Africa presents an exciting opportunity: as wealth continues to increase, more domestic investors emerge, while improvements in regulatory frameworks are enticing foreign investment and distribution. In this report we seek to highlight the potential opportunities and challenges that may lie ahead for investors and how they can plan for 2020 and beyond.
This paper makes a number of predictions and presents PwC’s vision of the future environment for the asset management industry. These predictions are, of course, just that – predictions. These predictions of the future environment for the asset management industry address matters that are, to different degrees, uncertain and may turn out to be materially different than as expressed in this paper. The information provided in this paper is not a substitute for legal and other professional advice. If any reader requires legal advice or other professional assistance, each such reader should consult his or her own legal or other professional advisors and discuss the specific facts and circumstances that apply to the reader.

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We are excited to present this report on Africa’s asset management industry. As Africa has entered the 21st century, economic growth has surpassed expectations and stimulated investor interest across a broad range of asset classes. Although the fund industry in Africa is, in most countries, still developing and has much to prove, global and local asset managers are likely to become more active as the industry continues to flourish.

This report is an in-depth study which examines the asset management industry across twelve African countries which have financial sectors of varying levels of development. We consider the industry in terms of both investment and distribution in order to illustrate the current state of asset management in Africa, focusing on traditional asset management. We also seek to highlight the potential opportunities and challenges that may lie ahead for investors. As asset managers look for new investment channels and competition becomes increasingly intense, understanding the characteristics of the local markets will be crucial to grasp the potential of this final frontier.

Africa presents an exciting investment opportunity: as wealth continues to increase more domestic investors emerge, while improvements in national regulatory frameworks are enticing foreign investment and distribution. Growth rates are staggering in some markets; Ghana is projected to have a GDP growth rate of 9.2% in 2017, while Angola showed a compound annual growth rate of 21.7% for the period 2002 to 2014. Likewise, growth in mutual funds has also been rapid with Nigeria showing an incredible Compound Annual Growth Rate (CAGR) of mutual funds of 33.8 percent in just four years between 2011 and 2014. Despite this, banks still dominate the financial sectors and in most markets are considerably larger than the other institutional investors. But we expect this dominance to wane as economies develop and a middle class emerges creating higher demand for life insurance and pension products.

Significant global and continental megatrends, which we refer to as the “game changers”, will also help drive the market and create future opportunities. Africa’s demographic dividend, its growing middle class, its increased use of technology, and its rapid urbanisation will all have a part to play in the development of the asset management industry in Africa.

I would like to thank the representatives of the market players and the South African regulator for their opinions on the asset management industry in their markets and in Africa in general. Also, I would like to express my appreciation to the PwC Market Research Centre in Luxembourg, which conducted the research for this report, and the Financial Services and Asset Management leaders in the markets concerned for their contribution.

We trust this report will help to identify opportunities for asset managers considering the African market.

Ilse French
PwC Africa Asset Management Leader
**Figure 1: Nominal GDP comparison - Compound Annual Growth Rate (CAGR)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Morocco</td>
<td>8.9%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Mauritius</td>
<td>8.4%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Algeria</td>
<td>12.3%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Botswana</td>
<td>9.6%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Tunisia</td>
<td>6.5%</td>
<td>8.5%</td>
</tr>
<tr>
<td>South Africa</td>
<td>9.8%</td>
<td>9.2%</td>
</tr>
<tr>
<td>Angola</td>
<td>21.7%</td>
<td>9.3%</td>
</tr>
<tr>
<td>Namibia</td>
<td>11.2%</td>
<td>11.8%</td>
</tr>
<tr>
<td>Nigeria</td>
<td>18.3%</td>
<td>12.9%</td>
</tr>
<tr>
<td>Kenya</td>
<td>12.6%</td>
<td>13.4%</td>
</tr>
<tr>
<td>Egypt</td>
<td>10.5%</td>
<td>13.9%</td>
</tr>
<tr>
<td>Ghana</td>
<td>11.6%</td>
<td>15.5%</td>
</tr>
</tbody>
</table>

Source: PwC Market Research Centre analysis with IMF data
The rise in the volume of investable assets which has occurred over the last two or three decades is set to continue to increase in the future and investable assets are expected to be significantly higher in 2020 than today. “Asset Management 2020 - A Brave New World” predicted that global investable assets will rise to around USD 101.7 trillion by 2020.

Assets under management in the South America, Asia, Africa and Middle East (SAAAME) economies are set to grow faster than in the developed world in the years leading up to 2020, creating new pools of assets that can potentially be tapped by the AM industry. Although Africa is currently a small part of the global industry it is a region that is experiencing considerable growth1 (see figure 2).

For investors to leverage the opportunities of this vast and growing sector, they must remember that Africa is a collection of different markets, each with its own characteristics. Economic performance varies widely from one country to the next. Although economic growth as a whole has been impressive in most countries due to numerous factors, the need for local structural reforms and changes is crucial for economic and financial development. As a result, we have identified several challenges.

Diversification in resource-driven economies is becoming urgent, as they are easily subject to external shocks (e.g. external demand for commodities) or are heavily reliant on specific services such as tourism which may drastically change over time. Countries which depend on natural resources may need to make adjustments in their economic policies and find alternative ways to stimulate their economies in the foreseeable future.
For many years, political turbulence and corruption precluded sustainable growth and acted as a barrier to foreign investment in many African countries. Therefore, we expect political dynamics and transitions to democracy to be significant determining factors in the region’s economic and financial development, especially in North Africa. This will not only lead to changes in regulation, but will also act as a moderating factor for foreign direct investment and portfolio investment in the region. This will in turn impact the development of the financial sector and the asset management (AM) industry.

Since the start of the 21st century, Africa has benefited from an unprecedented growth in GDP. In fact, since the beginning of its ascent in 2002, it has risen to become one of the fastest growing regions in the world. Despite suffering a serious economic downturn during the global financial crisis, overall African nominal GDP growth has managed to stay at around 12.4 percent (see figure 3) on average and we expect it to continue to grow fast.

With myriad languages, cultures and legal systems, Africa is a very diverse continent. Therefore, for the purposes of our study we limited our research to a selection of twelve representative countries which were selected from a long list. The level of development of each country’s fund industry was estimated by measuring the number of registered funds. The potential demand for investment funds was estimated by the proportion of ultra high net worth individuals (UHNWI), high net worth individuals (HNWI) and mass affluent individuals among the population. To assess the probable demand for institutional asset management, the number of banks globally in the top 1,000 and the number of institutional investors in the top 1,000, per country were calculated. The countries represent a sample from Northern, Eastern, Western and Southern Africa and varying levels of wealth as measured by GDP per capita.

This report includes a section which outlines the future game changers for Africa as a whole as well as addressing the impacts for these specific markets. A summary of the potential for investment and distribution in Africa is also included. This is followed with a detailed profile of each of the twelve countries.
Twelve markets grouped by potential

Africa is seen as the last frontier for the AM industry; however, economic growth and the quality of institutions mean that these markets are at varying levels of development. Therefore, the twelve countries in this study were assessed by a range of relevant indicators in order to capture their true investment potential. We believe the countries in this study can be best categorised into three groups: Advancing markets, Promising markets and Nascent markets.

The countries were assigned to these groups by their ranking on a number of metrics.

The size of the financial sector in proportion to GDP indicates the potential for growth in the asset management sector due to increased assets to invest and a more established savings and investment culture.

The proportion of the Assets under Management (AuM) in Collective Investment Schemes (CIS) or Mutual Funds in comparison to GDP signifies the importance of the mutual fund industry in the market.

Macro indicators (GDP growth, stock market index and Foreign Direct Investment (FDI)) provide a clearer picture of potential as some countries currently have larger financial sectors or AuM but their economies are growing more slowly. In this case, these countries will be surpassed by other countries which currently have small asset management sectors.

The Stock Market Index captures both the returns on investment and market volatility, and the FDI indicates where multinationals are directing their capital.

The quality of institutions (see appendices 4 and 5) is another valuable metric. The World Economic Forum’s Global Competitiveness Index measures, among its twelve pillars, the quality of institutions including the legal framework, infrastructure, business sophistication, and financial market development.

Some countries, for example Ghana, have small financial sectors and fund industries, but are solid democracies with strong legal frameworks. Political stability and investor protection are crucial to maintain investor confidence and to entice new investors. This strong foundation is likely to lead to considerable growth as foreign investors will be reassured by the quality of institutions in these countries.

It is clear that certain countries are at similar stages of development according to these measures, particularly in terms of quality of institutions infrastructure and business sophistication.

The financial markets of these countries and their key players are examined in the next section.

Source: PwC Market Research Centre analysis

Figure 4: Grouping of Countries

Advancing
- South Africa
- Morocco
- Mauritius
- Namibia

Promising
- Egypt
- Ghana
- Kenya
- Botswana
- Nigeria

Nascent
- Angola
- Algeria
- Tunisia
Capital Markets

Strong capital markets along with macroeconomic stability are key indicators for potential investors. Capital markets regulation differs widely across Africa as regulatory structures vary due to market conditions and historical factors. In some countries, capital markets are regulated by the central bank while in others, they are under the jurisdiction of an independent regulatory commission.

Although GDP is growing, the savings and investment culture has not yet caught up and for the most part, capital markets remain quite small and illiquid. Illiquidity is a challenge for many stock markets; even those with quite a few companies listed may be imbalanced and have a situation where the top ten stocks account for three quarters of the capitalisation.

In addition, there is often narrowness as regards the sectors from which listed companies come, with the financial or extractive sectors being overrepresented. Regulations to boost the capital markets are being discussed, such as encouraging pension funds to invest in locally listed companies, this measure could prompt companies to list on the exchange — currently, there may not be much incentive for them, to list on a small exchange.

In the African bond markets government bonds dominate, accounting for more than three quarters of bond market capitalisation. Maturities vary but are generally short, and turnover is low as investors buy to hold. Eurobonds, which can be issued with lower interest rates, are increasing in popularity and have so far been issued in South Africa, Ghana, Nigeria and Namibia.

Corporate bond markets in Africa range from nascent to non-existent apart from South Africa and to a lesser extent some North African countries. Most are issued by financial institutions and are generally bought to hold. Despite being currently very small, the market is beginning to expand and the growth of corporate bonds in comparison to government securities indicates they may be an important source of funding in the future.

Asset Management

Traditional asset management particularly the mutual fund industry, is expanding aggressively in most of the countries considered in this report. AuM growth has already been considerable and we predict that this will continue to 2020 (see figure 5). This will be driven by a number of factors: economic growth and the subsequent rise in wealth will boost demand for pensions and life insurance products, demand for retail investment funds will consequently increase, and the widespread adoption of technology will make delivery of new products cheaper, bringing more consumers into the formal financial sector.

However, the AuM of mutual funds do not provide the complete picture. A large part of the institutional assets is managed by asset managers through mandates, with this portion being larger for promising and nascent markets in comparison to advancing markets. We currently estimate this African share to be between 75% and 95% depending on the level of maturity of the market. This reliance on mandates will subsequently decrease and the proportion of mutual funds will increase as the markets mature.

Retail investors form a very small proportion of investors in asset management. That said, the number of retail investors in these markets could be increased through education about products, encouragement of a savings and investment culture, and overall economic growth.

Figure 5: Traditional Asset Management in the Three Groups of Countries

<table>
<thead>
<tr>
<th>Selected markets</th>
<th>2008</th>
<th>2014</th>
<th>2020*</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nascent</td>
<td>19</td>
<td>34</td>
<td>559</td>
<td>13.7%</td>
</tr>
<tr>
<td>Promising</td>
<td>48</td>
<td>27</td>
<td>75</td>
<td>9.6%</td>
</tr>
<tr>
<td>Advancing</td>
<td>240</td>
<td>972</td>
<td>1,098bn</td>
<td>51</td>
</tr>
</tbody>
</table>

* Assuming exchange rates remain constant

Source: PwC Market Research Centre analysis based on National Authorities data
Investors and Distributors

Regulations are being implemented in many markets to establish a savings and investment culture, particularly among the lower income population. Distribution, especially to retail investors, is conducted mostly through banks, insurance companies or asset managers as funds are still considered a push product.

However, as banks have the best distribution network they will likely be the main distributors in the future. Nevertheless, technology is generating some exciting results and in some markets mobile distribution may leapfrog over the current distribution channels if current trends, particularly in Kenya, continue.

All parts of the financial sector are expected to continue to expand to 2020 and beyond, but bank assets will grow at a slower pace than those of the other industries. Pension and insurance markets will mature as their products become more significant and as a savings culture is established. The majority of asset management is controlled by African companies, with some South African companies active in many regional markets. Foreign players do exist but, due to a lack of local knowledge, they generally enter the market through acquisition of or via a partnership with a local player.

Banks

Although bank assets have increased during the period of our study, making banking by far the largest industry in the financial sector, it is likely that growth will wane in the coming years as competition is fuelled by new entrants in the market as well as structural reforms. In the long run all players will be forced to innovate to remain in the market, which will contribute to increased efficiency in the sector.

A number of banks have also set up their own asset management subsidiaries to push their own proprietary products, and we are observing the emergence of platforms and direct sales channels. Many of these banks also seek cooperation with foreign asset managers to promote their African investment strategies in other parts of the world in exchange for promotion of other asset managers’ investment strategies in Africa.

Figure 6: Total Assets* of Banks per Country (USD bn)

<table>
<thead>
<tr>
<th>Country</th>
<th>Assets (USD bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>370.8</td>
</tr>
<tr>
<td>Egypt</td>
<td>225.8</td>
</tr>
<tr>
<td>Nigeria</td>
<td>150.7</td>
</tr>
<tr>
<td>Morocco</td>
<td>131.8</td>
</tr>
<tr>
<td>Algeria</td>
<td>129.8</td>
</tr>
<tr>
<td>Argelia</td>
<td>71.0</td>
</tr>
<tr>
<td>Tunisia</td>
<td>45.3</td>
</tr>
<tr>
<td>Mauritania</td>
<td>33.2</td>
</tr>
<tr>
<td>Kenya</td>
<td>24.4</td>
</tr>
<tr>
<td>Ghana</td>
<td>15.5</td>
</tr>
<tr>
<td>Namibia</td>
<td>7.4</td>
</tr>
<tr>
<td>Botswana</td>
<td>7.5</td>
</tr>
</tbody>
</table>

* Latest data available

Source: PwC Market Research Centre analysis based on National Authorities data
Pensions

The pension fund sector in the twelve countries in this study has grown steadily from 2006 to 2014 and is expected to continue to grow considerably. As these economies mature, pensions are becoming more significant as a part of the financial sector, although many countries still have virtually no private pension schemes. We believe this is changing and pension assets will continue to grow significantly.

Already, countries such as Mauritius and Ghana have created three pillar pension systems encompassing a third tier of voluntary schemes for middle class workers. In addition, changes in investment regulations regarding asset allocations are already taking place in many countries, making room for product innovation; this should create a virtuous circle where better returns encourage more investment.

Figure 7: Total Assets of Pension Funds per Country* (USD bn)

Source: PwC Market Research Centre analysis based on National Authorities data
* Latest data available
** No data available

South Africa 309.8
Morocco 25.7
Nigeria 18.9
Namibia 10.1
Kenya 7.9
Egypt 6.8
Botswana 6.6
Mauritius 3.5
Ghana 2.2
Algeria 1.9
Angola 0.7
Tunisia **
Insurance

The insurance industry is growing rapidly. In terms of premiums collected Africa has a low average penetration rate of about 3.5 percent of GDP, with the exception of South Africa which is over 15%. Serious growth of the insurance sector in other countries has only begun in recent years; due to the general lack of financial awareness among consumers and religious views in some North African countries. Across the twelve countries there has been a steady growth in insurance assets over the period of our study. As with pension funds, insurance companies outsource part of their asset management to third parties.

Figure 8: Total Assets of Insurance Undertakings per Country* (USD bn)

* Latest data available
Source: PwC Market Research Centre analysis based on National Authorities data

“Trillions of dollars will need to be invested in infrastructure in Africa in the medium term.”
Armien Tyer, Absa
Private Investment

Due to illiquidity in the capital markets, private equity investment is currently the most interesting form of investments for foreign investors. In fact, 2013 research by the Emerging Markets Private Equity Association (EMPEA) showed that for the first time those polled considered sub-Saharan Africa as the most attractive investment region. However, the lack of availability of exit options is also a concern for potential private equity (PE) investors in Africa. In order to boost the alternative sector, South Africa, Namibia and Botswana have changed their pension legislation to allow pension funds to increase their allocations to PE. Nonetheless, these countries remain the exception rather than the rule in Africa.

Although PE investment in Africa covers many sectors, infrastructure is considered to be a major opportunity for investment. The World Bank has estimated that it will take ten years with an annual investment of USD 93bn to bridge Africa’s infrastructure gap. The power sector has a particularly large infrastructure gap which is a major constraint to productivity on the continent. However, infrastructure investment often means partnering with the public sector, which may not appeal to some PE investors.

PwC South Africa’s report “Building the future of Africa” confirms that private capital will be very important for bridging the infrastructure gap in Africa, most likely as a partner with government. The demographic dividend and increasing urbanisation are going to drive the demand for infrastructure and, in particular, housing in the rapidly growing African cities. PwC research calculated that infrastructure spending in sub-Saharan Africa will exceed USD 180bn by 2025. The impact of government policy and legislation will be a crucial factor in the growth of real estate investment, while political stability will encourage investment, particularly in the form of public private partnerships.6

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6 “Capital project and infrastructure spending: Outlook to 2025 – Region Highlights” PwC
Africa currently represents 15 percent of the world’s population, but just 3 percent of the world’s GDP and less than 1 percent of the world’s stock market capitalisation. However, things are changing and we are observing an increase in demand for goods and services. Therefore, the need for financing in the real economy is becoming increasingly necessary. Although they are still in the early stages, sound financial sectors and fund industries are developing across the continent — a tangible sign of attempts to meet those needs. Countries are also seeking to diversify away from commodity driven economies by expanding their financial sectors. The countries in our study range from those in the nascent group, in which the fund industry is only beginning to develop, to those in the advancing group, where the financial services industry is already quite well developed and investment funds are numerous and well regulated. Further development of the industry will clearly take place at very different paces depending on the current level of maturity.
Demographic dividend

Africa’s population growth and the resulting demographic dividend (see figure 9) could significantly boost economic growth. To fully harness the advantages of this major demographic transition, investment is necessary in industries that create jobs and thereby increase labour productivity and economic diversification, and reduce poverty rates.

In addition to the increase in the share of workers in the population, as the birth rate slows, both the government and individual families will be able to devote more resources to the education of each child, which should increase the level of human capital per worker, further boosting growth.

North Africa has already experienced a similar shift in population structure and has seen the downside of an increase in the working age portion of the population at a time when there is insufficient infrastructure to fully utilise this increase in human capital. As a result of the Arab Spring, which was partly inspired by high unemployment among young educated citizens and led to civil unrest and the overthrowing of governments, growth and investment in North Africa has slowed considerably. If sub-Saharan Africa learns from this example and harnesses its demographic dividend correctly, this will contribute to substantial growth potential stemming from the larger workforce and proportionally smaller amount of dependants. The diversification of the economy, which has already begun in many countries, is expected to continue as the workforce grows. This will lead to less exposure to external shocks, such as weather or an external demand shock which could severely affect the economy of a country that is heavily dependent on one sector like agriculture. Diversification has increased the proportion of the tertiary sector in GDP. Manufacturing and services growth could harness the demographic dividend while this could also satisfy Africa’s growing consumer demand; 60 percent of sub-Saharan Africa’s GDP in 2012 was attributable to consumer spending, while 16 percent is attributable to manufacturing.

