primary, secondary & tertiary (private) education
Online & edtech
Consumer products
Hygiene & beauty
Processed & packaged foods

Unlocking Opportunities: Four High-Potential Investment Themes in Africa

1. Climate and clean energy, driving the transition

The transition to renewable energy sources is crucial for sustainable development in Africa. Many African nations still face energy shortages and rising per capita energy demand. Limited access to energy is also an issue —approximately 45% of the population of sub-Saharan Africa, for example, lacks access to electricity—with large differences in distribution of access: some countries have less than 30%, while the top ten have more than 90%[17]. It is imperative for the continent to decarbonize not only to combat climate change but also to circumvent green protectionism, such as the EU's Carbon Border Adjustment Mechanism.

17. Africa's power infrastructure, World Bank.

There are opportunities across the value chain, particularly in the following:

- **Mining and processing of critical minerals, especially related services (up to 20% to 40% IRR[18]).** Africa is rich in critical minerals essential for modern technologies, including lithium, cobalt, graphite, platinum group metals (PGMs), nickel, manganese, copper, and rare earth elements[19]. The EU's growing focus on securing a stable and ethical supply chain for these minerals positions Africa as a critical partner, opening up opportunities for increased investment in mining and processing facilities (high-capex), as well as all related services (for example, facilities management, leasing of heavy equipment, digital and analytics solutions leveraging AI such as digital twins, autonomous vehicles). Returns are highly linked to the commodity cycle, so there is a need for expertise, to get right entry valuation, and flexibility in holding duration, especially for direct mining investments.

- **Renewable energy generation (up to 10% to 20% IRR[20]).** The continent's unparalleled renewable resource quality—particularly in wind and solar—provides a structural advantage. Furthermore, the liberalization of power markets in Africa represents a promising opportunity for investors not only for generating and trading the electron itself but also for funding the underlying infrastructure, for example, transmission lines and mini-grids (high-capex). Despite this liberalization of energy markets, governments and parastatals in many African countries still dominate energy procurement, which presents more risk to investors linked to grid offtake, especially given tariff constraints. Therefore, PE funds should be focused on investments with direct commercial off-takers, which yield the highest returns. Projects related to government intervention or offtake are deemed more appropriate for infrastructure funds with longer holding times and experience working with governments. Opportunities exist for more capex-heavy investments (large-scale solar or wind farms) as well as capex-light investments (commercial and industrial solar, energy as a service, energy trading, etc.). As in other opportunities, a country-specific approach and understanding of local regulations, the state of market liberalization, and power market dynamics is required before considering investments. In countries like South Africa and Kenya the renewable energy generation market has already reached higher competitiveness, with the majority of blue-chip offtakers having secured longer-term PPA contracts. Focus should shift toward other parts of the value chain, for example, trading in South Africa.

- **Downstream use of clean energy.** Green hydrogen and derivatives (ammonia, methanol, etc.), electric vehicle supply chain, green industries such as green steel, downstream use of agriculture applications (cold chain, irrigation). While clean energy is still mainly a VC investment space, there is large potential in the mid-long term, especially in services serving these value chains.

Vulnerability to climate change: There is still a large gap in available climate funding, with only approximately 12% of annual funding needs met across the continent[21]. The majority of climate funding has been focused on climate risk mitigation, but adaptation is becoming increasingly important. It presents an opportunity to build a resilient economy while driving Africa to become a center of innovation in the development of solutions addressing gaps in availability of climate-related data; carbon sequestration, by taking advantage of the continent's lands, forests, and coastlines; and new approaches to sustainable land use and agriculture. While adaptation and resilience investments generally do not generate market returns, the most interesting ones for PE will most likely be in agriculture (for example., precision agriculture, agri-processing, and sustainable aquaculture) which improves agricultural productivity and food security in an increasingly stressed environment.

2. Growth in digital adoption and financial access

GenAI and tech present huge opportunities, both in terms of financial inclusion and productivity, much like the "mobile miracle," which was the single biggest source of growth and productivity during the golden decade (2000–10). This mobile penetration is expected to continue, with smartphone penetration growing from 51% in sub-Saharan Africa today to 87% by 2030[22].

