

Need for more liberalization in African markets, say experts

CAIRO: Government intervention and the need for liberalization were highlighted as hurdles to growth and development in African markets by experts at a conference Monday (www.avcaegypt2009.com).

Executives from private equity companies discussed the potential and challenges facing African markets on day two of the eighth annual conference hosted by the African Venture Capital Association (AVCA) in Cairo.

In Tunisia, for example, governmental control over currency has limited the amount of currency a local company can use in transactions and thus acquisitions become difficult to handle.

Limited access to expertise is also a factor that stems business growth. Local companies are often unable to engage the services of leading consultant experts such as McKinsey, Bain, etc or financial service companies like Goldman Sachs and Deutsche Bank.

At the same time, the African market in many respects is underdeveloped. Microfinance, for example, has a very promising future in Africa, but it has a limited reach in the African market compared to the other emerging markets.

Dominiek Deconinck, a private equity manager from Incofin, noted that the African continent has significantly higher operating costs than Asia and Latin America. He stressed the importance of microfinance as a tool in combating poverty in Africa and empowering the "bottom of the pyramid."

Specialized funds were also identified as a promising financial instrument in Africa. Shakir Merali, a partner in Aureos Capital, gave an example with the Africa Health Fund which has identified health care in Africa as a market with a lot of potential, as more than 50 percent of such services are provided by private entities.

The fund targets companies that provide health care where it is not available. A major challenge to health care funds, however, are non-profit organizations who subsidize health care services and distort market forces.

Analysts at the conference also focused on the MENA region markets. It was noted that growth and expanding opportunities are driven by the growing young population of the region. Figures show that up to 59 percent of the region's population is under 30.

Egypt was pointed at as a typical example. In the past five years private car registrations have jumped by 57 percent. At the same time mobile penetration has reached 65 percent and it continues to grow fast.

Despite the great potential of the technology market in the region, local technology companies face challenges. Alaya Bettaieb, the founder of African Pioneer Partners, stressed the difficulties technology start-ups in the region have such as lack of managerial human capital and limited intellectual property rights practices.

At the conference, the lack of local qualified managers was identified as a major business problem in the MENA region in general. Regional companies often have to look for high-profile managers in Europe, where qualified cadres tend to be more expensive and often disconnected with Middle Eastern markets.

Hisham El-Khazindar, managing director and co-founder of Citadel Capital, said, "If someone wants to invest on this continent, they cannot just do traditional buyouts.

He stressed the importance of start-ups and distress deals on the market, which he identified as included in the Citadel's comprehensive strategy.

"The primary impediments to growth in Africa are a lack of capital for investment and underdeveloped managerial capacities, which are two things private equity is uniquely well-positioned to address, said El-Khazindar.

Alaa El-Afifi, managing director of Citadel Capital, chaired a panel on changing traditional private equity models to better suit the nature of investments in African markets under the current economic conditions.

"While it may be obvious to those of us who are based in Africa, it is important to stress for foreign investors that many markets in Africa are particularly well-suited to private equity investment, having the fundamental prerequisites for development, including benign government, solid regulatory frameworks, and compelling natural advantages, he said.