If policies are implemented to create enough employment for the enlarged workforce, the falling dependency ratios should increase both savings and investment and create a significant demand for savings products. Some African countries have already taken action. Ghana has created programmes to equip college graduates with skills to help them with job searches, and Mauritius has developed a plan to boost the number of young people gaining technical and vocational education.

Figure 9: Population Structure of Twelve Selected African Countries (%)
Growing middle class

The middle class has increased quite rapidly in Africa over the past 30 years (see figure 10), both as a proportion of the population (from 26% in 1980 to 34% in 2010) and in absolute terms, and this growth of the middle class is set to continue. Standard Bank’s report on the middle-class in Africa indicates that Nigeria will add 7.6m middle-class households by 2025, while Ghana will add 1.6m and Angola will add one million. In surprising contrast, just 4 percent of Kenya’s population is considered middle class despite the fact that the country has a mature financial sector and a strong rule of law.

A growing middle class is likely to stimulate growth in domestic demand, decreasing reliance on imports and making countries less vulnerable to external shocks. The middle classes are also associated with greater emphasis on education and saving. Education will lead to greater financial literacy and increased savings means increased demand for sophisticated financial services. The increase in wealth will lead to the expansion of insurance and pensions as forms of savings and demand for retail investment funds, thus significantly boosting the asset management industry. The middle class, which is composed of a large proportion of entrepreneurs, will push for a more robust legal framework for property rights. In turn, this will sustain growth and make these countries more appealing to foreign investors and distributors.

Figure 10: Population Increase by Class

Source: PwC “Real Estate: Building the Future of Africa”

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10 Standard Bank “Rise of the middle class in sub-Saharan Africa”
**Increased use of Technology**

Technology is changing Africa. For example, in Nigeria, 56 m people live without access to electricity but mobile subscriber penetration exceeds 100 percent.\(^{11}\) This incredible level of technological development (see figure 11) may help formal financial services to break into Africa, the last great untapped market where lack of physical infrastructure, such as bank branches outside major cities, has hindered the development of financial services. In sub-Saharan Africa, only 23 percent of adults report having an account at a formal financial institution while in North Africa the proportion is 20 percent.\(^{12}\) This is often due to a lack of adequate infrastructure and low population densities outside cities. According to the World Bank, in sub-Saharan Africa, 63 percent of the population live in rural areas, although this proportion is decreasing. However, these technological changes are rapidly reducing the number of non-banked individuals in Africa and thus driving the economy by acting as a gateway to formal financial services. With a high mobile phone penetration rate, the second highest in the world after the Asia Pacific region, mobile financial services have taken off recently as larger portions of the population access the web on mobile devices compared to fixed line internet.

Mobile technology is enhancing financial services in Africa via two models: a non-bank led model, where mobile services allow those who were previously unbanked to access payment and banking services and a bank led model where existing bank customers are offered a mobile banking service. The first model, began with a payments system known as M-Pesa which was introduced in Kenya in 2007. Launched by Safaricom, the country’s largest mobile network operator, it is used by an estimated 17m Kenyans, and in 2014 a savings account option was introduced.\(^{13}\) Later, a second bank led model called M-Kesho was introduced which allowed bank accounts to be opened with Equity Bank in Kenya. This service extended rapidly to other Kenyan banks and to other countries. Mobile technology has also spread into insurance products such as Vodacom in South Africa, which offers insurance products and Tigo in Ghana, which offers life insurance.

As these services were introduced by non-bank entities, there is a potential for weakness in terms of regulation and legislation; with regulators struggling to keep up with new platforms. In addition, data security is likely to be a key issue requiring close collaboration between telecoms and financial regulators. Moreover, growth has not been uniform across all markets; problems such as a lack of interoperability between different service providers and lack of agreement from financial institutions have slowed the penetration of mobile financial services.

![Figure 11: Mobile Subscriber Penetration](source: GSMA Mobile Economy Report 2015)

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\(^{11}\) www.ncc.ng.gov - Monthly subscriber data
\(^{12}\) Iveri White paper “Accessing the unbanked: Branchless Banking in Africa” 2014
\(^{13}\) Telecompaper.com “KCB, Safaricom introduce mobile banking accounts”
Urbanisation & Infrastructure

Poor infrastructure has been an impediment to economic growth. Improvements in this area could lower export costs, boosting manufacturing and decreasing Africa’s heavy reliance on agriculture and commodities. PwC research suggests that infrastructure spending in sub-Saharan Africa will exceed USD180bn by 2025; a growth rate of 10 percent per annum. Another example is housing where Nigeria alone is estimated to have a shortfall of 17m housing units. Some countries have begun programmes to address this deficit. The shortfall in government funding creates opportunities for private investors to get involved either through direct investment or public-private partnerships. However, weak legislative frameworks, political instability and the complexity of operating in African countries may continue to be deterrents.

Africa’s urban population is currently increasing by 1.1 percent annually, and will have a major impact on real estate and infrastructure by 2020. The urban population is forecasted to grow to 56 percent in 2050, making Africa the most rapidly urbanising continent in the world. Nigeria and Kenya already averaged an urbanisation rate of about 3.8 percent and 4.4 percent per year, respectively, from 2010 to 2015.

The shift from rural to urban populations will increase demand for housing, together with different types of real estate such as student accommodation. This change in demographics and urbanisation will significantly impact needs for infrastructure as well, creating new opportunities for investors in the next five years.

Real estate is currently generating high returns and is thus very popular. The majority of investment is in commercial property, as growth in the mortgage sector has been slow due to institutional and legal

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14 PwC ‘Real Estate - Building the future of Africa’
16 Source: PwC’s Real Estate Building the future of Africa
17 Idem
constraints. Nigeria has started to tackle this issue with the establishment of the Nigeria Mortgage Refinance Corporation (NMRC) in 2014. South Africa is also attempting to develop the market of lower middle income housing and mortgages through subsidies. Real Estate Investment Trusts (REITs) have already been introduced in some African countries such as South Africa and Kenya. It is probable that the REIT format will be employed more widely in the coming years as real estate funds will be key for the growth of fund industries in Africa, particularly in the nascent countries which are experiencing booming infrastructure sectors.

PE is growing in Africa; according to AVCA, there are over 200 PE funds investing in Africa. Most of these are investing in growth capital and their fundraising processes are generally long due to the strategic efforts required. Investment periods correspond to this longer time horizon with an average of about five years. Currently, the majority of deals are small; 80 percent below USD 50m in 2013, although these small deals make up just18 13 percent of the total equity investments suggesting that there are some deals of quite considerable size. It seems likely that deal size will grow to be more in line with other emerging markets as these economies and regulatory frameworks develop. Furthermore, the infrastructure boom will create significant opportunities for PE investment in Africa through Public Private Partnerships, once the regulatory weaknesses are ironed out. Likewise, legislative changes to encourage PE investment via state investment vehicles would give domestic firms both money and expertise in order to grow the private sector.

Development of the Financial Services Industry

By bridging the gap between investors seeking suitable investment vehicles and financing the needs of the real economy, the asset management industry can not only efficiently allocate capital where it is needed, but also act as a key financing tool in Africa and be a source of wealth creation in the region. The countries studied in this report vary from those with very extensive legislative frameworks, such as South Africa, to those in much earlier stages of the development of their legal and regulatory frameworks, such as Angola.

Regulatory reform is likely to increase economic growth by creating the necessary financial infrastructure for international investors to enter the market and push local players to invest more domestically. Changes to regulations regarding pension funds in particular could have a big impact on the asset management industry, as public pensions are often the largest institutional investors in many African countries. These changes include allowing pension funds to invest in a wider range of assets or the establishment of a three tier pension system in those markets where there is demand. This could alter the landscape considerably. For those markets which do not allow foreign funds or foreign distributors, opening up the markets to this competition will lead to a more vibrant local industry.

Government policy and legislation have a substantial influence on investment decision; increased political stability will ease investors’ concerns as to the levels of risk related to investment in Africa. Moreover, the quality of institutions will not only sustain economic growth but will also make markets more appealing to international investors.

Foreign exchange control has a considerable impact on the financial sectors of the African countries that implement this policy. Of the countries considered in this report, only Botswana, Egypt, Kenya and Mauritius are exempt. The restrictions vary from country to country and, despite some controversy as to their effect on business, they are considered to have proven their worth during the financial crisis. Exchange rate volatility substantially affects the economic stability of developing markets and, as a result, the financial and asset management sectors.

Sovereign wealth funds (SWFs) can fill existing funding gaps until the legal frameworks of African countries develop sufficiently to make them appealing to other investors. As large institutional investors, SWFs could provide a considerable boost to the asset management industry in Africa, particularly because they are long term investors who seek stable returns. Although some SWFs such as those in Ghana, invest exclusively outside Africa in order to protect their assets from greater fluctuations due to political or economic instability in Africa, the majority succumb to pressure to use their potential as large institutional investors to make impact investments (investments which have the intention to generate a measurable, beneficial social or environmental impact alongside a financial return).

The fact that most of the funds use a proportion of their assets to make impact investments domestically or regionally suggests that they will become big players in local markets. Club investments among sovereign wealth funds are an emerging trend and, therefore, the existence of African SWFs could draw other funds into the region to engage in co-investments.

18 AVCA “Guide to PE in Africa 2013-2014”
Advancing Markets

This group is comprised of those countries with relatively mature financial sectors. These markets, as a group, also have the largest amount of mandates, the proportion of which we calculated based on the amount of institutional assets. An outlook for the group with the AuM growth is detailed at the end of this chapter.

These markets have some of the most developed, diversified economies in Africa. These countries are not so reliant on banks for financing and are supported by mature capital markets with large market capitalisations relative to other African countries. High quality institutions and solid legal frameworks support the Advancing markets. This group scores highest of all the three groups on all of the metrics from the Global competitiveness index but the largest divergence is in terms of the quality of institutions and infrastructure and the level of business sophistication.

Demographics are another driving factor leading to the increased sophistication of these financial sectors. The larger proportion of older individuals in these markets is driving the higher demand for insurance and pension products. Another characteristic of these markets is higher wealth than the average in Africa as a greater proportion of middle class, HNWI and UHNWI in these countries is driving demand for retail investment funds. In the coming years, these demands will become increasingly more sophisticated.

Being the most advanced group, these countries have already begun to experience the effects of demographic changes which have not yet impacted less developed countries. It is likely that their ageing populations will reinforce the growth in mutual funds via institutional investors offering retirement products.

These countries already have larger middle-class populations compared to Africa as a whole, therefore we expect further demand for more sophisticated products will increase and these products will become more widely available.

This group of countries, being the most developed, have, already jumped on the bandwagon of mobile banking. Regulation is likely to be a deciding factor in the success of mobile banking, and the countries with the most sophisticated regulatory frameworks are poised to make the most of the technological boom.

As these tend to be quite mature markets, growth in infrastructure is not as explosive as it is in some of the other countries. However, infrastructure investments remain an appealing prospect, particularly through public private partnerships.

As the countries in this group have mature markets and well-developed financial sectors with considerably larger proportions of insurance and pensions than is generally evident in Africa, it is expected that they will continue to grow, with even greater proportions of pensions, insurance and mutual funds as the industry matures further.
**South Africa**

**Macro Environment**

With estimated real GDP growth of 1.5 percent in 2014 (see figure 12), South Africa underperforms its African peers. This might be explained by the sluggish growth of its major trading partners, namely European countries and the United States, structural imbalances in the labour market and policy uncertainty affecting business confidence.19

**South Africa is the most mature financial market in Africa, with by far the largest amount of AuM. The depreciation of the ZAR has pushed current inflation very close to the central bank ceiling of 6% but has boosted exports. It is also more advanced in terms of its legal and regulatory framework.**

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**Figure 12: Evolution of Real GDP Growth (%)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Real GDP Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>5.6</td>
</tr>
<tr>
<td>2008</td>
<td>3.6</td>
</tr>
<tr>
<td>2009</td>
<td>-1.5</td>
</tr>
<tr>
<td>2010</td>
<td>3.1</td>
</tr>
<tr>
<td>2011</td>
<td>3.6</td>
</tr>
<tr>
<td>2012</td>
<td>2.5</td>
</tr>
<tr>
<td>2013</td>
<td>2.2</td>
</tr>
<tr>
<td>2014</td>
<td>1.5</td>
</tr>
<tr>
<td>2015e</td>
<td>2.0</td>
</tr>
<tr>
<td>2016e</td>
<td>2.1</td>
</tr>
<tr>
<td>2017e</td>
<td>2.4</td>
</tr>
<tr>
<td>2018e</td>
<td>2.7</td>
</tr>
<tr>
<td>2019e</td>
<td>2.8</td>
</tr>
<tr>
<td>2020e</td>
<td>2.8</td>
</tr>
</tbody>
</table>

Source: PwC Market Research Centre analysis based on IMF data
The population in South Africa is estimated to be at 53.7m, as of 2014. This represents a growth of 1.4 percent compared to 2013 and places the country as the 5th largest on the continent.

While both GDP and the population grew, GDP per capita shrank from USD 6,621 in 2013 to USD 6,354 in 2014.

In addition, the ZAR/USD exchange rate saw a continuous depreciation for the past five years, increasing from just below USD/ZAR 8 in May 2010, to almost USD/ZAR 12 in May 2015. This represents a decrease in value of 50.2 percent in just five years, and affects inflation, foreign trade and labour costs, among other indicators of economic health.

Inflation in South Africa was 6.1 percent in 2014 and is projected to be 5.5 percent in 2020 (see figure 13).

**Political Stability and Corruption**

The World Bank Worldwide Governance Indicators are six aggregate governance indicators, which are composite measures based on a large number of underlying data sources (see figure 14).

South Africa scores highly in relation to other African countries indicating its appeal for investors. In addition, on the World Economic Forum's Global Competitiveness Index, South Africa scores highly on measures relating to quality of institutions, property rights and the efficiency of the legal framework.

**Investment Overview**

South Africa has a sophisticated business environment with low barriers to entry, strong state institutions, and an economy that is diversifying to increase the presence of services and manufacturing.20

This process of diversification can be seen in the decomposition of South Africa’s GDP by sector. The largest value added comes from finance (including real estate and business services) which accounted for 22 percent of total value added at year-end 2014 (see figure 15).

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20 PwC Africa gearing up, 2013
This was followed by government services with 17 percent. The third most important sector included wholesale, retail, motor trade, catering and accommodation with 15 percent.

South Africa is an important part of the global value chain in the mining sector. This sector contributed 8 percent to total value added in the economy.

**Capital Markets**

Established in 1887, the Johannesburg Stock Exchange (JSE) is the largest exchange in Africa, with a market capitalisation representing 288 percent of GDP at the end of 2014 and almost 400 companies listed. These include both large cap companies, such as SAB Miller and BHP Billiton, and those on the alternative exchange AltX which was launched in 2003 to cater for Small and Medium Enterprises (SMEs). Market capitalisation has been well above 100 percent of GDP for some time, although this measure is perhaps not as relevant for South Africa as for some other markets as many of the largest quoted companies earn considerable revenues outside South Africa. Despite a dip during the global economic crisis in 2008, the main equity index has increased steadily to reach 50,000 at the beginning of 2015 (see figure 16).

A decision was made in 2011 to allow foreign domiciled companies to be treated as domestic companies on the exchange.

**Mutual Funds investing in South Africa**

### Figure 16: Market Capitalisation (% of GDP) and Equity Market Performance

<table>
<thead>
<tr>
<th>Year</th>
<th>Market capitalisation % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>274</td>
</tr>
<tr>
<td>2007</td>
<td>291</td>
</tr>
<tr>
<td>2008</td>
<td>180</td>
</tr>
<tr>
<td>2009</td>
<td>248</td>
</tr>
<tr>
<td>2010</td>
<td>174</td>
</tr>
<tr>
<td>2011</td>
<td>130</td>
</tr>
<tr>
<td>2012</td>
<td>160</td>
</tr>
<tr>
<td>2013</td>
<td>230</td>
</tr>
<tr>
<td>2014</td>
<td>288</td>
</tr>
</tbody>
</table>

Sources: JSE, IMF, World Bank, African Exchanges Yearbooks, PwC Market Research Centre analysis

Hence, investors can now hold a larger quantity of equities and listing on the exchange is a more appealing prospect for foreign companies. The JSE also operates commodity, equity and currency derivatives markets.

### Figure 17: Top Funds Investing in South Africa* by Proportion of Assets Invested

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Marriott Global Income A</td>
<td>100.00</td>
<td>100.00</td>
<td>0.38</td>
<td>-0.79</td>
<td>-0.70</td>
<td>-0.47</td>
<td>1.42</td>
<td>South Africa</td>
</tr>
<tr>
<td>2</td>
<td>Satrix Bond Index A3</td>
<td>100.00</td>
<td>100.00</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>South Africa</td>
</tr>
<tr>
<td>3</td>
<td>iShares MSCI South Africa - B UCITS ETF</td>
<td>99.25</td>
<td>99.25</td>
<td>3.11</td>
<td>5.16</td>
<td>2.21</td>
<td>0.73</td>
<td>n/a</td>
<td>Ireland</td>
</tr>
<tr>
<td>4</td>
<td>HSBC MSCI SOUTH AFRICA UCITS ETF</td>
<td>99.24</td>
<td>99.24</td>
<td>3.36</td>
<td>5.36</td>
<td>2.40</td>
<td>0.91</td>
<td>n/a</td>
<td>Ireland</td>
</tr>
<tr>
<td>5</td>
<td>iShares MSCI South Africa UCITS ETF</td>
<td>99.24</td>
<td>99.24</td>
<td>3.23</td>
<td>5.19</td>
<td>2.22</td>
<td>0.72</td>
<td>5.14</td>
<td>Ireland</td>
</tr>
</tbody>
</table>

Sources: Lipper and PwC Market Research Centre analysis

* Data extracted from Lipper 30/04/2015

The top five funds investing in Africa (by their allocation) all invest entirely in South Africa as it is an attractive investment destination. These funds have had mostly positive returns, apart from the Marriott Global Income A fund, which experienced low negative returns over three years, but bounced back this year. However, these negative returns may be due to currency volatility (see figure 17).
Collective Investment Schemes

Currently, the majority of distribution is through insurance companies and banks, although the introduction of the Retail Distribution Review (RDR) is likely to introduce significant changes in South Africa. The Independent Financial Advisor (IFA) market is expected to shrink considerably, while the Do-It-Yourself (DIY) approach is projected to gain momentum due to increasing levels of internet connectivity and consumer sophistication.

Total assets of the 1,171 Collective Investment Schemes (CIS) domiciled in South Africa in 2014 amounted to ZAR 1.7tn (USD 147.2bn). AuM have grown at a Compound Annual Growth Rate (CAGR) of 15.2 percent since 2006; it slowed during the crisis in 2008 then bounced back in 2009 (see figure 18). An increase in allocations to fixed income assets reflected global trends at the time. Since then, there has been a decrease in allocations to fixed income and an increase in the popularity of the multi asset class (see figure 19). Allocation to equities has levelled off at about a quarter of the total allocation, while real estate has remained steady at 3-4 percent of the total. There are 49 registered asset managers of CIS in South Africa, many of which are also registered to manage funds in other African countries. Not surprisingly, for a market with such large players, the institutional market is somewhat concentrated; the top ten asset managers handle more than half of AuM and the top three manage one-quarter of AuM. In contrast, the retail market is quite fragmented; the top ten asset managers handled just one fifth of AuM.