Increased access to digital financial services presents strong opportunities across sectors, with fintech being the primary beneficiary. Currently, 90% of payments are still made in cash in Africa, 57% of sub-Saharan Africa is underbanked[23], and there is low credit penetration across markets, creating opportunities to address these needs:

18. Industry experts estimate, 2024. USD denominated and dependent on macroeconomic factors.
19. South Africa (PGMs, nickel, manganese, REE, Vanadium), Zambia (copper, cobalt), Madagascar (graphite), Mozambique (graphite), Zimbabwe (lithium, PGMs), Tanzania (graphite, nickel, REE), Malawi (graphite, rare earth elements).
20. Industry experts estimate, 2024. USD denominated and dependent on macroeconomic factors.
21. Sandra Guzmán, Greta Dobrovich, Anna Balm, and Chavi Meattle, Climate Finance Needs of African Countries, Climate Policy Initiative, June 28, 2022; Chavi Meattle et al., Landscape of Climate Finance in Africa, Climate Policy Initiative, September 21, 2022.
22. Mobile Economy, 2023.
23. Forbes Africa, "The Companies Driving Acceleration of Mobile Money Ecosystems in Africa Across 13 Markets," 2024.

- **Digital payments (up to 15% to 30% IRR):** Although widely adopted in some countries, such as in Kenya, by more than 83% of the population, cashless payments still account for only roughly 10% of transactions across Africa[24]. Facilitating digital B2B and B2C payments presents a significant opportunity for both growth and digital inclusion (capex-light), with 57% of African adults underbanked and 20% to 50% of SMEs lacking a bank account[25,26].
  Investments in both digital payments and access to credit involve a risk-reward interplay for expected returns. In countries like South Africa and Kenya, where fintech adoption has already occurred, the risks are lower, but so are the rewards, with an expected net **IRR of up to 15% to 20%[27].** Conversely, in regions like Senegal, Côte d'Ivoire, and Algeria, where fintech adoption is still emerging, the risks are higher, but the potential rewards are greater, potentially yielding a net **IRR return of more than 30%[28].** The potential for outsize returns is evident from recent success stories where PE and VC funds have invested in Flutterwave, OPay, Interswitch, Fawry, and Wave, each of which is valued at more than $1 billion.

- **Access to credit (up to 15% to 30%[29] IRR):** Enabled by digital payments, access to credit will expand as more individuals and businesses generate digital records, allowing them to be vetted for loans. Providing credit access (capex-light) will provide individuals and businesses with liquidity when needed. This is a significant market as currently only about 4%[30] of individuals and approximately 52%[31] of businesses in Africa have access to sufficient credit.

- **Digital infrastructure** is a key enabler for increased growth in digital adoption, mainly driven by the growth of AI and the telco sector, which presents opportunities in three key areas:

- **Data centers (up to 20% to 25% IRR,** capex-heavy) will be crucial for storing and processing data, which is expected to grow exponentially, with a projected CAGR of 16% until 2030[32]. This growth is driven by advancements in AI and the adoption of digital technologies. Green data centers for hyperscalers' in select African countries—Senegal, Ivory Coast, Nigeria, Kenya, Morocco, and Egypt—present an attractive opportunity for investors looking to deploy capital in Africa.

- **Long-distance fiber** (up to **5% to 10%**, capex-heavy) will provide high-speed data connections, enabling the digitization of Africa and playing a crucial role in AI development. For investors, being a first mover in areas with potentially high future data traffic is crucial, especially in regions servicing mobile network operators and multinational corporations.

- **Cell towers** (**10% to 20%**, capex-heavy) will be crucial for the growth of mobile technology in Africa, especially 5G. Traditional towers can provide a net IRR of up to 10%[33] as they are strong cash-generating investments yielding up to $50,000 per site annually[34]. The traditional tower investment landscape in Africa is highly competitive, with TowerCo owning a significant portion of these assets. Fifth-generation technology could provide a net IRR of up to 20%[35] as it is expected to leapfrog fiber to the home technology in countries like Kenya, Nigeria, and Zambia[36]. 5G is more attractive because of the high penetration of smartphones in Africa and not having to lay optic cables in areas that do not yet have proper road infrastructure[37].