South African funds are regulated by the Financial Services Board (FSB) under the terms of the Collective Investment Schemes Control Act, 2002. Three different types of CIS are permitted by the regulator: CIS in securities (CISS), property (CISP), and participation bonds (CISPB). The majority of the schemes are CISS (including money market funds, feeder funds and funds of funds).
Foreign Collective Investment Schemes (FCIS) are offshore schemes regulated by the FSB and authorised for distribution in South Africa. The total assets of FCIS amounted to ZAR 286bn (USD 24.7bn) in 2014 across 313 funds, having increased following consecutive drops in 2009 and 2010 growing at a CAGR of 14.2 percent (see figure 20). The majority of these FCIS (53.9 percent) were domiciled in Luxembourg, with Jersey and Ireland also popular domiciles (see figure 21).

The manager of the FCIS must be approved by the registrar, and the country where the FCIS is based must have a regulatory environment of at least the same standing as that of South Africa. Local investors wanting to invest in these funds must comply with Reserve Bank regulations and use their foreign capital allowance as FCIS portfolios are denominated in foreign currencies, typically United States Dollars (USD), British Pounds (GBP), Euro (EUR) and Japanese Yen (JPY).

Alternatives

PE is growing rapidly in South Africa, according to the South African Venture Capital and Private Equity Association (SAVCA), which promotes PE and venture capital and provides research on the industry. AuM of PE has been increasing steadily, (see figure 22) 79.5 percent of all funds raised during 2013 were from South African sources. The Financial Services Board is currently working on bringing PE into the regulatory framework. While PE is quite well established, venture capital is more underdeveloped but interest is keen from HNWI. Institutional investor support is needed, however, to see real growth in this sector.
South Africa’s financial sector is sufficiently mature to offer hedge funds. The investors in hedge funds in South Africa are primarily funds of funds. Hedge funds saw their AuM grow at a CAGR of 16.9 percent from 2006 to 2014, having only experienced a small post crisis drop of 2.7 percent in 2009 (see figure 23).

New legislation which brings hedge funds under CIS regulations is expected to increase the AuM of hedge funds significantly as it will open up hedge funds to retail investors. Previously, hedge funds were only available to institutional investors. Up to now, they have not been as popular as would be expected, even among institutional investors.

Real estate investments are an important category of alternative funds generally distributed in Africa, and South Africa is no exception. There are two types of Real Estate Investment Trusts (REITs) in South Africa: company and trust. South African REITs invest most of their assets in South Africa, although they are permitted to invest in the wider continent and globally. There are currently 32 REITs listed on the JSE, with a market capitalisation of ZAR 350bn (USD 28.9bn).

The National Development Plan sets out goals for different sectors of society by 2030 including infrastructure. The South African government has budgeted USD80bn over the next three years for infrastructure projects.22

Due to regulatory changes, pension funds are now permitted to invest 10 percent of their assets in PE in order to encourage more socially responsible investments. This has opened up a considerable amount of funds for investment in South Africa and boosted private equity as a form of PE investment.

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22 PwC “Building the Future of Africa”

“New hedge fund legislation is anticipated to bring USD 4bn to the CIS industry, as hedge funds are now classed as a sub sector of CIS.”

Udesh Naicker, FSB, Head of Dept. Hedge Funds
Investors

Pension Funds

The latest data from the FSB indicates that there were 5,144 pension funds in South Africa in 2013, of which 3,292 were privately administered. The Government Employees Pension Fund (GEPF) is by far the largest fund in South Africa comprising almost half of the assets of pension funds in South Africa. The 2011 revision of Regulation 28 of the Pension Funds Act integrated the government’s goals of encouraging economic development and social investment through “responsible investments” on the part of pension funds. Growth in assets of pension funds in South Africa increased by a CAGR of 10.1 percent from 2006 to 2014 with a slight dip after the 2008 crisis (see figure 24). Pension funds invested almost half of their funds in insurance 18.1 percent in equities and 8.4 percent in CIS (see figure 25).

Figure 24: Evolution of Pension Fund Assets

Figure 25: Asset Allocation of Pension Funds*
Insurance Companies

According to the latest data from the FSB, there were 97 short-term and 73 long-term registered insurers. The total assets of the life insurance industry have grown at a CAGR of 9 percent since 2006 (see figure 26), while premiums have also shown strong growth over the same period. The penetration rate remains way above the average at 15.4 percent of GDP compared to the African average of 3.5 percent.

The largest share of life insurance industry assets is invested in CIS (37.8 percent) (see figure 27). The market is quite concentrated with the top five players controlling 77 percent of the total assets in the long-term insurance market.

Table: Asset Allocation of the Life Insurance Industry

<table>
<thead>
<tr>
<th>Shares (listed)</th>
<th>Shares (unlisted)</th>
<th>Claims/Debtors</th>
<th>Cash, Krugerrands and balances with banks</th>
<th>Gilts, securities and loans</th>
<th>Immovable Property</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.4%</td>
<td>0.7%</td>
<td>2.3%</td>
<td>2.4%</td>
<td>6.1%</td>
<td>10.5%</td>
<td>24.4%</td>
</tr>
<tr>
<td>37.8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.9%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.4%</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.4%</td>
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<td></td>
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<tr>
<td>10.5%</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>24.4%</td>
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</tbody>
</table>

Figure 26: Evolution of Assets and Premiums of the Life Insurance Industry

Sources: PwC Market Research Centre analysis, IMF, ASISA

Figure 27: Asset Allocation of the Life Insurance Industry

Sources: ASISA

Fund of funds

Whereas the AuM have increased at a CAGR of 18.1 percent since 2006 (see figure 28). AuM increased considerably pre-crisis and then, following a dip in 2008, bounced back post crisis to reach ZAR 311.0bn (USD 26.9 bn) by 2014. The number of funds has continued to increase, from 282 in 2006 to 364 by 2014. Asset allocation is focused mainly on domestic assets with 64.8 percent of the funds invested in CIS and 32.3 percent in FCIS.

Figure 28: Evolution of Assets of Fund of Funds Industry

Source: ASISA
**Distributors**

In November 2014, the FSB published the South African Retail Distribution Review (RDR) discussion document for industry comment with the aim of implementing the reforms in a phased approach during 2015 and 2016. By introducing RDR, the plan is to move from a commission based model to an advice based fee model. This will change the way advice is provided, fees are structured, and products are marketed and distributed in the future. The effects of these reforms will be considerable; asset managers will find that customers are more likely to look closely at the total cost of their investments which will heighten the need for effective partnerships with platforms and distributors.

In addition, product manufacturers will need to split commission structures between advice fees and sales commissions per product, and explore the implications of doing this. Platforms will need to consider the development of execution only capabilities to ensure access to a broader non-advice market. On the customer side, the National Treasury is introducing legislation to allow for Tax Free Savings Accounts, thus encouraging saving. Investors would be able to save ZAR 30,000 (USD 2,489) tax free per annum and ZAR 500,000 (USD 41,482) over a lifetime.

**Banks**

The total assets of the banking sector rose from ZAR 2,075bn (USD 294.4bn) in 2006 to an estimated ZAR 4,197bn (USD 363.4bn) in 2014, at a CAGR of 9.2 percent (see figure 29).

The main players within the banking sector are The Standard Bank of South Africa, FirstRand Bank Absa Bank and Nedbank. These four account for more than four-fifths of total banking assets. In the future, one of the main challenges within the banking sector will be the implementation of a new regulatory framework which, in keeping with the Basel III framework, will aim at addressing both bank specific and broader systemic risk.

**Linked Investment Service Providers**

Linked Investment Service Providers (LISP) are fund distributors which offer open architecture investment products. LISPs are regulated by the FSB and are subject to the Financial Advisory and Intermediary Services Act (FAIS). The assets of the LISP industry have grown at a CAGR of 20.7 percent since 2006 (see figure 30). LISPs are domestically focused with 90 percent of the AuM of ZAR 937.3bn (USD 81.2bn) invested in the local CIS industry.
Outlook

Growth potential in South Africa is conditional on various factors. First, the acceleration of global growth will impact South Africa. Economic activity in the US is picking up, and this should have a positive effect on the South African economy. The second factor is how the country addresses weaknesses present in its economy, including poverty, unemployment, a rigid labour market and poor quality of education relative to the rest of the world. There are initiatives already in place to address some of these issues, like the National Development Plan adopted in August 2012. Finally, the third factor is the development of commodity prices. The weakening of the rand will benefit exports and boost growth.

There is a reasonable chance that growth in South Africa will materialise. If the African region continues to grow and South African companies maintain their market share in the region, the automotive assembly industry and consumer goods industry should benefit as well. South Africa, being the most developed economy in Africa, will remain the leader in terms of asset management, although other flourishing markets are starting to close the gap in terms of AuM. The relatively well developed insurance and pension sectors will continue to grow as the population ages and as wealth increases, the proportion of the population that remains unbanked will decrease. Alternatives, such as REITs, hedge funds, and niche products such as Islamic finance, will become a larger part of the product offerings of the industry. The AuM of mutual funds almost tripled from 2006 to 2013. We predict AuM to reach ZAR 2.95tr by 2020.

Figure 31: Collective Investment Schemes

Source: PwC Market Research Centre analysis based on ASISA and IMF data
“Old Mutual Investment Group sees South Africa as a mature market and therefore does not foresee huge development in this market.”
Diane Radley, OMIG
Morocco has a thriving asset management industry and a solid regulatory framework. Increased financial education should boost the retail sector as the industry is currently heavily skewed towards institutional investors.

Macro Environment

Morocco’s relatively stable political landscape positively affects its economic growth. GDP growth was 2.9 percent in 2014, and the IMF anticipate it will gain momentum and reach 5.4 percent in 2020 (see figure 32). This places Morocco as the fourth fastest growing economy of the twelve we have analysed.

Figure 32: Morocco Real GDP Growth (%)

Sources: IMF, PwC Market Research Centre analysis based on IMF data
The population in Morocco was 33.2m as of 2014. This represents a growth of 1.0 percent compared to 2013.

While both GDP and the population grew, GDP per capita increased from USD 3,160.3 in 2013 to USD 3,392.3 in 2014.

Inflation in Morocco was 1.1 percent in 2014 and is projected to be 2.3 percent in 2020 (see figure 33), which is the lowest inflation rate among the analysed countries.

Political Stability and Corruption

The World Bank Worldwide Governance Indicators are six aggregate governance indicators, which are composite measures based on a large number of underlying data sources (see figure 34).

Morocco scores on the low side in all of these indicators except government effectiveness, indicating that although it is currently a successful market, some changes may be needed to continue its success. The World Economic Forum’s Global Competitiveness Index notes that Morocco is relatively stable politically and that efforts have been made over recent years to modernise its business environment, particularly its administrative aspects.

Investment Overview

A large component of Morocco’s economy is driven by its agricultural sector, which is highly dependent on weather conditions. Recent years have shown growth in this sector, which is projected to continue for the next five years.

Despite this heavy reliance, the country has many new industries which are prospering and offering great potential for the future (see figure 35).

Morocco continues to invest in the diversification of its economy. The country recently launched several initiatives to ensure sustainable growth and development of strategic sectors with huge successes in the aeronautical and automobile industries. These industries have seen strong growth in the past, and are projected to continue their rapid strides. The aeronautics industry includes activities from production to engineering.\(^{24}\) With an estimated annual growth rate in turnover of 25 percent in recent years\(^ {25} \), this industry is the most promising for the foreseeable future.

The services sector’s growth is mainly based on telecommunications, which includes the development of networks and coverage expansion. The tertiary sector is also expected to continue to grow, with tourism becoming increasingly important.

\(^{24}\) IMF, 2015 and World Bank, 2014

\(^{25}\) African Economic Outlook, 2014 published by AfDB, OECD, UNDP
Capital Markets

The two major market indices of the Casablanca Stock Exchange are the MASI Flottant, a composite index including all types of equities, and the FTSE CSE Morocco, which was designed to represent the performance of the 35 most liquid stocks listed on the Casablanca Stock Exchange. The MASI Flottant, experienced peaks in 2007 and 2010 and has begun growing again slowly since a drop in 2012. Market capitalisation reached a pre-crisis peak of 95.1 percent of GDP in 2007 and has not since reached that level again. Currently, it stands at just over half of GDP (see figure 36).

The market participants include both domestic and foreign companies, commercial banks, corporate and institutional investors, asset managers, insurance companies, mutual funds and pension funds. The AMMC (the Moroccan Financial Markets Authority) is responsible for supervising the Moroccan capital market.

The share of market capitalisation held by foreigners and Moroccans established abroad accounted for about 30 percent. Europeans remain the largest foreign investors in the Casablanca Stock Exchange representing a quarter of the market capitalisation of which about three-quarters are French. As regards local investors, the market is dominated by institutional investors.

Mutual funds investing in Morocco

All of the top five funds investing in Morocco are investing 100% of their assets in Morocco which indicates that it is an appealing investment destination. CDG Capital Gestion, a Moroccan player, manages the top 3 funds, indicating that local players reinvest their funds domestically. Returns appear to have been mostly negative over the last four years with 2015 being particularly negative for all five funds (see figure 37).
Collective Investment Schemes

By African standards the Moroccan regulatory framework is quite sophisticated and the selection of products available for distribution is varied. The fund industry is large and funds are crucial for financing the national economy and mobilising savings. No foreign funds are currently distributed in Morocco, but this is likely to change in the medium term according to the regulator. The AuM of Moroccan Collective Investment Schemes grew steadily between 2006 and 2014 at a CAGR of 11.1 percent to reach MAD 300.5 bn (USD 33.1bn) in 2014 (see figure 38). The AuM is currently equivalent to more than a third of GDP and half of private debt.

At the end of 2014, institutional investors held the biggest share (90 percent) of the total AuM. Whereas just 10 percent of AuM was owned by retail investors, comprising about 20,000 customers and, therefore, representing huge potential for growth compared to the size of the Moroccan population. Although the proportion of retail investment is very small, it could grow as the selection of retail products offered is extended.

There is a clear preference for bond funds; both domestic and foreign investors showed a preference for bond funds, followed by money market funds (30 percent) (see figure 39) and with equity funds which represented just a tenth of the portfolios. While comparing institutional and retail investors, institutional investors showed a greater preference for bond funds with retail investors leaning slightly more towards money market and equity.

Alternatives

The National Savings and Investment Fund (CDG) supports and encourages PE investment in Morocco. It plays a dual role: financial investor (seeking the best performance for the funds it manages) and state body (stimulating the Moroccan economy). Institutional investors who want to diversify their portfolios are likely to be the main investors. Therefore the growth of this sector is dependent on economic growth in general. According to the Moroccan regulator, private equity is developing well in Morocco. Legislation regarding PE is being developed to provide more clarity and therefore boost this industry. Raising funds in Morocco is proving easy, but finding suitable companies to invest in is more of a difficulty.

Private equity is a relatively new industry in Morocco. Between 2006 and 2013, the cumulative amount raised by the Moroccan private equity industry reached about MAD 9.3bn (USD 1.1bn). In 2013, the private equity fund industry included 37 funds with half of them domiciled in Morocco, 40 percent in offshore zones (Jersey, Mauritius, Malta and Luxembourg) and the remaining 10 percent in Europe.

As regards real estate investment, a law to introduce REITs to invest and distribute in Morocco is under discussion which should boost investment in real estate as currently 25 percent of bank loans are used to fund real estate projects.
**Investors**

**Pension Funds**

The AuM of pension funds increased from MAD 111.7bn (USD 13.05bn) in 2006 to an estimated MAD 269.3 bn (USD 30.0bn) (see figure 40) by 2014. Investors are quite conservative with the majority of the pension fund investments invested in government securities/bonds (59.2 percent) and in equities (29.5 percent). The share of assets invested in CIS represents quite a small proportion of the total investment portfolio (see figure 41).

The Direction des Assurances et de la Prévoyance Sociale (DAPS) is responsible for the regulation and supervision of the pension fund industry. The industry comprises four major funds managing either public or private pension schemes. Two of these funds, the Caisse Marocaine des Retraites (CMR) and the Régime Collectif d’Allocation de Retraite (RCAR), account about three-quarters of total pension investments.

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**Figure 40: Evolution of Assets of Pension Funds**

![Figure 40](image_url)

Sources: PwC Market Research Centre analysis, DAPS

**Figure 41: Asset Allocation of Pension Funds**

![Figure 41](image_url)

Sources: PwC Market Research Centre analysis, DAPS

* DAPS’ estimate for this pie chart does not include CNSS investments
Insurance Companies

The assets of the life insurance business increased at a CAGR of 9.9 percent from MAD 33.3bn (USD 3.9bn) in 2006 to an estimated MAD 64.4bn (USD 7.1bn) in 2014 (see figure 42). The insurance penetration rate is close to the African average at 3 percent of GDP.

Like the pension industry, the insurance industry is also regulated by the DAPS. This industry is relatively concentrated; the top three players account for about three-quarters of the total premiums collected.

Concerning asset allocation, the largest share of life insurance industry assets was invested in CIS (40.6 percent) (see figure 43). While the overwhelming majority of those investments in CIS were in equity funds (95.1 percent of CIS investments).

Sources: PwC Market Research Centre analysis, DAPS, Fédération Marocaine des Sociétés D'Assurances et de Réassurance

Figure 42: Assets & Premiums of Life Insurance Industry

Figure 43: Asset Allocation of Life Insurance Industry

* Latest available data

Sources: PwC Market Research Centre analysis, DAPS, Fédération Marocaine des Sociétés D'Assurances et de Réassurance
Banks

Distribution is mainly through banks and, to a lesser extent, wealth management advisors and Family Offices which are likely to gain a larger share in the future.

The banking sector is relatively concentrated with the three largest banks representing four-fifths of total bank assets. Nevertheless, growth has been steady with a CAGR of 10.6 percent to reach an estimated MAD 1,211bn (USD 134.95bn) by 2014 (see figure 44).

In terms of foreign ownership, the latest available data indicates there are nine finance companies and seven banks which are primarily foreign owned and most of this foreign investment is French. In terms of domestic ownership, five of the banks and four of the finance companies were publicly owned, while the rest were privately owned by domestic investors. Twelve credit institutions, including six banks, are listed on the Casablanca Stock Exchange, representing a third of the market capitalisation.

Figure 44: Evolution of Commercial Banks’ Assets

![Graph showing the evolution of commercial banks' assets from 2006 to 2014, with a CAGR of 10.6% and an estimated value of MAD 1,211bn by 2014.](source: PwC Market Research Centre analysis, BAM)
Outlook

Morocco’s business environment has improved due, in part, to simplified procedures for property transfer and construction permits. However, it needs to be more competitive and dynamic in the coming years.

Significant increases in FDI were visible in 2013, and Morocco placed first in North Africa in FDI flows and is among the top recipients of FDI in Africa.

With new booming industries developing, foreign investors will be attracted to Morocco in the next five years.

A crucial factor in the continued growth of the Moroccan fund industry will be the implementation of regulatory changes, in particular those which aim to stimulate the capital market. The Moroccan government aims to position Casablanca as a leading financial hub for francophone Africa through its “Casablanca finance city project” which grants incentives to entice financial institutions. Despite levelling off following the Arab Spring, growth was quite rapid before this political turbulence. As to the asset management industry, we predict the CIS AuM to reach MAD 516.0bn by 2020.

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26 IMF, 2015
27 Moroccan Investment Development Agency “Invest in Morocco” 2013
Mauritius

Mauritius is the main financial sector in Africa and attracts a lot of foreign investment. A stable political environment and solid regulatory framework mean that it is likely to remain an attractive destination for investment.

Macro Environment

Mauritius’ solid economic fundamentals guarantee sustainable growth. GDP growth was 3.3 percent in 2014, and the IMF project it will reach 4.0 percent in 2020 (see figure 46). The population in Mauritius is currently at 1.3m as of 2014.

While both GDP and the population grew, the GDP per capita increased from USD 9,164.9 in 2013 to USD 9,714.6 in 2014. Projections indicate a continued increase, reaching USD 14,306.4 GDP per capita by 2020. This makes Mauritius the “wealthiest” of the twelve countries we analysed.

Inflation in Mauritius was 3.7 percent in 2014 and is projected to be 4.0 percent in 2020 (see figure 47).

Figure 46: Mauritian Real GDP Growth (%)

Sources: IMF, PwC Market Research Centre analysis based on IMF data
As a result of forecasted external demand, Mauritius’ economy is projected to pick up its pace. Although the government is prone to create reforms to diversify the economy, challenges will remain in connection with substandard infrastructure systems and scarcity of skilled human resources.

**Political Stability and Corruption**

The World Bank Governance Indicators are six aggregate governance indicators, which are composite measures based on a large number of underlying data sources (see figure 48).

The World Bank Worldwide Governance Indicators score Mauritius very highly — above the 70th percentile in 5 out of the 6 indicators. This demonstrates that Mauritius is a developed and politically stable country. Although its control of corruption score is its lowest score, its ranking in this area is still quite high by the standards of other countries in the report. In addition, the World Economic Forum’s Global Competitiveness Index notes that Mauritius has strong and transparent public institutions with clear property rights.

**Investment Overview**

The services sector drives economic growth. Financial services are the cornerstone of Mauritius’ economy with a 10.3 percent contribution to GDP in 2014. Financial and insurance activities show a growth rate of 5.4 percent, and the sector is projected to increase at that pace in the coming years. Despite a significant contribution of wholesale and retail trade to the country’s GDP, its growth rate shows a decreasing trend from 2010 to 2013. Construction and tourism contracted in recent years, as well.

With the exception of construction, the services sectors are expected to recover in the medium term in response to increased external demand.

The agricultural sector is dominated by sugarcane. However, it showed no growth in recent years as exports fell in 2013 and 2014.
Capital Markets

With 46 companies listed on the Stock Exchange of Mauritius (SEM) and a market capitalisation of almost three-quarters of GDP, the market is recovering following a dip in 2012. In fact, the SEMDEX, an index of all listed shares, has doubled from just over 1,000 to around 2,000 (see figure 50).

The exchange operates two markets: the Official Market and the Development & Enterprise Market (DEM). Market participants include domestic and foreign companies, custodian banks, and investment dealers, local, foreign and institutional investors. Currently, local investors account for about 60 percent of the daily trading activities, and 75 percent of that local volume is generated by institutions such as mutual funds, pension funds and insurance companies.

Mutual Funds investing in Mauritius

The top five funds investing in Mauritius invest quite a small proportion of their assets in Mauritius indicating that Mauritius is not a top investment destination for African funds. In addition, all of the funds had negative returns in the last year with four of them having double digit negative returns (see figure 51).

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**Figure 50: Market Capitalisation (% of GDP) and Equity Market Performance**

**Figure 51: Top Funds Investing in Mauritius* by Proportion of Assets Invested**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Name</th>
<th>Africa allocation (%)</th>
<th>Allocation to Mauritius (%)</th>
<th>Perf. (%) 2015</th>
<th>Perf. (%) 2014</th>
<th>Perf. (%) 2013</th>
<th>Perf. (%) 2012</th>
<th>Perf. (%) 2011</th>
<th>Fund Domicile</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Tundra Nigeria &amp; Sub-Saharan</td>
<td>88.48</td>
<td>8.17</td>
<td>-11.57</td>
<td>-0.74</td>
<td>-0.94</td>
<td>-1.45</td>
<td>0.18</td>
<td>Sweden</td>
</tr>
<tr>
<td>2</td>
<td>Blakeney Investors Initial Series A</td>
<td>40.47</td>
<td>8.05</td>
<td>-9.28</td>
<td>0.73</td>
<td>0.02</td>
<td>-0.81</td>
<td>n/a</td>
<td>Luxembourg</td>
</tr>
<tr>
<td>3</td>
<td>Ashburton Africa Equity Opportunites R Acc</td>
<td>92.25</td>
<td>5.54</td>
<td>-11.03</td>
<td>-0.40</td>
<td>-0.73</td>
<td>-1.31</td>
<td>0.36</td>
<td>Luxembourg</td>
</tr>
<tr>
<td>4</td>
<td>SGKB (LUX) Fund - African Dawn (USD) B</td>
<td>82.80</td>
<td>3.67</td>
<td>-9.30</td>
<td>0.57</td>
<td>-0.41</td>
<td>-1.35</td>
<td>1.37</td>
<td>Luxembourg</td>
</tr>
<tr>
<td>5</td>
<td>Sanlam S&amp;P Africa Tracker I USD</td>
<td>77.18</td>
<td>3.07</td>
<td>-10.98</td>
<td>0.09</td>
<td>-0.27</td>
<td>-0.89</td>
<td>0.78</td>
<td>Ireland</td>
</tr>
</tbody>
</table>

*Data extracted from Lipper 30/04/2015

Sources: Lipper and PwC Market Research Centre analysis
Collective Investment Schemes

Mauritius is a hub for funds investing in Africa so foreign funds comprise the majority of the funds industry.

As regards domestic funds, there are 33 investment funds, 32 CIS and one unit trust (see figure 52). AuM reached an estimated in MUR 9.8bn (USD 0.29 bn) in 2014 (see figure 52). CIS contributed to the majority of the growth, as the AuM in unit trusts decreased in that period.

Foreign investment schemes

The FSC also recognises CIS domiciled in foreign countries. Recognition is subject to such conditions that the Commission considers necessary or desirable for the protection of participants in the scheme. According to Lipper, there are currently 52 foreign funds (sub-fund level) distributed in Mauritius.

Alternatives

The Mauritian private equity funds’ investments target mostly fast-developing countries in Africa, India and other Asian countries and typically focus on infrastructure developments, agricultural products, information technology and telecommunications. AuM of private equity funds have increased to MUR 13.0bn (USD 0.39bn) (see figure 54).

Mauritius currently has no REITs or hedge funds.
**Investors**

**Pension Funds**

In 2014, total pension fund assets were estimated at MUR 128bn (USD 2bn); the National Pension Fund (NPF) assets comprised the vast majority of those assets. The same year, the total value of superannuation funds assets represented only 6.5 percent of total pension fund assets. Mauritian pension fund assets grew from MUR 83bn (USD 2.7bn) in 2009 to an estimated MUR 128bn (USD 3.8bn) in 2014 at a CAGR of 8.9 percent (see figure 56).

**Insurance Companies**

Total assets of long-term insurers increased at a CAGR of 13.1 percent to reach an estimated MUR 120bn (USD 3.4bn) in 2014 compared to MUR 65bn (USD2.2bn) in 2009 (see figure 57). The total assets of general insurance companies increased from MUR 12bn (USD0.36bn) in 2009 to an estimated MUR 14bn (USD 0.47bn) in 2014. Likewise, the gross premiums of general insurance business increased slowly in the same period (see figure 58).

The penetration rate of insurance was 5.8 percent of GDP in 2013, above the average African penetration rate of 3.5 percent. The Mauritian insurance industry is quite concentrated. The numbers of companies underwriting the general and long-term insurance business were respectively 13 and ten with the top five companies accounting for the vast majority of the business.
Distribution

Distribution is conducted through both banks and their asset management subsidiaries.

Banks

As the banking sector has expanded, banks’ total assets have grown at a CAGR of 8 percent from MUR 609bn (USD 18.2bn) in 2006 to an estimated MUR 1,124bn (USD 34.2bn) in 2014 (see figure 59).

The Mauritian banking sector is less concentrated than the insurance sector. In fact, the latest available data indicates that the Mauritian banking industry comprised 21 banks, of which six were local banks, ten were foreign owned subsidiaries, four were branches of foreign banks and one was a joint-venture. Mauritius has recently taken action to encourage foreign bank branches to convert to subsidiaries in order to stabilise the banking industry.
Outlook

Mauritius is positioned as the financial centre for investments and trade in Africa, and will continue to attract new investors.

Foreign direct investment (FDI) is concentrated mainly in real estate, with the main sources coming from France (27%), China (18%), and South Africa (15%).

Mauritius is considered the region’s most business friendly environment, with a highly ranked investment climate.

The Mauritian financial sector is well regulated in comparison to many African countries. This, coupled with good governance and a well-developed legal, financial and commercial infrastructure, has helped the government to achieve a sustainable GDP growth and a competitive financial sector. With a competitive tax framework, Mauritius has been the dominant investing channel for European investors, in particular.

Despite suffering from a serious economic downturn like many other African countries, the fund industry in Mauritius has regained its previous upward trend. We predict AuM to reach MUR 18.4bn by 2020.

Figure 60: Projected AuM Growth of CIS Manager

Source: PwC Market Research Centre analysis based on FSC Mauritius and IMF data

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31 African Economic Outlook, 2014 published by AfDB, OECD, UNDP
Namibia

Namibia’s close relations to South Africa, stable democracy and solid legal framework make it an appealing investment destination.

Macro Environment

Namibia’s estimated GDP was USD 13.3 bn in 2014 and GDP growth is projected to reach 5.3 percent at year-end 2020 (see figure 61). The population in Namibia is currently 2.2m (as of 2014). This represents a growth of only 0.9 percent compared to 2013.

While both the GDP and the population grew, GDP per capita decreased from USD 5,636.2 in 2013 to USD 5,466.7 in 2014. However, it is projected to increase in the period up to 2020, to reach USD 8,141.1, placing it among the more “wealthy” countries in our sample.

Inflation in Namibia was 5.9 percent in 2014, and is projected to be 5.5 percent in 2020, showing a slight decrease (see figure 62).

Figure 61: Evolution of Real GDP Growth (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>5.4</td>
</tr>
<tr>
<td>2008</td>
<td>3.4</td>
</tr>
<tr>
<td>2009</td>
<td>-1.1</td>
</tr>
<tr>
<td>2010</td>
<td>6.3</td>
</tr>
<tr>
<td>2011</td>
<td>5.7</td>
</tr>
<tr>
<td>2012</td>
<td>5.0</td>
</tr>
<tr>
<td>2013</td>
<td>5.1</td>
</tr>
<tr>
<td>2014</td>
<td>5.3</td>
</tr>
<tr>
<td>2015e</td>
<td>5.6</td>
</tr>
<tr>
<td>2016e</td>
<td>6.5</td>
</tr>
<tr>
<td>2017e</td>
<td>5.5</td>
</tr>
<tr>
<td>2018e</td>
<td>5.5</td>
</tr>
<tr>
<td>2019e</td>
<td>5.3</td>
</tr>
<tr>
<td>2020e</td>
<td>5.3</td>
</tr>
</tbody>
</table>

Source: PwC Market Research Centre analysis based on IMF data

32 IMF World Economic Outlook, 2014
Political Stability and Corruption

The World Bank Worldwide Governance Indicators are six aggregate governance indicators, which are composite measures based on a large number of underlying data sources (see figure 63).

Namibia scores quite well according to these criteria: above the 50th percentile in every case, indicating that it has solid governance, which places it among the advanced markets in our study.

The World Economic Forum’s Global Competitiveness Index notes that Namibia benefits from a relatively well functioning institutional environment with well-protected property rights, an independent judiciary, and a fairly efficient government.

Investment Overview

Namibia enjoys close connections to South Africa through trade, investment, and common monetary policies. Namibia’s financial sector is one of the most developed and sophisticated in Africa with tight links to South Africa. Finance, real estate and business services contribute the most (15%) to GDP. The financial sector’s importance to the economic growth of Namibia is well documented (see figure 64).

However, diverse sectors contribute to GDP: wholesale and retail trade (14.6%), mining (12.3%), and manufacturing (12.3%) all contribute to the country’s economy.

The mining sector mainly consists of diamonds and uranium production. While uranium saw diminished production in 2013, diamond production expanded and is expected to grow in the coming years.

Construction also has been growing significantly in recent years, due in part to the government’s launch of a “massive housing project”. Even so, agriculture remains the largest source of employment.

In the coming years, Namibia will continue to introduce policies to promote economic diversification.

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33 World Bank, October 2014
34 African Economic Outlook, 2014 published by AfDB, OECD, UNDP
35 World Bank, October 2014
**Capital Markets**

Market capitalisation appears to be slowly returning to its 2010 high since dropping in 2013 (see figure 65). A total of 15 of the 27 companies listed on the main board issued new or additional shares during the year. Most of the contributions to the increase in market capitalisation came from the financial sector, but insurance and real estate contributed as well.

The latest available data indicates that a total of 34 companies were listed on the Namibian Stock Exchange (NSX), 27 listed on the main exchange and seven listed on the Development Capital Board (for new companies that are not yet suitable to be listed on the NSX). The NSX has low levels of liquidity due to a buy and hold strategy being adopted by most investors.

Due to regulation 28 of the Pension Funds Act of 1956, over the next few years pension funds will have to reduce their investments in dual listed shares (those listed on both the Namibian and South African exchanges) to 10 percent. This will greatly increase pressure for Namibian companies to list on the market as there will be a need for local assets from local pension funds. This will give quite a boost to the NSX.

**Mutual Funds investing in Namibia**

**Figure 66: Top Funds Investing in Namibia * by Proportion Assets Invested**

<table>
<thead>
<tr>
<th>rank</th>
<th>Fund Name</th>
<th>Africa allocation (%)</th>
<th>Allocation to Namibia (%)</th>
<th>Perf. (%) 2015</th>
<th>Perf. (%) 2014</th>
<th>Perf. (%) 2013</th>
<th>Perf. (%) 2012</th>
<th>Perf. (%) 2011</th>
<th>Fund Domicile</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>Standard Bank Namibia Inflation Plus A</strong></td>
<td>73.96</td>
<td>44.83</td>
<td>-7.56</td>
<td>-7.66</td>
<td>-6.92</td>
<td>-6.48</td>
<td>-2.50</td>
<td>South Africa</td>
</tr>
<tr>
<td>2</td>
<td><strong>Standard Bank Namibia Flexible Property Income A</strong></td>
<td>72.34</td>
<td>31.82</td>
<td>6.79</td>
<td>-3.03</td>
<td>-1.20</td>
<td>-1.52</td>
<td>2.65</td>
<td>South Africa</td>
</tr>
<tr>
<td>3</td>
<td><strong>SIM Small Cap A</strong></td>
<td>93.98</td>
<td>2.74</td>
<td>4.33</td>
<td>2.17</td>
<td>-0.78</td>
<td>-1.26</td>
<td>2.20</td>
<td>South Africa</td>
</tr>
<tr>
<td>4</td>
<td><strong>STANLIB Flexible Income A</strong></td>
<td>74.86</td>
<td>2.24</td>
<td>-8.12</td>
<td>-8.43</td>
<td>-8.23</td>
<td>-7.17</td>
<td>-2.37</td>
<td>South Africa</td>
</tr>
<tr>
<td>5</td>
<td><strong>Sanlam African Frontier Markets A USD</strong></td>
<td>93.06</td>
<td>1.58</td>
<td>-8.21</td>
<td>-0.14</td>
<td>10.18</td>
<td>4.32</td>
<td>2.20</td>
<td>Ireland</td>
</tr>
</tbody>
</table>

Sources: Lipper and PwC Market Research Centre analysis  
* Data extracted from Lipper 30/04/2015

The two Standard Bank funds from South Africa have the largest proportion of their assets invested in Namibia the other funds have a very small proportion of their assets invested in Namibia with the majority of the assets invested in South Africa. The returns have been mostly negative although two of the funds experienced positive returns in 2015 (see figure 66).
**Unit Trusts**

According to the Namibian Financial Institutions Supervisory Authority (NAMFISA), there are 13 funds, known as Unit Trusts in Namibia. The AuM of unit trusts increased by a CAGR of 17.8 percent from NAD 13.9bn (USD 2.0bn) in 2007 to an estimated NAD 43.3bn (USD 3.8bn) in 2014 (see figure 67). Unit trust assets were equivalent to approximately 10 percent of GDP.

The asset allocation of unit trusts has changed since 2007. While they previously had been heavily invested in money market funds, since 2011, the proportion invested in money market funds has decreased from over 80 percent to just over half (see figure 68).

Foreign funds are permitted in Namibia if they comply with the definition of a unit trust scheme, according to the Unit Trust Control Act.

**Alternatives**

The Government Institutions Pension Fund (GIPF) has earmarked NAD 2.3bn (USD 0.2bn) for an unlisted investment portfolio to invest in private equity projects in Namibia. Namibian Regulation 28 requires that pension funds invest 35 percent of their assets in Namibian enterprises and regulation 29 requires pension funds to invest a minimum of 1.75 percent of total AuM in unlisted investments by 2017. These amendments were introduced to increase the availability of capital for private sector enterprises.

PE in Namibia is mostly controlled by the public sector through the Government Pension Fund which has the largest amount of funds allocated to PE.

Although REITs have not yet been introduced, real estate investment is nevertheless popular in Namibia. Investments are made through property unit trusts, a type of investment fund which allows investors to invest in both listed and unlisted properties in Namibia.
Investors

Being one of the more advanced countries among those which we studied, Namibia has a larger proportion of institutional investors than other African countries.

Pension Funds

There are over 100 active retirement funds of which the GIPF is by far the biggest. Pension fund assets grew at a CAGR of 17.2 percent to reach an estimated NAD 123.4bn (USD 10.5bn) in 2014 (see figure 69). Allocations were heavily focused on equities with an increase from 46.9 percent in 2012 to 66.1 percent in 2013 (see figure 70). Despite the introduction of regulation 28 of the Pension Funds Act, which compels funds to invest at least 35 percent of their assets domestically the proportion of assets invested domestically in Namibia decreased from 45 percent in 2011 to 38 percent in 2013.

Insurance Companies

Namibia’s life insurance market is particularly well developed and is the fourth largest in Africa after South Africa, Morocco and Egypt, despite its small population. The assets of the long-term insurance market grew at a CAGR of 9.2 percent to reach an estimated NAD 39.7bn (USD 3.4bn) in 2014 (see figure 71). It also had a fairly high insurance penetration rate for an African country, 7.7 percent of GDP in 2013, considerably higher than the African average of 3.5 percent.

There were 17 long-term and 13 short-term insurance companies registered in Namibia in 2013. Asset allocation has varied since 2009, although with foreign assets comprising a large proportion at 47 percent (see figure 72).
Distribution

Banks

Due to the close links with South Africa, the African Development Bank considers Namibia’s banking system solid, profitable and well capitalised. Assets increased at a CAGR of 12.7 percent from 2006 to reach an estimated NAD 86.8bn (USD 7.5bn) in 2014 (see figure 73). The Banking System in Namibia includes four commercial banks, (First National Bank of Namibia Limited, Standard Bank Namibia Limited, NedBank Namibia Limited and Bank Windhoek Limited), one micro-finance bank (Fides Bank Namibia Limited) and the SME Bank. Other financial institutions include the Namibia Post Office Savings Bank, Agricultural Bank of Namibia Ltd, National Housing Enterprise Ltd and Development Bank of Namibia. Recent developments have addressed the concentration in the market. In July 2014, the Bank of Namibia granted licences to the Botswana-based Letshego Bank Namibia and the Portugal-based Banco Private Atlântico Europa. Pointbreak, a Namibian investment and wealth management company, has established an e-bank—a branchless bank utilising technology—in association with TYME, a banking solutions provider.
There is growth potential in Namibia, as the country possesses large natural resources. Moreover, the business environment is set to improve as a result of infrastructure development and investment in skills.