3. Efficient infrastructure to support trade

Trade in Africa is complex, driven by logistical and geopolitical challenges. Most African countries have challenging logistical environments (average Logistics Performance Index[38] of 2.5 compared with the global average of 3). These challenges are exacerbated by geopolitical tensions affecting trade routes, such as ships being diverted around the Suez Canal due to the Red Sea crisis and the need to import food and fertilizer from different countries due to previous reliance on imports from Russia or Ukraine[39].

24. GSMA, "Mobile Money Agents: Sustainability in a Digital Era," January 23, 2023.
25. Small Business Institute, "Literature Review on Small and Medium Enterprises' Access to Credit and Support in South Africa," December 2011.
26. Ciaran Ryan, "Making Business Banking More Accessible," Moneyweb, March 11, 2024.
27. Industry experts, 2024. USD denominated and dependent on macroeconomic factors.
28. Industry experts. 2024. USD denominated and dependent on macroeconomic factors.
29. Industry experts, 2024. USD denominated and dependent on macroeconomic factors.
30. The Global Economy, Percent people with credit cards. 2021.
31. World Bank Group: Enterprise Surveys, 2024.
32. BCG modeling, 2024.
33. Industry experts, 2024. USD denominated and dependent on country-specific economic factors.
34. Helios Towers, Driving the Growth of Mobile Communications Across Africa and the Middle East, 2023.
35. Industry experts, 2024. USD denominated and dependent on country-specific economic factors.
36. Ericsson: 5G in Sub-Saharan Africa, 2024.
37. Industry expert, 2024.
38. World Bank: LPI Dataset Sections, Global Performance, 2023.
39. Yulia Bychkovska, "Ukraine's Grain Exports Are Crucial to Africa's Food Security," Atlantic Council, April 5, 2024.

The already strained trade environment in Africa will be further affected by expected increases in trade. This trade will be driven by the further development of Africa and several trade agreements, such as AfCFTA (African Continental Free Trade Area), UK-Africa Trade and Investment, and other regional agreements. AfCFTA could increase intra-African trade by 32% and exports by 109% by 2035[40]. While AfCFTA may take longer than 2035 to fully materialize, trade is expected to increase meaningfully.

Given the scale and importance of infrastructure development projects, governments in Africa tend to be more involved in funding or being the primary offtakers of these investments. Therefore, infrastructure investments have more risks and are better suited to more-specialized infrastructure funds that have the scale and risk appetite to invest in the following opportunities:

- **Port and surrounding SEZ (special economic zone) infrastructure (up to 10% to 20%[41] IRR):** Expanding existing port infrastructure (capex-heavy) and developing SEZs (capex-heavy) for manufacturing and other value-adding activities to facilitate trade between African countries and the rest of the world. Greenfield port infrastructure that does not yet have the required road and rail infrastructure is a risky investment for specialized infrastructure investment funds.

- **Road, rail, and airport infrastructure (up to 5% to 20% IRR in a 7-to15-year time frame):**

  - Purchasing existing road infrastructure (capex-heavy) that can be monetized effectively, growing tollgate fees above inflation, could provide a net IRR of 10%[42].

  - Developing new rail infrastructure and selling it to local industries, like mining companies, or to the government, could provide a net IRR of 5%[43].

  - Upgrading existing airport infrastructure can provide a net IRR of up to 20%[44], depending on the concessions acquired in the upgrading contract, such as the rights to store leases or other infrastructure that can be monetized effectively.

- **Logistics and distribution infrastructure (up to 10% to 25% IRR):** Building logistics networks with facilities and transportation capabilities (capex-heavy) as well as developing the technology and services (capex-light) required to efficiently transport goods in Africa. Standard logistical business with warehouses, light and heavy trucks, and moderate technology use could provide an IRR of up to 15%[45]. This could be increased to 20% to 25%[46] IRR with the adoption of sophisticated logistical software, which, among other things, will optimize routes, minimize empty backhauls, and deliver track and trace.

4. Advancement of essential consumer services: health care, agri-food, education, and consumer goods

The massive growth in population will require an advancement of essential services such as health care, agri-food systems, education, and consumer goods.

4.1 Health care

Africa's health care sector remains considerably underdeveloped compared to both developed and other developing regions. This presents a challenge and a significant investment opportunity in expanding universal health care coverage. Key indicators highlight the disparity:

- **Health care infrastructure:** The continent has lower numbers of hospital beds and health care professionals, including physicians and nurses, than its global counterparts.