The demand for financing will be met not only by banks, but in the future by the capital market as well as venture capital and private equity. The new NAMFISA Act to be enacted in 2015, will update and streamline all non banking regulations. This should provide a boost to Namibia’s thriving fund industry. Close economic relations with South Africa mean Namibia is a natural market for South African players wanting to test the waters in new markets. This economic and political stability makes Namibia an appealing market for investment. Indeed AuM growth from 2006 to 2013 has been striking. We predict that growth in AuM will remain steadfast and reach NAD 84.6bn by 2020.

**Figure 74: Projected AuM Growth of Unit Trusts**

Source: PwC Market Research Centre analysis based on NAMFISA and IMF data
Outlook Advancing Markets

As the Advancing countries are the most mature markets in our study we estimate that the proportion of mandates to funds is the lowest among the groups, although it varies quite widely across the four markets. Assuming the proportion remains stable, we estimate AuM to reach USD 972bn by 2020. South Africa, being the most developed economy in Africa, will remain the leader in terms of asset management, although other flourishing markets are starting to close the gap. The relatively well developed insurance and pension sectors will continue to grow as the population ages and as wealth increases. Morocco also has a well-developed fund industry, but in order to develop further, regulatory changes will be necessary, particularly those to stimulate the capital market. In order to boost the financial sector the Moroccan government aims to position Casablanca as the leading financial hub for francophone Africa through its “Casablanca finance city” project. The Mauritian financial sector is well regulated in comparison to many other African countries. This, coupled with good governance and a well-developed legal and financial infrastructure, has helped the government to achieve a sustainable GDP growth and to build a competitive financial sector. In Namibia, the new NAMFISA Act, to be enacted in 2015, will streamline all nonbanking regulations which should provide a boost to the already thriving asset management industry.

The economic and political stability of the advancing group makes them appealing markets for both investment and distribution. Therefore growth of CIS and mandates is expected to continue at a steady pace.

Due to lack of availability of data for Morocco the 2014 figures are estimations.
Part three

Promising markets

This group is comprised of countries on the cusp of becoming major players in Africa, such as Nigeria, the largest economy in Africa. These countries are showing promise due to the quality of their institutions and infrastructure both of which are well prepared to support the expansion of the financial sector and the growth of the asset management industry.

Mandates make up the majority of the industry in these markets, which we calculated based on the amount of institutional assets. An outlook for the asset management industry is available at the end of this chapter.

Compared to the advancing markets, the financial sectors and fund industries in these countries are smaller relative to their GDP, but they are considerably larger than those of the nascent markets.

The fund industries remain small, in part due to low levels of individual wealth, financial literacy and general awareness. At the moment, mutual funds are mostly purchased by institutional investors. Despite a majority Muslim population, Egypt does not have a particularly large proportion of Islamic finance.

Demographic changes are already affecting these countries, which is beginning to create a demographic dividend. These markets, while less mature than the advancing markets, still show a growing proportion of pensions and insurance. The countries in this group are already showing signs of promising growth as they all have above or close to the African average wealth per adult. Egypt, in particular, is predicted to grow quite considerably and could become the second largest economy in Africa by 2020.

If this promise is realised, the growth of the middle class and the increase in wealth is likely to considerably boost the growth of the mutual fund industry in these markets; as the expansion of the middle class will increase the proportions of savings which can be channelled into the asset management industry through pensions and insurance.

Kenya’s financial arena is at the forefront of technology and is likely to continue leading the way. As mobile phone penetration is high despite wealth levels in Africa, we expect that this technology will spread to other markets, particularly where there are low population densities and a large proportion of the population remains unbanked.

Regulatory adjustments to encourage savings and investment coupled with demographic changes are likely to boost the insurance and pensions sectors. For example, relaxing regulations on investments of the large pension fund industries in Botswana, Nigeria and Kenya would free up considerable capital to boost those economies. Botswana established an SWF in 1994 and has assets equal to almost 50 percent of GDP. Kenya may set up an SWF if oil discoveries prove sufficiently profitable.
Egypt

Although political instabilities resulted in slow growth in Egypt it has a large and diversified economy and a sizeable asset management industry.

Macro Environment

With estimated real GDP growth of 2.2 percent in 2014, Egypt underperforms its African peers (see figure 76). The projected growth in 2020 is 4.1 percent. This might be explained by social and political instability in the country. The events of the Arab Spring led to the president being removed from office and in July 2013, there was a military coup that led to a new government being put in power.36

“When political instabilities die down Egypt will be a very appealing market.”
Armien Tyer, Absa

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“When political instabilities die down Egypt will be a very appealing market.”
Armien Tyer, Absa

Figure 76: Evolution of Real GDP Growth (%)

![Figure 76: Evolution of Real GDP Growth (%)](image)

Source: PwC Market Research Centre analysis based on IMF data

The population in Egypt is currently estimated to be at 85.4 m, as of 2014. This represents a growth of 2 percent compared to 2013 and places the country as the third largest on the continent.

While both GDP and the population grew, GDP per capita went from USD 3,242.9 in 2013 to USD 3,336.6 in 2014.

Inflation in Egypt was 10.1 percent in 2014 and is projected to be 12 percent in 2020 (see figure 77).

**Political Stability and Corruption**

The World Bank Worldwide Governance Indicators are six aggregate governance indicators, which are composite measures based on a large number of underlying data sources (see figure 78).

Egypt scores above the 50th percentile in all areas, but the political stability indicator ranks it in the middle in relation to Africa as a whole. The World Economic Forum's Global Competitiveness Index mentions that political instability is having quite a negative effect on Egypt and is affecting investor confidence.

**Investment Overview**

Egypt has a diversified economy that is hindered by years of state domination, corruption and low competitiveness. Diversification of the economy can be seen in the decomposition of Egypt’s GDP by sector (see figure 79).

The largest contribution to GDP comes from the extractive industry, which accounted for 17 percent of total GDP at year-end 2013. Specifically, petroleum comprised 7.7 percent of total GDP and natural gas accounted for 9.2 percent.

The manufacturing industry accounted for 16 percent and the third most important sector was agriculture, forestry and fishing with 14 percent.

It is also important to mention that Egypt is home to the Suez Canal, which alone contributed to 1.9 percent of GDP.
Capital Markets

In 2014 there were 214 companies listed on the Egyptian Stock Exchange (EGX), and 33 on the Nilex (the exchange for SMEs). Market capitalisation amounted to 25.2 percent of the GDP in 2014, indicating that the capitalisation is increasing slowly but steadily since the drop following the Arab Spring in 2011 and surpassed EGP 500m (USD 69.7m) in 2014 (figure 80).

2014 was a strong year for the EGX with the highest ever value trading. The proportion of foreign investors increased in 2014, reaching 21 percent of which 13 percent were non-Arab, the UK represented 22 percent of the foreign investment, followed by Saudi Arabia at 20 percent and the USA at 15 percent.

The bond market was also successful during the year 2014, recording its highest trading value in EGX history, which amounted to more than EGP 67bn (USD 9.3bn) as opposed to only EGP 29bn (USD 4.1) in 2013. Treasury bonds accounted for the majority of bond sales but corporate bonds increased from EGP 19m to EGP 44m in 2014.

Mutual Funds investing in Egypt

<table>
<thead>
<tr>
<th>Rank</th>
<th>Fund Name</th>
<th>Africa allocation (%)</th>
<th>Allocation to Egypt (%)</th>
<th>Perf. (%) 2015</th>
<th>Perf. (%) 2014</th>
<th>Perf. (%) 2013</th>
<th>Perf. (%) 2012</th>
<th>Perf. (%) 2011</th>
<th>Fund Domicile</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Market Vectors Egypt Index ETF</td>
<td>90.73</td>
<td>90.73</td>
<td>-12.67</td>
<td>13.7</td>
<td>6.95</td>
<td>0.7</td>
<td>-4.15</td>
<td>USA</td>
</tr>
<tr>
<td>2</td>
<td>Bellevue F (Lux) BB African Opportunities B EUR</td>
<td>82.16</td>
<td>40.58</td>
<td>-5.3</td>
<td>2.17</td>
<td>4.92</td>
<td>1.58</td>
<td>1.44</td>
<td>Luxembourg</td>
</tr>
<tr>
<td>3</td>
<td>Ashmore SICAV Pan Africa Equity I USD Acc</td>
<td>93.63</td>
<td>36.36</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>Luxembourg</td>
</tr>
<tr>
<td>4</td>
<td>Sanlam African Frontier Markets A USD</td>
<td>93.06</td>
<td>32.98</td>
<td>-8.21</td>
<td>-0.14</td>
<td>10.18</td>
<td>4.32</td>
<td>2.2</td>
<td>Ireland</td>
</tr>
<tr>
<td>5</td>
<td>STANLIB Africa Equity B1</td>
<td>93.23</td>
<td>31.59</td>
<td>-8.41</td>
<td>-3.41</td>
<td>-0.11</td>
<td>-6.19</td>
<td>-6.21</td>
<td>South Africa</td>
</tr>
</tbody>
</table>

The Market Vectors fund invests all of its African allocation of assets in Egypt while the other funds invest between one-third and one half of their allocation in Egypt indicating it is recently quite an appealing destination for investment despite the political instability over the past few years. Returns have been variable but were all negative in 2015 (figure 81).
Mutual funds

The mutual fund industry in Egypt is composed almost exclusively of open-ended mutual funds. According to the Egyptian Financial Supervisory Authority (EFSA), there are currently 87 funds being marketed in Egypt managed by 22 asset managers. Although the number of mutual funds has increased during the past years, the AuM has dropped significantly due, for the most part, to the recent political instability. Total AuM reached EGP 53.6bn in 2014 (USD 7.5bn) (see figure 82).

Egyptian mutual fund managers seem to invest the majority of their portfolios in money market instruments (see figure 83). Conventional funds dominate the local market and Islamic funds represent a very small proportion of the market. Although there are 12 Islamic funds domiciled in Egypt.

Egypt launched its first exchange traded-fund (ETF) in 2014 called the XT-Misr which reflects the strong performance of the EGX 30 stock index. Egypt has also recently introduced its first sovereign sukuk (i.e. Islamic bond) as a means of financing the recovery of the economy.

According to Lipper, there is currently just one foreign fund offered for sale in Egypt.
Alternatives

The recent introduction of alternative investments suggests that Egypt is striving to become a key player in the market of alternatives in the Middle East and North Africa (MENA) region by launching a bunch of new investment instruments. To boost the alternatives market, the EFSA has introduced regulatory measures to encourage the creation of real estate and index funds. The aim is to inject more liquidity into the market and attract more investments.

Investors

Insurance Funds/Pension Funds

The Egyptian fund market includes insurance funds. In practice, we believe that these insurance funds are likely to include pension plans. This would certainly explain the absence of data regarding pension funds.

Although the number of insurance funds is rising, the sector is still very small. Total assets amounted to an estimated EGP 44.0bn (USD 6.1bn) in 2014 (see figure 84) and the penetration rate is just 0.7 percent, of GDP compared to the African average of 3.5 percent. AuM have increased at a CAGR of 10.7 percent since 2008, showing stable growth of the sector.
Insurance Companies

Total assets of insurance undertakings amounted to an estimated EGP 51.2bn (USD 7.14bn) in 2014 (see figure 86) and, despite there being only two players in the public sector, they accounted for two-thirds of total assets. In the life insurance sector, private life insurers dominate; they account for the majority of net premiums.

The publicly run Egypt Life is the largest stand-alone life insurer and accounted for 36 percent of total life insurance premiums that year.

The penetration rate of insurance is low which can be explained by the lack of awareness of insurance products among the population, but is also possibly due to religious reasons. The Islamic insurance (i.e. “Takaful”) market is also growing, although there are currently six Takaful insurers out of a total of 28. Three of these Takaful insurers are life insurers, which accounted for about 4.4 percent of total private life premiums in 2013.

Distribution

Distribution in Egypt is mostly based on banks as they have the largest network.

Banks

Total assets of the sector amounted to an estimated EGP 1,683bn (USD 234.6bn) in 2014, a 7.6 percent CAGR since 2008 (see figure 87). However, the proportion of total assets to GDP has significantly dropped as GDP grew faster than bank assets.

Egypt’s banking industry is comprised of 40 banks. This number which has remained steady for several years as there haven’t been a lot of new entrants, which is indicative of a dormant market. The Egyptian market is heavily concentrated; of the 40 banks, the five largest accounted for more than 56 percent of total industry assets in 2013. In theory, banks operating in the Egyptian market may be foreign-owned if they have approval from the regulator, the Central Bank of Egypt (CBE). However, in practice, entry is usually made through the acquisition of local players.
Outlook

Political uncertainty and governance issues compromise the attractiveness of Egypt as an investment destination. When the political situation stabilises, there may be several opportunities for potential investors.

Egypt has adopted a reform plan aiming at increasing its tax base, streamlining spending on energy subsidies, leveraging capital spending and allocating more resources to public service and social security.

These reforms, in addition to Egypt’s promotional strategy and stabilisation of the political situation, could attract investment in the country. Nevertheless, due to data limitations and uncertainty we have not predicted any specific figures for Egypt.
Ghana is seen as a gateway for investment in west Africa, due to its stable economy and mature financial sector supported by a stable democracy.

Macro Environment

Ghana is one of the fastest growing economies in Africa, although it slowed down a bit in 2013 and further in 2014. Ghana’s economy grew by 4.2 percent in 2014, with an estimated GDP of USD 35.5 bn. GDP growth peaked in 2011 at 14 percent. Projections indicate GDP growth to be 4.3 percent in 2020 (see figure 88).

Figure 88: Evolution of Real GDP Growth (%)
Inflation in Ghana was 15.7 percent in 2014 and is projected to be 10.2 percent in 2020 (see figure 89).

The population in Ghana is currently at 26.2m, as of 2014. This represents a growth of 2.6 percent compared to 2013 and places the country in the 13th position out of the 53 analysed African countries.

Political Stability and Corruption

The World Bank Worldwide Governance Indicators report six aggregate governance indicators, which are composite measures based on a large number of underlying data sources (see figure 90).

These indicators place Ghana above the 50th percentile in all of the indicators except political stability indicating that it is well placed in the promising group in this report. The World Economic Forum's Global Competitiveness Index is positive about Ghana noting that public institutions are characterised by relatively high government efficiency and property rights are strong.

Investment Overview

Despite the recent slowdown, the outlook for Ghana's economy is bright. Ghana's economy is well diversified, with several sectors contributing to the country's GDP (see figure 91). Ghana will remain one of the largest gold producers in the world, with gold accounting for more than 40 percent of its exports. Furthermore, the economy will be driven by the country's oil resources. Since the discovery of precious hydrocarbon in 2007, oil income has contributed largely to Ghana's economic prosperity, making it a net oil exporter with production estimated to rise to 200,000 barrels a day by 2019. Additionally, the country started gas commercialisation in 2015. The Sinopec Petroleum facility, built by China, is run by Ghana Gas. Considering its very recent start, strong growth potential is projected. Although prices for gold, oil and gas have shown recent declines and are projected to remain at a lower level than they have in recent years, these commodities will still be amongst the main drivers of Ghana's economy.
Agriculture’s contribution to Ghana’s GDP declined from 2008 to 2013, losing almost 10 percent of its share. However, it will remain a major pillar of the country’s economy, as well as the main sector of employment. Cocoa is the primary agricultural product, with Ghana earning the title of second largest cocoa grower in the world.

Trade has been, is currently and will remain a significant growth factor for Ghana’s economic growth. As a member of the Economic Community of West African States (ECOWAS) and African Economic Community (AEC), Ghana is well connected to trading partners. Moreover, the government promoted trade by eliminating or reducing import quotas, tariffs and requirements over the past 20 years. Total trade increased from USD 17.4 billion in 2010 to USD 29.3 billion in 2013, with a growth rate of 19.0 percent (CAGR) (see figure 92).

In 2013, the major trading partner of Ghana was the European Union (30.5 percent), followed by China (18.1 percent). However, Intra-African trade is very important as well. The list of Ghana’s top ten trading partners includes Nigeria (8.6 percent), Ivory Coast (4.7 percent) and South Africa (3.3 percent).

**Capital Markets**

The latest available data indicates that the Ghana Stock Exchange had 34 listed companies and a market capitalisation of GHS 63.9bn (USD 19.8bn) in January 2015. Market capitalisation as a percentage of GDP remains at 7 percent due mostly to large increases in GDP. The GSE is very concentrated; the share of market capitalisation of the five largest firms was 92.2 percent in 2012. As a result, it is highly susceptible to any stock movements of the five largest firms (see figure 93).

In May 2013 the GSE introduced the Ghana Alternative Market (GAX) to allow SMEs with potential for growth to access funds.

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40 CNN Africa View, 2015  
41 PwC’s Africa gearing up, 2013  
42 European Commission, 2014
Mutual funds investing in Ghana

**Figure 94: Top Funds Investing in Ghana* by Proportion of Assets Invested**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Fund Name</th>
<th>Africa allocation (%)</th>
<th>Allocation to Ghana (%)</th>
<th>Perf. (%) 2015</th>
<th>Perf. (%) 2014</th>
<th>Perf. (%) 2013</th>
<th>Perf. (%) 2012</th>
<th>Perf. (%) 2011</th>
<th>Fund Domicile</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Silk - African Bond Fund R (USD)</td>
<td>85.81</td>
<td>15.49</td>
<td>-1.3</td>
<td>-4.85</td>
<td>0.23</td>
<td>0.45</td>
<td>0.62</td>
<td>Luxembourg</td>
</tr>
<tr>
<td>2</td>
<td>Robeco Afrika Fonds</td>
<td>94.21</td>
<td>5.93</td>
<td>-8.24</td>
<td>1.20</td>
<td>3.22</td>
<td>0.34</td>
<td>2.91</td>
<td>Netherlands</td>
</tr>
<tr>
<td>3</td>
<td>Tundra Nigeria &amp; Sub-Sahara</td>
<td>88.48</td>
<td>5.53</td>
<td>-19.29</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>Sweden</td>
</tr>
<tr>
<td>4</td>
<td>SGKB (LUX) Fund - African Dawn (USD) B</td>
<td>82.8</td>
<td>5.15</td>
<td>-17.62</td>
<td>-10.12</td>
<td>1.77</td>
<td>n/a</td>
<td>n/a</td>
<td>Luxembourg</td>
</tr>
<tr>
<td>5</td>
<td>Silk - African Lions Fund R</td>
<td>97.33</td>
<td>4.85</td>
<td>-9.6</td>
<td>-2.26</td>
<td>2.5</td>
<td>-2.43</td>
<td>-2.14</td>
<td>Luxembourg</td>
</tr>
</tbody>
</table>

Source: Lipper and PwC Market Research Centre analysis

* Data extracted from Lipper 30/04/2015

The top five funds investing in Ghana invest a very small proportion of their funds in Ghana. These African focused funds invest the remainder of their assets all over Africa. The funds have all had negative returns over the past year (see figure 94).
Collective Investment Schemes – Mutual Funds

The number of mutual funds has increased sharply from seven in 2008 to 20 in 2013; AuM also grew rapidly at a CAGR of 25.5 percent reaching an estimated GHS 317.1m (USD 98.6m) in 2014 (see figure 95). The mutual fund market is extremely concentrated; the top five mutual funds comprised 96 percent of the total AuM and one investment manager controlled 84 percent of the total AuM in 2013, the most recent year for which data is available. That year, equity funds comprised the majority share of mutual funds. Money market funds accounted for 32 percent (see figure 96), but were the largest fund type by AuM.

Figure 95: Evolution of AuM of Mutual Funds

Figure 96: Breakdown of Mutual Funds by Number of Funds
Collective Investment Schemes – Unit Trusts

The number of unit trusts has increased sharply since 2008, from four to 18. The AuM has also been increasing rapidly at a CAGR of 29.9 percent totaling an estimated GHS 131.5m (USD 40.8m) (figure 97). The market is highly concentrated, latest available data indicates that the top 5 funds made up 87 percent of the total AuM of unit trusts. The top fund manager, HFC Investment Services Ltd., managed 79 percent of the total AuM of unit trusts, for example the HFC Unit Trust comprised 44 percent of the total unit trust assets.

The same year, unit trusts were overwhelmingly comprised of money market funds, at 62 percent of the total number of unit trusts (see figure 98).

Sales of Mutual Funds and Unit Trusts

The net subscriptions and redemptions between 2010 and 2013 have been quite volatile fluctuating between net subscriptions of GHS 29m and net redemptions of GHS 23.4m (see figure 99).
Alternatives

REITs have been in existence in Ghana since 1994 and, because they are legally defined as CISs, they are regulated by the Securities and Exchange Commission (SEC). The HFC bank REIT was set up in 1995 and invests its funds in securities of real estate companies, development of real estate or equity in companies engaged in real estate activities. The fund has grown extremely fast (see figure 100), increasing at a CAGR of 69.7 percent from 2007 to 2013 to reach an estimated GHS 41.9m (USD 13.09m).

In an effort to boost the private equity industry in Ghana, the Venture Capital Trust Fund (VCTF) was established as a government initiative to provide low cost financing to businesses. For instance, Oasis Capital Ghana is a local private equity firm that has raised capital through the VCTF. It was founded in 2009 and by 2013, had funds under management of USD 13m. The firm’s fund, the Ebankese Venture Fund, is an SME fund and typically invests in small companies with funding of between USD 100k to USD 2m.

![Figure 100: Evolution of Assets HFC REIT](image)

Source: SEC Ghana, PwC Market Research Centre analysis
Investors

Sovereign Wealth Funds

The first oil discovery was made in 2007 and the IMF estimates that commercial oil production in Ghana could generate USD 1bn per year once it reaches full capacity. As a result, the Ghanaian government introduced the Petroleum Revenue Management Act in 2001, which created the Ghana Petroleum Funds. The fund consists of two accounts with different economic purposes; the Ghana Stabilisation Fund (GSF) to act as a fiscal buffer for shortfalls in public expenditure and the Ghana Heritage Fund (GHF) to collect savings for the next generation. The two accounts were formally established with combined seed capital of USD 69.2m in November 2011. The funds are managed by the Bank of Ghana which reports quarterly to the Ministry of Finance and Economic Planning. The funds receive 30 percent of Ghana's annual oil revenue split 70 percent for the GSF and 30 percent for the GHF. No funds can be drawn from the GHF until 2026 and even then just the accrued interest. However, a deteriorating economic situation is currently putting the funds under political pressure and the government may need to revise its revenue allocation policies.

Pension Funds

The Social Security and National Investment Trust (SSNIT) is the largest institutional investor on the Ghana Stock Exchange with total assets estimated to be GHS 5.9bn (USD 1.8bn) in 2014 (see figure 101). The SSNIT was launched in 1965 and administers the national pension schemes. Since the introduction of two additional tiers in 2010, Ghana has a three tier pension system. The National Pensions Regulator Authority (NPRA) has registered and approved 51 Pension Fund Managers which are to act as advisors to the Trustees in managing the investments of the second and third tier funds. There are also 14 banks registered and approved by the NPRA which will act as Pension Fund Custodians; they will hold the pension contributions and assets in trust for members and will also administer the assets. Ghanaian pension funds may only invest outside Ghana with presidential approval and a recommendation by the NPRA.

Figure 101: Assets of SSNIT Fund

Source: SSNIT, PwC Market Research Centre analysis
Insurance Companies

The assets of the life insurance industry grew at a CAGR of 37.4 percent from GHS 135m (USD 136m) in 2007 to an estimated GHS 1.2bn (USD 388m) in 2014 (see figure 102). These assets were mostly invested in fixed deposits (see figure 103). Premiums also increased steadily, although as a percentage of GDP they dropped.

The insurance industry in Ghana is regulated by the National Insurance Commission (NIC), the contribution of total insurance premiums to GDP is around one percent, considerably less than the African average of 3.5 percent. The latest available NIC annual report states that the industry is comprised of 26 non-life companies and 19 life companies.
Distribution

Distribution in Ghana is mostly through investment advisors, of which there were 87 in 2013, according to the latest available data.

Banks

The total assets of deposit banks have more than quadrupled since 2007 from GHS 7.6bn (USD 7.7bn) to an estimated GHS 47.0bn (USD 14.6bn) at a CAGR of 29.7 percent (see figure 104). However, banking penetration as measured by the ratio of assets-to-GDP is still quite low at 41.8 percent.

Latest available data from the Bank of Ghana indicates that the banking sector included 409 micro finance institutions, 137 rural and community banks, 58 non-bank financial institutions and 27 deposit money banks. There has been an influx of foreign banks in the last decade. In 2013, 15 of the 27 deposit money banks were foreign owned, many of which are South African or Nigerian. Of the top 10, four are Ghanaian: Ghana Commercial Bank, Agricultural Development Bank, National Investment Bank and CAL bank.

Figure 104: Evolution of Assets of Commercial Banks

Source: Bank of Ghana, PwC Market Research Centre analysis
Outlook

Ghana is seen as the safe gateway to West Africa for investors. The country’s political stability, economic liberalism, natural resources and diverse economy contribute to its attractiveness. In comparison to its fellow African countries, Ghana provides a less restrictive business environment and better macroeconomic policies. Foreign direct investment (FDI) prospered in past years, and Ghana became the centre for FDI in West Africa. Ghana’s prosperous economic outlook and diversified economic sectors, which provide plenty of investment opportunities, will make the country an attractive place for investors.

Ghana has a mature financial sector, stable democracy and strong legal framework, all ingredients for strong growth of its fund industry. Total AuM has increased steadily showing just a slight drop followed by a sizable recovery following the global financial crisis. Although the largest proportion of AuM is managed for institutional investors, there are 40,000 retail investors which suggests that once Ghana’s economy grows the retail fund sector will take off. We predict AuM to reach GHS 0.92bn by 2020.

Sources: PwC Market Research Centre Analysis based on SEC Ghana and IMF data

Figure 105: Projected AuM Growth of Collective Investment Schemes
Kenya is a leader in the East African region with a well developed financial sector. It is also particularly strong in terms of technological development.

**Macro Environment**

With an estimated real GDP growth of 5.3 percent in 2014, Kenya is the second fastest growing country of the 12 we analysed. The projected growth for 2020 is 6.6 percent (see figure 106).

The population in Kenya is estimated to be at 42.9m, as of 2014. This represents a growth of 2.7 percent compared to the prior year and places the country as the 7th largest on the continent.
While both GDP and the population grew, GDP per capita increased from USD 1,315.6 in 2013 to USD 1,461.1 in 2014.

Inflation in Kenya was 6.9 percent in 2014 and is projected to be 5 percent by 2020. This can be attributed to a prudent monetary policy that has tamed the rapid depreciation and high inflation seen in 2011 (see figure 107).

Political Stability and Corruption

The World Bank Worldwide Governance Indicators are six aggregate governance indicators, which are composite measures based on a large number of underlying data sources (see figure 108).

Kenya scores quite low on some of these World Bank Indicators, in particular control of corruption and political stability. In contrast, the World Economic Forum’s Global Competitiveness Index notes that following the adoption of the country’s new constitution in 2010, which introduced additional checks and balances on executive power, the quality of institutions has improved.

Investment Overview

Kenya is already part of several global value chains. Although it is currently at the low end of these value chains, Kenya could potentially move to a higher position if it addresses some of the issues it is currently facing (see figure 109).

Kenya’s government is focused on policy changes that will encourage greater accountability and economic stability. There are significant challenges such as the availability of key skills and infrastructure shortfalls but there is also specific activity and investment to address these and other challenges.
When looking at the decomposition of Kenya’s GDP by sector, we can see that the largest contribution to GDP comes from agriculture, which accounted for 26 percent of total GDP at year end 2013.

This is followed by the manufacturing industry which represents 13 percent. The third and fourth most important sectors are the real estate sector and the wholesale and retail sector—both accounting for 9 percent.

The discovery of oil, gas and coal since 2012 might have the potential to boost Kenya’s overall socio-economic development.45

Also, Kenya is trying to improve its infrastructure. The construction of a port in Lamu, which began in 2012, is one of the projects in the Lamu Port and Lamu-Southern Sudan-Ethiopia Transport (LAPSSET) Corridor Program that aims to boost trade and economic development in the region.46

**Capital Markets**

With 63 listed companies on the Nairobi Stock Exchange (NSE), total market capitalisation amounted to almost 41 percent of GDP in 2014, compared to 50.6 percent in 2006. This decrease in the market capitalisation was essentially due to the economic downturn caused by the global crisis and political instability in 2011 (see figure 110). In 2014 the stock exchange received approval to demutualise and self-list on the exchange. In 2014, 14 treasury bonds were issued and in June, the first ever sovereign bond raised USD 2 bn (KES 174 bn). Two corporate bonds were also issued, Shelter Afrique issued KES3.5 bn (USD 0.03bn) and I&M Bank KES 10bn (USD 0.10bn).

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45 African economic outlook 2014 published by AfDB, OECD, UNDP
46 LAPSSET Corridor Development Authority
The top five funds investing in Kenya are focused on Africa, with approximately 80 percent of their assets invested there, but Kenya forms just one-quarter of the allocation. Returns have been negative over the past two years (see figure 111).

<table>
<thead>
<tr>
<th>Rank</th>
<th>Name</th>
<th>Africa allocation (%)</th>
<th>Allocation to Kenya (%)</th>
<th>Perf. (%) 2015</th>
<th>Perf. (%) 2014</th>
<th>Perf. (%) 2013</th>
<th>Perf. (%) 2012</th>
<th>Perf. (%) 2011</th>
<th>Fund Domicile</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>SGKB (LUX) Fund - African Dawn (USD) B</td>
<td>82.80</td>
<td>27.49</td>
<td>-17.62</td>
<td>-10.12</td>
<td>1.77</td>
<td>n/a</td>
<td>n/a</td>
<td>Luxembourg</td>
</tr>
<tr>
<td>2</td>
<td>Alquity SICAV-Alquity Africa I USD</td>
<td>88.46</td>
<td>25.46</td>
<td>-9.68</td>
<td>-0.69</td>
<td>1.38</td>
<td>-1.57</td>
<td>n/a</td>
<td>Luxembourg</td>
</tr>
<tr>
<td>3</td>
<td>Silk - African Bond Fund R (USD)</td>
<td>85.81</td>
<td>22.17</td>
<td>-1.30</td>
<td>-4.85</td>
<td>0.23</td>
<td>0.45</td>
<td>0.62</td>
<td>Luxembourg</td>
</tr>
<tr>
<td>4</td>
<td>Nile Pan Africa Fund;A</td>
<td>91.38</td>
<td>19.88</td>
<td>-6.76</td>
<td>-1.09</td>
<td>7.07</td>
<td>4.81</td>
<td>n/a</td>
<td>USA</td>
</tr>
<tr>
<td>5</td>
<td>OP-Afrikka A</td>
<td>88.15</td>
<td>17.39</td>
<td>-22.28</td>
<td>-11.13</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>Finland</td>
</tr>
</tbody>
</table>

Source: Lipper and PwC Market Research Centre analysis
* Data extracted from Lipper 30/04/2015

Figure 111: Top Funds Investing in Kenya* by Proportion of Assets Invested
Collective Investment Schemes

In Kenya, investment funds are known as Collective Investment Schemes (CIS) and the most common type are Unit Trusts. AuM of Unit Trusts reached KES 38.1bn (USD 0.43bn), grew at a CAGR of 21.2 percent from 2010 to 2014 (see figure 112). Despite this growth, the fund industry remains underdeveloped and accounts for an extremely small share of GDP (0.7 percent) and for just 0.8 percent of total financial sector assets.

This is likely due to the fact that the industry is quite new and, therefore, there is a lack of awareness among investors. However, we expect the industry to develop fast due to the strong will of the government to grow the financial sector through the “Vision 2030” development programme. In addition to the Vision 2030 programme there are other public-private initiatives like the Financial Sector Deepening programme, jointly supported by several development partners and the Government of Kenya, which collaborates with Kenya’s financial services industry to promote financial inclusion.

This has already shown some results: Kenyans are increasingly adopting a savings and investment culture thanks to government incentives.

As regards foreign funds, they are allowed to be marketed in Kenya if they have received a licence from the regulator of its country of domicile and if it complies with the Kenyan Capital Markets Act.

Domestic equities and fixed deposits were the most popular asset classes among Kenyan fund managers according to latest available data; they jointly accounted for nearly 62 percent of portfolio allocation. Government securities were a common asset class and accounted for almost 17 percent. The remaining 21.5 percent was split between corporate bonds (11 percent), cash and demand deposits (4.5 percent), and other assets (6 percent) (see figure 113). Finally, other assets included offshore investments, money market instruments, unlisted securities and unit trusts.
Alternatives

Kenya is the leading market in East Africa in terms of alternative investments, mostly thanks to its booming real estate (RE) sector.

With a population expected to reach 50m by 2020, the RE sector is becoming an attractive investment as prices are surging, boosted by demand from a growing middle class. In fact, the Capital Markets Authority (CMA) has recently introduced Real Estate Investment Trusts (REITs) which are expected to provide Kenyan people with a broader range of investing opportunities. These REITs are also expected to support growth in the RE sector by helping finance the increase in housing units. According to the regulations, REITs fall into two categories: development and construction REIT (D-REIT) or income real estate investment trust scheme (I-REIT).

Between 2012 and 2013, private equity (PE) activity doubled from six deals to 12 deals, with the total value of deals surging from USD 36.1m in 2012 to USD 112m in 2013. Consequently, Kenya accounts for 46 percent of the total number of deals in Eastern Africa and 69 percent of total value. Despite this, PE investment is quite restricted and often institutional investors are required to gain approval from the regulatory authority. For instance, the permitted asset allocation to PE by pension funds is fixed at 10 percent and has to be allocated under “other assets”.

**Investors**

**Pension Funds**

The pension industry grew at a CAGR of 15.6 percent between 2010 and 2014, when total AuM reached an estimated KES 806bn (USD 8.78bn) (see figure 114). This amount accounts for the second largest share of financial sector assets. The assets are split among the state run schemes, the National Social Security Fund (NSSF), and the 1,400 private schemes which are managed by fund managers and insurance companies.

Under the Retirement Benefits Act, the Retirement Benefits Authority (RBA) regulates investments of pension funds, such as the maximum permitted exposure to certain asset classes. In recent years, a large share of pension funds were invested in government securities which accounted for 33.8 percent in 2013, while listed equities accounted for 25.5 percent and property for 17.2 percent of total AuM (see figure 115). The remaining 23.5 percent was split between cash and fixed deposits, fixed income assets and other investments. Other investments included guaranteed funds, offshore investments and unlisted equities.

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**Figure 114: Asset Growth of Pension Funds**

Source: RBA, PwC Market Research Centre analysis

**Figure 115: Pension Asset Allocation**

Source: CMA
Insurance Companies

Total industry assets in 2014 were an estimated KES 435bn (USD 4.7bn), a CAGR of 18.9 percent from 2008 (see figure 116). The industry is dominated by the non-life sector which accounts for the majority of total industry premiums. The overall insurance penetration rate is 3.4 percent of GDP, just below the African average of 3.5 percent.

The insurance industry is regulated and supervised by the Insurance Regulation Authority (IRA) under the Insurance Act. According to the IRA, at the end of 2013 there were a total of 51 players: 3 reinsurers and 48 licensed insurers, of which 24 were general insurers, 12 were life insurers and 12 were composite insurers (both life and non-life).

Insurance companies held a large proportion of their investments in government debt over the past years. For example, in 2013, government debt accounted for almost 42 percent of their portfolios. Property investments are also becoming more and more successful due to the anticipated growth of the Kenyan RE sector. In 2013, property investment accounted for about 16 percent of total investments (see figure 117). The remaining 42 percent comprised equities, deposits and other investments.
Distribution

Distribution in Kenya is mainly through insurance companies although it is likely that banks will start to open asset management subsidiaries soon as they have the greatest potential distribution network. The AuM of retail unit trusts is quite small due to the low insurance penetration.

Banking

Total assets of the banking industry were an estimated KES 2.5tn (USD 27.4bn) in 2014 assets grew at a CAGR of 18.0 percent from 2008 to 2014 (figure 118). Banks account for the largest share of the financial sector assets and over half of GDP. These assets are spread across 43 licensed commercial banks and one Mortgage Company in Kenya; these are regulated and supervised by the Central Bank of Kenya (CBK).

Figure 118: Banks’ Assets

Source: CBK, PwC Market Research Centre Analysis
Outlook

Although Kenya faces some challenges it seems to be on its way to becoming a gateway to East African region. Kenya is actively trying to implement policies that promote growth and development. If it succeeds in implementing the programs outlined in Kenya’s long-term plan “Kenya vision 2030”, we should see investment inflows into the country. The plan includes goals related to public sector reforms, modernisation of infrastructure and education.

The mutual fund industry in Kenya is relatively new; our historical data begins in 2010. Nevertheless, Kenya has ambitious plans and has managed to take the lead in the fund industry of the East African region. The recent proposal for developing an alternative market with REITs and PE funds, as well as the ongoing plans to establish Islamic Sukusks and Sharia compliant mutual funds will further deepen the financial market. With wealth distribution highly unequal, the fund market relies almost entirely on institutional investors. Oil discoveries will drive economic growth which will bring more of Kenya’s citizens into the middle class. This will give quite a boost to the fund industry. We predict AuM to reach KES 85.3bn by 2020.

Figure 119: Projected AuM Growth of Collective Investment Schemes

Sources: PwC Market Research Centre analysis based on CMA data
Botswana is trying to diversify away from a previous reliance on mining. The government is supporting a focus on financial services with the Botswana International Financial Services Centre (IFSC).

Macro Environment

Botswana’s economy grew by 4.9 percent in 2014, with an estimated GDP of USD 16.3 bn.

Projections indicate GDP growth to be 3.4 percent in 2020 (see figure 120).

The GDP per capita went from USD 7,119.9 in 2013 to USD 7,749.9 in 2014. It is projected to reach USD 12,039.3 in 2020, which translates into growth of 7.6 percent (CAGR).

Figure 120: Botswana Real GDP Growth (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>8.7</td>
</tr>
<tr>
<td>2008</td>
<td>3.9</td>
</tr>
<tr>
<td>2009</td>
<td>-7.8</td>
</tr>
<tr>
<td>2010</td>
<td>8.6</td>
</tr>
<tr>
<td>2011</td>
<td>6.2</td>
</tr>
<tr>
<td>2012</td>
<td>4.3</td>
</tr>
<tr>
<td>2013</td>
<td>5.9</td>
</tr>
<tr>
<td>2014</td>
<td>4.9</td>
</tr>
<tr>
<td>2015e</td>
<td>4.2</td>
</tr>
<tr>
<td>2016e</td>
<td>4.0</td>
</tr>
<tr>
<td>2017e</td>
<td>4.1</td>
</tr>
<tr>
<td>2018e</td>
<td>4.1</td>
</tr>
<tr>
<td>2019e</td>
<td>3.7</td>
</tr>
<tr>
<td>2020e</td>
<td>3.4</td>
</tr>
</tbody>
</table>

Source: PwC Market Research Centre analysis based on IMF data
Inflation in Botswana was 3.9 percent in 2014 and is projected to be 3.9 percent in 2020 (see figure 121).