- **Health care expenditure:** The average health expenditure per capita in Africa is below \$100, starkly lower than the approximately \$650–\$900 in Asia and South America, around \$2,500 in Europe, and \$11,000 in North America.

Despite these challenges, there is a proactive effort across several African nations to enhance health care access and quality.

- South Africa, Egypt, Morocco, Kenya, Nigeria, and Côte d'Ivoire exhibit more-advanced health care systems and may serve as strategic entry points or models for health care investments.

40. Standard Bank, The African Continental Free Trade Area (AfCFTA) Agreement, 2022.
41. Industry experts, 2024. USD denominated and dependent on country-specific economic factors.
42. Industry experts, 2024. USD denominated and dependent on country-specific economic factors.
43. Industry experts, 2024. USD denominated and dependent on country-specific economic factors.
44. Industry experts, 2024. USD denominated and dependent on country-specific economic factors.
45. Industry experts, 2024. USD denominated and dependent on country-specific economic factors.
46. Industry experts, 2024. USD denominated and dependent on country-specific economic factors.

- There has been a noticeable shift from communicable diseases to noncommunicable diseases. This transition demands innovative approaches in diagnosis and treatment, presenting opportunities for investment in new medical technologies and health care services.

- Approximately 50% of health care facilities in Africa are currently owned and operated by the private sector, highlighting the role of public-private partnerships. Countries such as Egypt and Morocco are at the forefront, having developed legal frameworks that encourage the partnerships. These frameworks aim to harness private sector efficiencies to enhance health care infrastructure and services.

- The pandemic has catalyzed a movement toward self-sufficiency in health care, with a growing emphasis on local manufacturing of medicines and vaccines. This shift not only addresses supply chain vulnerabilities but also opens avenues for investment in domestic production capabilities.

Key investable opportunities are found across subsectors, specifically in the following:

- **Pharma and biotech (up to 15% to 25% IRR):** Manufacturing of generics/biosimilars (localization of supply chain to protect from FX fluctuations and increase robustness of supply chain as 70% to 80% of pharmaceuticals consumed locally are still imported), pharmacies/e-pharmacies and distribution/logistics of pharmaceuticals. Significant up-front capex usually required; however, big opportunity as demand is relatively inelastic, providing resilience against typical consumer cycle. Large opportunity identified in Egypt, Senegal, Algeria, Côte d'Ivoire, Nigeria, Morocco, and Tunisia, among others.

- **Medical products and technology distribution and assembly:** Medical equipment, devices, consumables, and wearables (capex-light).

- **Health care service providers (up to 15% to 35%):** Building and operating of primary care clinics, teaching hospitals, lab chain and imaging centers, specialty clinics, telehealth (capex-heavy). Technology is the largest driver behind high returns, further driven by strengthening of insurance providers and improvement of regulatory frameworks. Highest growth expected in East Africa (for example, Zambia, Tanzania, Kenya, and Uganda). Growth also expected in Central Africa (for example, Democratic Republic of the Congo) despite lower insurance development, with relatively lower growth in more-established health care markets (for example, South Africa).

- **Health insurance (15% to 20% IRR):** Insurtech companies looking to scale (capex-light).

47. FAOStat.

4.2 Agri-Food

There is large untapped potential for agri-food systems in Africa. One-third of all food in Africa is either wasted or lost. The agricultural lands have an average yield (approximately 64%) below the global average, with only around 5% cultivated land area being irrigated compared with approximately 15% in Asia. Instead of being an agricultural powerhouse, Africa must import approximately $100 billion of food every year[47].

We are seeing an injection of capital in key parts of the agri-food value chain to unlock this sector and build stronger, more-resilient value chains.

- Companies that **provide inputs (up to 20% to 25% IRR).** That is, selling animal feed, veterinary products, agrichemicals, seeds, fertilizers, farm machinery, and technology (for example, drip irrigation systems)—usually capex-heavy.

- **Large primary producers,** especially for high-value, export-oriented products like flowers, green beans, avocados, coffee, tea, macadamia nuts, etc. Most export-oriented crops today are exported raw; there is opportunity, however, to localize more of the processing.