The population in Botswana is at 2.1m, as of 2014. This represents a growth of only 1.0 percent compared to 2013.

**Political Stability and Corruption**

The World Bank Worldwide Governance Indicators are six aggregate governance indicators, which are composite measures based on a large number of underlying data sources (see figure 122).

These indicators score Botswana highly in relation to many other African countries, particularly in relation to regulatory quality, control of corruption and political stability. In addition, the World Economic Forum’s Global Competitiveness Index describes its institutions as reliable and transparent.

**Investment Overview**

The need for diversification is imminent. Botswana’s mining industry is the major contributor to GDP (see figure 123). Diamonds make up the largest share and will retain this position for the foreseeable future. With the launch of the new Ghaghoo Diamond Mine, the diamond industry will see continued growth. The mine is praised as the biggest milestone after De Beers’ Diamond Trading Company moved from London to Gabarone in 2013.47

At the same time, sound performances of the non-mining sectors suggest steady steps toward economic diversification. The government has instituted programmes to support this trend. For example, the Economic Diversification Drive is an initiative to promote the growth of the private sector. Moreover, significant improvements in broadband and modernising of payments systems contribute to the diversification of the economy. In addition, the Botswana IFSC, created in 2003, aims to establish Botswana as a hub for financial and business services in Africa. This is one of the key strategies introduced by the government in order to decrease reliance on diamonds.

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47 The Botswana Gazette, September 2014

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**Figure 121: Evolution of Inflation (%)**

![Figure 121: Evolution of Inflation (%)](source)

**Figure 122: World Bank Governance Indicators Botswana**

<table>
<thead>
<tr>
<th>Governance Indicators</th>
<th>Governance Score (-2.5 to + 2.5)</th>
<th>Percentile Rank (0 to 100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voice and Accountability</td>
<td>0.47</td>
<td>62.56</td>
</tr>
<tr>
<td>Political Stability</td>
<td>1.06</td>
<td>84.83</td>
</tr>
<tr>
<td>Government Effectiveness</td>
<td>0.28</td>
<td>62.20</td>
</tr>
<tr>
<td>Regulatory Quality</td>
<td>0.66</td>
<td>73.21</td>
</tr>
<tr>
<td>Rule of Law</td>
<td>0.59</td>
<td>68.25</td>
</tr>
<tr>
<td>Control of corruption</td>
<td>0.92</td>
<td>79.43</td>
</tr>
</tbody>
</table>

**Figure 123: GDP by Sector (% share)**

![Figure 123: GDP by Sector (% share)](source)

Source: PwC Market Research Centre analysis based on IMF data

Source: World Bank

Source: African Economic Outlook 2014, published by AfDB, OECD, UNDP
Notable increases can be observed in the services sectors (trade, transport, communication, and financial services).

The current account balance decreased from USD 1.5 bn in 2013 to USD 0.9 bn in 2014. This represents a decline of 40 percent. Projections indicate a positive current account balance from 2014 to 2020, with an increasing trend from 2017 onwards (see figure 124).

In October 2014, Botswana’s main trading partner was Asia, which accounted for 39.4 percent of total exports. India, Israel, and Singapore received the lion’s share of these exports. The second largest trading export region was the European Union (33.3 percent of total exports).

Capital Markets

According to the latest data available, 36 companies were listed on the Botswana Stock Exchange (BSE). Of the total listed companies, 24 were domestic and 12 were foreign. Both the main index and the market capitalisation surged in 2007 to fall back quite sharply in 2008. Market capitalisation and equity performance took a serious hit from the global crisis (see figure 125). The market capitalisation has since fluctuated around a third of GDP while the equity performance has surpassed its previous 2007 peak, showing that the market is steadily recovering from the global crisis. Market participants include domestic and foreign companies, commercial banks, and corporate and institutional investors, i.e. asset managers, insurance companies, mutual funds and pension funds.

Central Statistics Office of Botswana, February 2015
The top five funds invest a small proportion of their assets, as they are focusing on sub-Saharan Africa and investing the remainder of their assets in South Africa, Nigeria, Kenya and Ghana among other markets. Returns have been negative for the past two years (see figure 126).
Investment Funds

According to the Non-Bank Financial Institutional Regulatory Authority (NBFIRA), 12 asset managers are registered in Botswana and, six licensed management firms for Collective Investment Undertakings (CIUs) manage 25 licensed funds. These funds amounted to BWP 4.1bn (USD 0.43bn) as of 2014 (see figure 128) a drop from a high of BWP 5bn (USD 0.65bn) in 2011 following consistently negative net sales (see figure 127).

According to data from the NBFIRA, the majority of the portfolio allocations of CIUs in the past years were in money market instruments, reflecting risk averse investors (see figure 129).

Furthermore, there are 71 foreign funds approved for marketing in Botswana, managed by four major players. Total AuM of externally licensed funds marketed in Botswana, amounted to about USD 60bn as of year-end 2013. The biggest player is Investec Asset Management Ltd, which accounts for more than 63 percent of foreign funds distributed in Botswana.

Out of these 71 foreign funds, 45 are domiciled in Luxembourg, while the remaining fund domiciles are split between South Africa, Bermuda, Jersey and the UK.

Alternatives

Founded in 2002, Venture Partners Botswana (VPB) is the leading private equity fund management company in Botswana and has launched the CEDA Venture Capital Fund (CVCF) – a USD 50m fund sponsored by the government of Botswana that provides venture capital and equity financing. It also has a presence in South Africa and in Namibia, where it manages the VPB Namibia Growth Fund. As of February 2014, 19 investments and ten exits have been made through the fund.

Additionally, investments in alternatives are allowed up to 2.5 percent of total pension fund assets. Changes in regulation are anticipated and will probably allow local pension funds to allocate between 5 percent to 10 percent of pension fund assets.
**Investors**

In contrast to other countries in the promising group, Botswana’s pension and insurance sectors are quite well developed.

**Sovereign Wealth Fund**

Managed by the Bank of Botswana and owned jointly by the government, the Pula Fund is Botswana’s Sovereign Wealth Fund (SWF), created to lessen exposure to commodity fluctuations and with the goal of preserving revenues from diamond and mineral mining activities for future generations. The AuM of the Pula Fund have increased substantially since its establishment in 1994, amounting to USD 6.9bn today**, equivalent to about 46.6 percent of GDP.

According to the Sovereign Wealth Fund Institute, the fund is one of the most transparent in Africa and essentially invests in foreign currency reserves with an asset allocation split between public equity and bond securities in developed economies (see figure 130).

**Pension Funds**

Pension funds dominate the financial services industry, with nearly 95 regulated active pension funds (including five Umbrella Funds which have 205 sub-funds) in Botswana in 2013. According to the NBFIRA, the retirement industry contributes substantially to the economy with investment assets of retirement funds totaling an estimated BWP 67.8bn (USD 7.08bn) at the end of 2014 (see figure 132). This demonstrates the significant growth of the pension fund industry. Pension funds in Botswana are known to invest predominantly in equities, especially those offshore (see figure 131). The remaining allocation is divided between bonds, which totaled over 21 percent of funds, cash/near cash (7 percent) and property (1 percent). These figures are rising—as of the 30 June 2013, foreign investments in Botswana’s pension funds were estimated at BWP 28bn (USD 3.2bn), comprising about 53 percent of total pension assets.
Investments in offshore securities are substantial as they offer a greater choice of assets available than the domestic market does, which allows for more diversification and exchange rate exposure. Pension funds are allowed to invest up to 70 percent of their assets offshore—much higher than most African countries, although recently, the NBFIRA proposed a timetable for the reduction of the offshore limit to 30 percent by 2050.

Insurance Companies

At the end of March 2013, there were 12 licensed general insurers, eight life insurers and two reinsurers present on the market. The top players in the life insurance sector were Botswana Life, Metropolitan Life and Absa Life. Together they capture 92 percent of the life insurance market.

The insurance market is growing in Botswana. According to the NBFIRA, there has been a surge in the number of entity registrations over the past years as well as in the number of sales (measured by gross written premiums). The insurance industry is dominated by life insurers who capture almost 69 percent of the market.

Total assets of the life insurers amounted to an estimated BWP 18.7bn (USD 1.9 bn) in 2014 (see figure 133) while, total premiums of the life insurance industry were BWP 2.9bn (USD 0.3bn).

Distribution

Banks

Since the Bank of Botswana (BoB) encouraged more competition on the market in the 1990s, the sector has significantly grown. There are 13 licensed commercial banks today, with industry assets totaling an estimated BWP 73 bn (USD 7.6bn) in 2014 (see figure 134). The significant development of Botswana’s banking sector can be partially attributed to the sizeable growth rate of the retail sector and increasing household demand for loans. The banking sector has contributed tremendously to the economy and is one of the strongest sectors of the Botswanan economy as well as in the rest of Africa.
Outlook

Government plans to boost economic growth will encourage investors to view Botswana as a potential investment target. Infrastructure projects are one example of planned initiatives going forward. In addition to the diamond sector, several other minerals such as copper and nickel could attract investors in the coming years. With economic growth expected to remain robust, Botswana could be a potential target for international investors.

With a stable political environment and a solid regulatory framework, Botswana’s financial sector seems to be well set for growth. The efficient monetary policy of the Bank of Botswana (BoB) has helped the government achieve a highly sustainable GDP growth rate and accrue budget surpluses. Regulatory changes are also potential factors that could affect the industry’s future, especially CIUs. Such is the case of the limitation of offshore investments to 30 percent by 2050. Even though it allows for more diversification and reduces dependency on trade export and market demand fluctuations, this extremely long horizon could hinder the development potential of the domestic capital market. The main limiting factor is the inequality of wealth distribution which means the market for retail investment funds is small and the sector is heavily reliant on institutional investors. However, with an ageing population the demand for pension funds will increase, further advancing the asset management industry. We predict AuM to reach BWP 6.4bn by 2020 based on IMF predictions of GDP and historical fund data.
Nigeria as the biggest economy in Africa is of keen interest to investors. The quality of infrastructure and regulation continues to increase and the non-oil sectors now drive the economy.

Macro Environment

With an estimated GDP of USD 594.3 bn, Nigeria boasts recognition as the largest economy in Africa, due to rebasing of GDP data in 2014. The Nigerian government aims to reach its goal of joining the world’s top 20 economies by 2020.

Nigeria is the 9th fastest growing country in Africa with GDP growth of 6.3 percent in 2014. The IMF project the GDP growth to be 6.0 percent in 2020 (see figure 136).

Inflation in Nigeria was 8.1 percent in 2014 and is projected to decrease to 7.0 percent by 2020 (see figure 137).

The outlook for Nigeria’s economy looks bright, despite recent low oil prices and weak capital inflows.

Figure 136: Evolution of Real GDP Growth (%)

Sources: IMF, PwC Market Research Centre analysis based on IMF data
Among other things, the growing young and urbanised population, as well as large oil and gas reserves have been key factors in the country’s economic growth. The beginning of 2014 was quite prosperous with oil prices reaching levels of up to USD 115 per barrel.\(^{50}\) However, when oil prices plummeted, Nigeria’s economy experienced a shock, and exports income declined.

While these challenges cast doubt about the future development of Nigeria’s economy, they also resulted in opportunities for the country. The government counteracted with plans to cut its expenditures, and raise revenues from the non-oil sector. Additionally, the government plans to impose higher consumption taxes on luxury items.

**Political Stability and Corruption**

The World Bank Worldwide Governance Indicators are six aggregate governance indicators, which are composite measures based on a large number of underlying data sources (see figure 138).

Nigeria scores very low on the indicators relating to control of corruption and political stability, indicating that despite its considerable wealth, it has a long way to go in relation to some of the other promising markets. The World Economic Forum’s Global Competitiveness Index echoes the World Bank and describes institutions as weak with insufficiently protected property rights and high corruption.

**Investment Overview**

The non-oil sector has the largest growth potential contributing 57 percent to GDP whereas oil contributed 12.9 percent. Nigeria’s increasingly prosperous economy has become quite diversified. In 2014, the non-oil sector drove economic growth.\(^{51}\) The National Bureau of Statistics (Nigeria) projects this sector to grow 5.7 percent on average from 2015 to 2017 (see figure 139) for non-oil related drivers of economic growth.

\(^{50}\) The Guardian (Nigeria), February 2015

\(^{51}\) National Bureau of Statistics (Nigeria), 2015
Within the non-oil sector, services account for the major driving force with a share of 56 percent of overall growth in the third quarter of 2014.

Prospects are also encouraging for other sectors. For example, telecommunications, with a history of liberalisation followed by growth, saw its services expand from less than half a million telephone lines in 2001 to over 130m in 2014.\textsuperscript{52} Liberalisation of the electricity sector, including recent reforms in the power sector, is expected to deliver similarly good news.

Moreover, we can observe an emergence of smaller non-oil sectors increasingly impacting economic growth. An example is the rise of Nigeria’s filmmaking industry, estimated to be the world’s third largest movie industry in terms of revenue after Hollywood (USA) and Bollywood (India).\textsuperscript{53}

Future projections show that Nigeria’s economy will be increasingly reliant on industry and services, but commercial agricultural opportunities have the potential to drive economic growth, as well.

Exports will grow over the next five years. As a member of the Economic Community of West African States (ECOWAS) and other trade communities, Nigeria’s trade is well supported. Although income revenues of oil-exports will decline in connection with low oil-prices, the depreciation of the Nigerian Naira will lead to an increase in non-oil exports. Total trade is forecasted to grow by an average of 5.0 percent from 2015 to 2017 (see figure 140).

In 2013, the major trading partners of Nigeria were the European Union (29.6 percent), followed by the US (11.1 percent).\textsuperscript{55} However, India and China, taking the third and fourth places respectively, are gaining importance as trade partners.

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\textsuperscript{52} The Guardian (Nigeria), February 2015
\textsuperscript{53} Premium Times, March 2013
\textsuperscript{54} The Guardian (Nigeria), February 2015
\textsuperscript{55} European Commission, August 2014
### Mutual Funds investing in Nigeria

**Figure 142: Top Funds Investing in Nigeria* by Proportion Assets Invested**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Fund Name</th>
<th>Africa allocation (%)</th>
<th>Allocation to Nigeria (%)</th>
<th>Perf. (%) 2015</th>
<th>Perf. (%) 2014</th>
<th>Perf. (%) 2013</th>
<th>Perf. (%) 2012</th>
<th>Perf. (%) 2011</th>
<th>Fund Domicile</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Global X MSCI Nigeria ETF</td>
<td>100</td>
<td>95.41</td>
<td>-32.42</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>USA</td>
</tr>
<tr>
<td>2</td>
<td>Tundra Nigeria &amp; Sub-Sahara</td>
<td>88.48</td>
<td>52.11</td>
<td>-19.29</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>Sweden</td>
</tr>
<tr>
<td>3</td>
<td>Renaissance Sub-Saharan A USD</td>
<td>85.44</td>
<td>41.19</td>
<td>-22.61</td>
<td>-13.69</td>
<td>0.56</td>
<td>-2.11</td>
<td>n/a</td>
<td>Luxembourg</td>
</tr>
<tr>
<td>4</td>
<td>Sanlam African Frontier Markets A USD</td>
<td>93.06</td>
<td>31.80</td>
<td>-8.21</td>
<td>-0.14</td>
<td>10.18</td>
<td>4.32</td>
<td>2.20</td>
<td>Ireland</td>
</tr>
<tr>
<td>5</td>
<td>STANLIB Africa Equity B1</td>
<td>93.23</td>
<td>30.77</td>
<td>-8.41</td>
<td>-3.41</td>
<td>-0.11</td>
<td>-6.19</td>
<td>-6.21</td>
<td>South Africa</td>
</tr>
</tbody>
</table>

Source: Lipper and PwC Market Research Centre analysis  
* Data extracted from Lipper 30/04/2015

These African funds invest quite heavily in Nigeria as it is increasingly a popular investment destination. In addition to Nigeria, they are investing quite widely across sub-Saharan and North Africa. The returns however have been quite negative particularly for the three funds investing the largest proportion of their assets in Nigeria (see figure 142).

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**“Old Mutual Investment Group sees considerable potential in East and West Africa, particularly Nigeria”**

Diane Radley, OMIG
Fund Industry

Despite Nigeria’s considerable wealth, its financial sector is very much bank orientated with small insurance and pension sectors. Distribution of funds is conducted mostly via agencies or directly from banks. Investment managers are a small segment and open architecture has not proven to be popular.

Since 2011, the asset management industry has grown steadily to reach NGN 176.8bn (USD 976.9m) in 2014 (see figure 143). The total number of funds has increased from 44 in 2011 to 54 in 2014. Nigeria’s fund industry is quite concentrated and is dominated by a few large players. In 2014, the top five fund managers controlled over 78 percent of AuM.

The Securities and Exchange Commission (SEC) has made efforts to expand the investment opportunities in Nigeria by introducing ETFs and Islamic Financial products. As for foreign funds, they are permitted if they are registered with the SEC.

Equity based funds represented almost 20 percent of the total AuM of the mutual fund market in 2014. Although down from its peak of 49.5 percent of total AuM in 2011, the popularity of this asset class has been a major trend in the Nigerian AM industry for the last four years (see figure 144). In 2014, more than NGN 34.6bn (USD 191.2m) were held by equity funds. However, the share of total AuM held in equity-based funds decreased, mainly due to market effects, and the share in money market funds rose significantly (from 2011) to comprise over 33.4 percent of the mutual fund market.
Alternatives

The National Pensions Commission (PenCom) passed a regulation permitting the investment of up to 5 percent of pension funds in PE funds that are registered with the Securities and Exchange Commission and managed by SEC licensed managers.

Real estate (RE) is another growing alternative investment sector; between 2011 and 2014, investments in REITS grew at a CAGR of 42.3 percent due to government actions which aimed at giving greater depth to the capital markets and enhancing investor choice. In 2014, NGN 47.8bn (USD 264.1m) was invested in real estate (see figure 145), representing more than 27 percent of the total portfolio investments.

Private Investment

Investor appetite for private equity in Nigeria continues to increase across financial, telecommunications, insurance, retail, food and beverage, manufacturing and real estate sectors.

Recent PE-specific developments include the SEC’s implementation of mandatory registration and reporting requirements for funds with commitments of NGN 1.0bn (USD 6.3m) and above.

Figure 145: Evolution of Investments in REITs

Source: SEC Nigeria
Investors

Sovereign wealth fund

2013 was the Nigeria Sovereign Investment Authority’s (NSIA) first year of operations. At the end of 2013, the fund managed NGN 158bn (USD 1bn) in assets. The fund is composed of three sub funds: Future Generations Fund (FGF), the Nigeria Infrastructure Fund (NIF), and the Stabilisation Fund (SF). According to the NSIA, a minimum of 20 percent of total assets must be allocated to each of the sub funds and the remaining 40 percent is to be allocated at the discretion of the Board. The NSIA allocates to the sub funds as follows: 40 percent to Future Generations Fund; 40 percent to Nigerian Infrastructure Fund and 20 percent to Stabilisation Fund (see figure 146).