- **Food processing plants (up to 25% to 30% IRR),** especially for high-value products like fruit juices, grain milling, dairy processing, cookies, candies, oil, etc. These are driven by mass-market purchasing power and predominantly serve local markets. Crops with an export focus, mainly to Europe and the Gulf region, are especially attractive to many financial investors as they provide a currency hedge: opportunity to localize the processing for avocado oil, chopped prepackaged foods (for examples, stir-fry packs), fruit snacks, high-end teas and coffees.

- **Agritech (up to 20% to 25% IRR) – although still smaller (more VC-size)** in Africa is a burgeoning ecosystem, with more than 300 ventures and growing. The key areas of growth include farm management software, marketplace platforms, and fintech solutions for farmers. We see this space continuing to grow, especially given the emergence of AI and the democratization of mobile technology. These are usually capex-light, with historically most investment seen in **tech platforms,** among them ones for sharing tractors, ordering seeds and fertilizers, farm advisory or management, and wholesale buying or food purchasing by consumers.

4.3 Education

Education will be top priority for Africa given its massive population growth.

- **Primary, secondary, and tertiary education (up to 30% net IRR).** There will be particular focus on tertiary school and online education targeted at serving more-affluent populations and expats (for example, international level schools and higher education). Generally, there are more assets available in North Africa. Morocco, for example, has made significant strides in this area recently, securing a $300 million investment to accelerate innovation and transformation in higher education and scientific research. There are also good opportunities in South Africa, Rwanda, Mauritius, and Senegal among other countries. Generally high valuation at back end is possible; however, given both real estate and corporate plays it can be difficult to find the right assets and deal structure at front end.

- **Edtech solutions** will be a key opportunity. With the rise of mobile penetration and internet access, online learning platforms and tools offer scalable models for reaching large numbers of students across vast geographical areas. Successful examples include Moringa School in Nairobi and AltSchool Africa in Lagos.

The challenge: Africa today is a net exporter of skilled talent. For example, in 2023, in the UK alone, more than 12,000 Nigerian-trained doctors were licensed to practice, while in Nigeria itself there are approximately actively practicing 40,000 doctors[48]. We see this continuing, especially in creative industries, sports, and technology.

The opportunity: India has been a net exporter for years and managed to turn it into a strength, becoming a reservoir of talent to the world. As Africa will soon have the largest working population globally, it could become a major strength for the continent. It is imperative, however, that companies manage talent proactively, ensuring that key positions requiring local talent are filled.

4.4 Consumer Goods

Africa's population growth, rapid urbanization, and rising GDP are expected to boost total consumer expenditure to $2.1 trillion by 2025. With this continued growth, the consumer goods market in Africa is projected to expand at a CAGR of 8% to 9%[49] from 2024 to 2028. The market is currently driven by increased import substitution, as products have been manufactured locally given currency and logistical challenges, and increased local cross-border trade, particularly in East Africa. As the consumer goods market continues to increase, several key opportunities exist in Kenya, Morocco, Egypt, Nigeria, and South Africa, with a focus on consumer staples providing relatively stable demand.

- **FMCG (up to 15% to 25%[50] IRR):** With the rapid pace of urbanization in Africa, there will be increasing demand for refined and packaged foods, beverages, and other consumer staples with longer shelf lives to accommodate the changing lifestyles of people living in cities (capex-heavy).

- **E-commerce:** A large increase in smartphone penetration presents opportunities for food and nonfood e-commerce.

Africa's vast development potential offers a unique opportunity for sectors to leapfrog to the most advanced stages globally. Targeting these sectors can catalyze Africa's leap to global competitiveness and provide a viable and attractive investment opportunity for investors. The synergy between these themes is expected to generate a compounding effect, accelerating is expected to progress across the continent and amplifying the overall impact.

48. Nigerian Association of Resident Doctors.
49. GlobalData consumer goods market database, 2024.
50. Industry experts, 2024. USD denominated and dependent on country-specific economic factors.

Blueprint for Success: Thriving as a Private Equity Investor in Africa

Dealmaking in Africa will continue to be challenging due to macroeconomic instability, including high interest rates and low liquidity for exits. However, there are several key factors to maximize returns:

1. Asset Selection

a. Focus on investments that support and unlock value in demographics and growth sectors, and that are robust against country-specific or macroeconomic challenges (B2B, assets with pricing advantages and/or consistent demand, natural currency hedges, export businesses, low capex, multicountry, etc.).

b. Do thorough due diligence on the asset (fundamentals and track record) and partners (target shareholders and management), ensuring integrity of the executing team and due diligence process to be fair and objective leveraging expert inputs, even in high-performing markets and sectors.

c. Emphasize during the diligence process already on value creation potential and be disciplined on valuations. Given the scarcity of sizable companies in attractive and resilient sectors, competition among investors can lead to inflated ingoing valuations, which challenge exit/returns on the back end.

d. Consider doing more but smaller investments to diversify risk across assets and countries.

e. As regulators have less capacity than in developed countries, long lead times can be expected across industries when trying to acquire a license, which potentially lowers IRR. Investors should consider investments that do not have this constraint, or manage licensing very closely to be successful.

2. Value creation

a. Rather than solely focusing on multiple expansions, emphasize margin expansion within the existing portfolio or asset as key lever to drive returns. Aim for more than 25% p.a. EBITDA growth to achieve approximately15% net IRR in USD depending on country currency devaluations, management fees, etc. Despite Africa being a more challenging market for enterprise growth, investors in the continent currently under-resource value creation, with only 5.6% of the investment team dedicated to portfolio value creation compared with 11.1% globally and 12.5% in Europe Mid Cap[51].

b. Given the high cost of debt in Africa, use of debt is usually more limited than in developed markets (typically 70% to 80% equity, 20% to 30% debt, with differences across countries). As multiples are relatively unstable, value creation is the key lever under influence by PE funds. Given high interest rates globally, leverage value is becoming eroded in developed markets too, putting higher emphasis on value creation everywhere.

c. Value creation can be achieved by taking an active role in managing growth, costs, and local capacity building, especially when targeting a strategic buyer for exit, which can be done more easily by acquiring majority stakes: Africa-focused funds opting for majority stakes have achieved 3% to 4% higher IRR on average[52].

3. "Start with the exit in mind"

a. Determine exit opportunities prior to investments, actively considering deal type and corresponding buyer (financial buyer, strategic buyer, or market given geography, industry, and size).

b. African exits follow four main archetypes: 1) M&A by corporates (40% to 45% of value between 2000–23), 2) buyouts by PE funds (25% to 30%), 3) secondary transactions (20% to 25%), and 4) IPOs (approximately 5%)[53]. Exits can vary significantly in quality.

Our separate publication on exit landscape in Africa to be published soon.

4. Effectively use innovative financing models such as blended finance leveraging public and private funds

The effective mobilization of both public and private capital will be pivotal, as it lowers overall cost of private capital, particularly in high-impact sectors like climate, energy, agriculture, health care, and technology. Moreover, embracing innovative financing models, such as a range of blended finance instruments, can play a crucial role in mitigating risks and enhancing the viability of investments (first loss capital, capped returns, contract for difference, partial/full FX guarantees, etc.). A few examples include Cygnum's local currency debt fund and the Green Guarantee Company, which guarantees up to $50 million per transaction to mobilize additional bonds or loans. DFIs, multilaterals, philanthropic investors, and governments can play a critical role in supporting the growth of different sectors in Africa. Additionally, working with local funds as LPs, such as for public officers pension funds, is critical to de-risk from a currency volatility perspective.

51. LinkedIn talent insights; BCG analysis.
52. Preqin; Refinitiv; BCG analysis.
53. PitchBook, based on value of capital investments between 2000–23 in USD.

Closing Thoughts: Embrace the Opportunity, Shape Africa's Future

As Africa stands at a pivotal juncture in its transformation, the time for meaningful engagement and decisive action is now. With its rapid economic advancements and innovative progress, the continent offers various opportunities for private investors. The very challenges that it faces, such as political instability and infrastructural deficiencies, frame the landscape for investments that not only promise substantial returns but also support sustainable development.

Although complex, the journey through Africa's investment terrain holds a promise for those willing to navigate its intricacies. The path forward involves embracing both the potential and the obstacles, leveraging reforms, and pioneering advancements in key sectors.

As we look to the future, BCG is preparing a series of insightful follow-ups that will empower and refine your investment decisions in Africa. These publications will be deep dives into key investment sectors mentioned in this publication, thoroughly assessing the potential landscape, strategic investment approaches to value creation, and robust risk mitigation as well as exit strategies.

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