Pension Funds

The total value of pension fund assets increased from NGN 2.4tn (USD 14.9bn) in 2011 to an estimated NGN 4.5tn (USD 24.7bn) in 2014 (see figure 147), at a CAGR of 21.2 percent. The RSA represents by far the largest share of total pension fund assets. The value of assets held by the RSA fund totaled an estimated NGN 3.1tr (USD 17.4bn) and accounted for more than 66 percent of the total assets held by pension funds. In 2014, the majority of total pension assets were invested in federal government securities (FGN securities) (see figure 148). At the same time, the proportion of investments in quoted equities and local money market securities represented 14.3 percent and 12.3 percent respectively of the total pension funds investment portfolios. Investments made in CIS represented only 0.4 percent of the total pension funds investment portfolios in 2014.

Figure 146: NSIA AuM Breakdown

Figure 147: Evolution of Assets of Pension Funds

Figure 148: Asset Allocations of Pension Funds*
Insurance Companies

The insurance industry is composed of 59 insurance companies and two reinsurance companies. Total industry assets grew by a CAGR of 15.1 percent from 2006 to reach an estimated NGN 948.8bn (USD 5.22bn) by 2014 (see figure 149). The penetration rate was very low at 0.6 percent of GDP, compared to the African average of 3.5 percent in 2013.

The industry is dominated by the non-life insurance segment which accounts for two-thirds of assets. The asset allocation favoured short term investments which represent about one-third of the total, while listed and unlisted ordinary shares accounted for approximately 17 percent of investments (see figure 150). The long-term development of the Nigerian insurance sector will be supported by its demographic structure as well as its economic growth prospects relative to other emerging markets.

Figure 149: Insurance Industry Evolution of Gross Premiums and Total Assets

Figure 150: Asset Allocation of Insurance Companies*

* Latest available data
Sources: NAICOM
Distribution

Banks

Banking is one of the most important sectors of the economy. In fact, commercial banks hold the largest amount of assets among all the financial institutions in Nigeria. Nigeria’s banking sector has grown considerably in the past decade; total commercial banks, assets grew from NGN 7.2tn (USD 58.3bn) in 2006 to an estimated NGN 27.7 tn (USD 152bn) in 2014 (see figure 151). Since 2005, the banking sector has undergone a major restructuring and experienced a phase of mergers and consolidations where the number of banks decreased significantly.

Figure 151: Commercial Banks Total Assets

Sources: PwC Market Research Centre analysis, Nigerian Central Bank
Outlook

Nigeria is seen as the major gateway to West Africa for foreign businesses and investors. Although its business environment and investor protection remain challenging, Nigeria is considered to be one of the best countries for entering the West African market, and is among the leading destinations for international investors. As the most populous country on the continent, Nigeria provides a large, skilled workforce. Moreover, in comparison to fellow African states, Nigeria’s infrastructure network is well advanced and is projected to develop further in the next five years. Transportation via airways and waterways is developed and recent years saw increased investments in both. With increasing development of infrastructure in the coming years, Nigeria will be able to take advantage of its large oil and natural gas reserves and strengthen its leading position as an oil exporter in Africa.

Due to rebasing of GDP data Nigeria became the largest economy in Africa in 2014. It is clear that with an enhanced regulatory environment the Nigerian fund industry is set to grow rapidly. We predict AuM to reach NGN 491.9bn by 2020.

Figure 152: Projected AuM Growth of Collective Investment Schemes
Outlook Promising Markets

The promising markets being slightly less developed in terms of retail funds than the advancing markets have a greater proportion of mandates. Based on historical data across the markets, and the fact that it will take time to create a savings and investment culture, we predict that AuM will reach USD 75bn by 2020. However, this estimate may prove to be conservative, given that pension fund growth in Nigeria is predicted to be huge and that GDP growth in Egypt could be considerable if political stability returns. Given these potential developments, it is possible that AuM could reach USD 89bn by 2020.

In 2014, due to rebasing of GDP data, Nigeria became the largest economy in Africa. With this strong growth forecast to continue, it is clear that with an enhanced regulatory environment the Nigerian fund industry is set to grow rapidly. By contrast, Egypt suffers from a weak regulatory framework which needs to be overhauled in order to restore investors’ confidence following the political turmoil of the Arab Spring. However, economic growth should correct this imbalance and the IMF predicts Egypt will be the second largest economy in Africa by 2020; this is likely to drive considerable growth in the fund industry, both CIS and mandates. In Egypt, political stability and development of the regulatory frameworks will be key factors in boosting growth by 2020. Also, Egypt has a population older than the African average which should lead to increased demand for pension products and, therefore, expansion of the asset management industry.

Kenya has ambitious plans to take the lead in the fund industry in the East African region. However, unequal wealth distribution means a heavy reliance on institutional investors. Yet with M-Pesa offering returns on deposit accounts to the low income end of the market there appears to be real potential to grow in the retail sector. In fact, this technology may challenge current distribution channels particularly at the lower end of the market.

In Botswana, a stable political environment and a solid regulatory framework create the perfect setting for growth of the asset management industry. However, the main limiting factor in terms of growth is the inequality of wealth distribution which means the market for retail investment funds is small and the sector is heavily reliant on institutional investors. Therefore it is expected that mandates will remain the bulk of the industry in 2020. With an ageing population, the demand for pension funds will increase further, advancing the asset management industry.

Ghana has a mature financial sector, stable democracy and strong legal framework, all ingredients for strong growth of its fund industry. Total AuM has increased steadily showing just a slight drop followed by a sizeable recovery following the global financial crisis. Although the largest proportion of AuM is managed for institutional investors, there are already 40,000 retail investors. It is clear that once Ghana’s economy grows the retail fund sector will take off.

Figure 153: Outlook for Promising Markets

<table>
<thead>
<tr>
<th>USD bn</th>
<th>Total USD 75bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>80</td>
<td>59</td>
</tr>
<tr>
<td>60</td>
<td>38</td>
</tr>
<tr>
<td>40</td>
<td>16</td>
</tr>
<tr>
<td>20</td>
<td>9.4</td>
</tr>
<tr>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Sources: PwC Market Research Centre Analysis based on National Authorities and IMF data

*Due to lack of availability of data for Egypt - the 2014 figures are estimations*
This group is comprised of a diverse selection of countries which range from Angola, which although wealthy is quite weak from a regulatory perspective, to countries such as Tunisia which has a more mature developed economy and has more comprehensive financial market regulations. These countries are considered “nascent” in terms of the development of the asset management industries which are small.

This group’s financial sector is mostly dominated by banks, with insurance and pension industries small in comparison. Capital markets are small and illiquid, or in the case of Angola, non-existent. Due to these factors, mandates are by far the largest part of the industry. The mutual fund industry is very much in its infancy in Angola and Algeria while Tunisia has an established fund industry. An outlook for both CIS and mandates is available at the end of this chapter.

The rapid economic growth that is being experienced by these countries, will naturally lead to a substantial increase in the middle class and mass affluent in the medium term. As these are the least developed economies, there is a high proportion of unbanked among the population. At the same time, mobile phone penetration is high; therefore, technology could transform access to financial services and thus broaden the scope of the market in these countries.

When these economies develop further, we expect the pension industries to expand and the proportion of life insurance to general insurance to increase, which will create more institutional investment. Enhancement of the regulatory framework would boost investor interest in these markets, as they are all heavily reliant on their natural resources and need to diversify their economies and boost the private sector in order to fully harness the windfalls from the resource boom. It will be necessary to develop the capital markets to expand the financial industry away from traditional bank financing and towards the asset management industry, particularly for Angola and Algeria which have large banking sectors but where there are a small number of investment funds.

Both Angola and Algeria already have sovereign wealth funds and we expect these to become more significant as institutional investors as they grow in size, particularly as pensions and insurance are currently so small in these markets and they are dominated by banking.
Angola

Angola is a booming economy with high GDP per capita. Although currently a nascent market growth is likely to continue steadily once regulations catch up with the market.

Macro economy

Angola will be amongst the fastest growing countries within our group of selected countries in the coming years. Angola’s economy grew by 4.2 percent in 2014, with an estimated GDP of USD 209.0 billion.

GDP growth showed an increase from 2009 to 2013. Projections indicate GDP growth to be 5.8 percent in 2020 (see figure 154). This makes the country the fourth fastest growing economy of the twelve countries we analysed.

Figure 154: Evolution of Real GDP Growth (%)

Source: PwC Market Research Centre analysis based on IMF data
Inflation in Angola was 7.3 percent in 2014 and is projected to decrease to 6.1 percent in 2020 (see figure 155).

The country’s population reached 21.4m as of 2014. This represents a growth of 3.0 percent compared to 2013.

**Political Stability and Corruption**

The World Bank Worldwide Governance Indicators are six aggregate governance indicators, which are composite measures based on a large number of underlying data sources (see figure 156).

These Governance Indicators score Angola very low particularly in relation to rule of law and political corruption. In addition, the World Economic Forum’s Global Competitiveness Index describes both public and private institutions as characterised by widespread corruption.

**Investment Overview**

With increasing diversification of the economy, Angola’s economic outlook is promising. Angola’s major contribution to GDP is oil, which will continue to be the case for the foreseeable future. Hydrocarbon accounted for 46 percent of GDP, 80 percent of government revenues and 95 percent of the country’s exports in 2013 (see figure 157).

While the mining sector amounted to 59 percent in 2008, its share of GDP decreased to 47 percent by 2013. The coming years will show a further decrease in share. Non-oil exports will rise, with diamonds and gas having the most potential. The country’s commercialisation of natural gas continues to lack much needed infrastructure and transport services, but Angola has the financial ability to tackle these problems to move itself into a stronger economic position.

Despite a slow pace of economic diversification, Angola’s dependence on oil will see a decline due, in part, to the fall in oil prices. Another contributing factor will be government initiatives to widen its

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56 African Economic Outlook, 2014 published by AfDB, OECD, UNDP

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The economy’s scope through investments in Angola’s electricity, water and transport sectors. Moreover, agriculture will become increasingly important.\(^\text{37}\)

Angola’s trade will see continued growth, supported by low trade barriers. As a member of the Southern African Development Community (SADC), the country’s trade should continue to grow in the next five years. Exports grew by 12.5 percent CAGR from 2010 to 2013, increasing Angola’s trade balance from USD 32.8 bn to USD 44.5 bn.

In 2013, the major trading partners of Angola were China (38.0 percent), the European Union (22.3 percent), and the US (10.9 percent). China will remain one of the key trade partners and investors in Angola. However, the slowdown of China’s economy might have a negative impact on its trade relationship with Angola.

### Capital Markets

Angola currently has no capital markets, however the Capital Market Commission of Angola (CMCA) was created in 2012 and intends to launch a capital market to be operational in 2017 once an adequate legal framework is in place.

The government issues treasury bonds (Obrigações do Tesouro) and Treasury Bills (Bilhetes de Tesouro) on a monthly basis; these are issued in USD as well as in Kwanza and have maturities ranging from 1 to 7.5 years. The BNA also has a market for short-term bills and bonds (Títulos do Banco Central). BNA has been decreasing the issue of TBC’s.

### Investment of Funds in Angola

Lipper does not list any registered funds as investing in Angola.

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\(^{37}\) African Economic Outlook, 2014 published by AfDB, OECD, UNDP

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**Figure 158: Evolution of Trade Balance (in USD bn)**

- **Exports**
  - 2010: -15.4
  - 2011: -16.1
  - 2012: -21.9
  - 2013: -24.2

- **Imports**
  - 2010: 48.2
  - 2011: 55.3
  - 2012: 67.4
  - 2013: 68.7

*Source: European Commission, 2014*
The asset management industry in Angola is in its infancy, with just two investment funds, which are regulated by the Capital Market Committee (CMC). In 2007, the Angolan government introduced legislation to allow real estate investment funds; this legislation was updated in 2013. However, the development of the fund industry has been gradual—there are currently four registered fund management companies in Angola, but just two registered funds. There are no foreign funds registered for distribution in Angola.

Both of Angola’s funds (Património and Valorização) are real estate funds and were managed by Besaactif, the fund management subsidiary of Banco Espírito Santo Angola (BESA). BESA was a subsidiary of a Portuguese Bank (BES) which was subject to a resolution at August 2014. The Angolan Central Bank put BESA into administration until the increase of capital and the entry of the new shareholders. The Angolan State Oil Company Sonangol is now one of the main shareholders of Banco Económico, the bank which has replaced BESA.

Património was registered in 2008 and saw steady AuM growth, from AOA 7.5bn (USD 0.1bn) in 2008 to AOA 11.9bn in 2014 (USD 0.11bn), a CAGR of 8.0 percent. Valorização increased slightly in value from AOA 97.9bn (USD 1.02bn) in 2012 to AOA 103.7 (USD 1.02bn) in 2014 (see figure 159).
Investors

The financial industry in Angola, as in all of the “nascent” countries, constitutes mostly banks. Insurance companies and pension funds are very small. However, the introduction of an SWF with a substantial AuM by African standards should help to develop the asset management industry.

Sovereign Wealth Fund

Following a decrease of 20 percent in GDP growth between 2007 and 2008, Angola was forced to apply to the IMF for a bailout. The loan was granted on condition that it set up an SWF to lessen its dependence on oil revenues. The Fundo Soberano de Angola (FSDEA) was launched in 2012 with an initial endowment of USD 5bn. It receives endowments based on the annual surplus of the Strategic Financial Oil Reserve Account for Infrastructure. The fund’s long-term aims are capital preservation and infrastructure development. Regulations require 95 percent of the fund’s portfolio holdings to be uncorrelated to oil price volatility (see figure 162).

Pension Funds

The pension fund market comprises five authorised fund managers and 26 authorised pension funds and is regulated by the insurance regulator Agência Angolana de Regulação e Supervisão de Seguros (ARSEG). The total assets of pension funds increased from AOA 25.7bn (USD 0.34bn) in 2008 to an estimated AOA 88.8bn (USD 8.6bn) in 2014 a CAGR of 22.9 percent (see figure 163). There are both open and closed pension funds in Angola, but the vast majority are closed funds, due to the lack of a capital market. However, economic and demographic growth is likely to increase the market for these products in the future.
Insurance Companies

The total assets of the insurance industry grew from AOA 136.8bn (USD 1.4bn) in 2010 to an estimated AOA 193.3bn (USD 1.9bn) in 2014 (see figure 164), at a CAGR of 9.0 percent. These assets were mostly invested in real estate (see figure 165). The penetration rate is 0.8 percent of GDP, considerably lower than the African average of 3.5 percent.

The insurance sector in Angola is regulated by ARSEG. There are 15 insurance companies registered with ARSEG, mostly general insurance as according to latest available data; life insurance accounts for less than 5 percent of total premiums. However, if GDP growth continues rapidly, this should lift more of the population into the middle class and strengthen the demand for insurance, particularly life insurance.
**Distribution**

**Banks**

Total bank assets have grown from AOA 830bn (USD 10.2bn) to an estimated AOA 8,303bn (USD 80.8bn) by 2014, at a CAGR of 33.3 percent (see figure 166).

The Angolan Banking sector is comprised of 23 Banks, including three state-owned banks: Banco de Poupança e Crédito (BPC), Banco de Comércio e Industria (BCI) and Banco de Desenvolvimento de Angola (BDA). The main privately owned banks are banco Fomento de Angola (BFA), Banco Angolano de Investimentos (BAI), Banco Internacional de Crédito (BIC) and BESA which failed in August 2014 and became Banco Económico SA. The market is quite concentrated, the top five banks control about three-quarters of the assets.

**Outlook**

Angola’s richness in natural resources has made the country one of the leading destinations for foreign direct investment (FDI) in Africa. However, its challenging business environment prevents industrial growth.58

The country’s future prospects of diversifying its economy could translate into an opportunity for investors.

Angola is a booming economy with considerable domestic financial assets available for investment thanks to the substantial oil discoveries. However, it is lacking in terms of a regulatory framework and the financial sector is very much dominated by the banking sector with a minuscule proportion of insurance and pensions. It is probable that with a proper legislative framework and the beginning of a capital market in 2017, the funds sector in Angola will develop from the two real estate funds which exist now to a prospering segment of the financial sector. As Angola currently only has two funds it is not possible to predict AuM growth with any degree of accuracy.

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58 PwC’s Africa gearing up, 2013
Algeria

Algeria’s asset management industry is currently very small but the government is attempting to develop the financial sector and has created a Sovereign Wealth Fund with USD 54bn of AuM.

Potential for Investment

Macro Environment

With a population of 38.7m and a GDP of USD 227.8 bn, Algeria has the fourth-largest economy in the region. It is known for its energy sector; hydrocarbon activities (see figure 166) account for almost one-third of GDP and hydrocarbon revenues account for more than 95 percent of exports. In fact, Algeria is the leading natural gas producer in Africa, the second-largest natural gas supplier to Europe, and is the third-largest oil producer in Africa after Libya and Nigeria.

The country currently enjoys stable economic growth and a solid financial position with very low debt levels. This is in part due to its strong reliance on its oil and gas revenues and its very limited international exposure. However, due to the current oil oversupply period, current account deficit are likely to emerge and climb up to nearly 4 percent of GDP by 2020 (See figure 168).

Growth prospects seem to be quite limited for Algeria, with average annual GDP growth projections just below 4 percent through to 2020. In addition to the lower oil prices, gas production has decreased over the past few years, contributing to the contraction of the hydrocarbon sector. Since prospects for hydrocarbons are not very promising, Algeria faces an urgent challenge to diversify its economy. Given that most of the country’s land is arid, agriculture currently plays a minor role in Algeria’s economy and there is a growing need to import food.

Figure 166: Algeria’s Exports of Crude Oil by Destination

Figure 167: Evolution of Real GDP Growth (%)

Source: International Energy Agency

Source: PwC Market Research Centre based on IMF data

PwC Market Research Centre based on IMF data
However, the government is investing heavily in programmes to increase local food production capacity. An association agreement with the European Union presents a glimmer of hope for Algeria. According to the agreement, a free trade area will be established by 2017. Despite the trade agreement, fostering trade in Africa could be fairly problematic, as Algeria is not a member of any African trade agreement.

Political Stability and Corruption

The World Bank Worldwide Governance Indicators are six aggregate governance indicators, these are composite measures based on a large number of underlying data sources (see figure 169).

These indicators rate Algeria very low with every score on the minus end of the scale. Scores are particularly low for political stability and regulatory quality, two key factors for investor confidence. In addition, the World Economic Forum’s Global Competitiveness Index suggests that a major overhaul of the institutional framework will be necessary for sustainable growth in Algeria.

Investment Overview

High per capita GDP and upper middle-class income levels present significant opportunities for diversified growth in consumer goods industries. Approximately 27.3 percent of the total population is classified as being middle class. Algeria has one of the highest rates of urbanisation in Africa, which further contributes to growth potential in the consumer goods industries. Urbanisation is currently at 73 percent and is projected to rise further up to 2020.

Investments in Algeria are becoming increasingly necessary. Public investment has been the principal driver of economic growth in recent years, but the public investment programme has now reached a plateau in terms of the execution of large projects. It will therefore contribute less and less to real GDP growth over the next few years.

Meanwhile, the current government’s plan of action has essentially not moved beyond the previous programme, a model of state-driven development, paid for with petrodollars. In its current five-year plan, the government made commitments to invest USD 286 bn to improve the country’s infrastructure and human development and to diversify the country’s economy.

Foreign direct investment (FDI) inflows to Algeria tend to be below the country’s potential considering its substantial natural resources, strong macroeconomic indicators and favourable demographic factors. Other mitigating factors include a challenging business environment, new investment laws introduced by the complementary finance bill for 2009, and the existing tax regime.

Algeria has limited exposure to international financial markets, and needs to tackle some serious challenges for its future prospects. Algeria has set forth restrictive regulations for foreign investors. Specifically, pertaining to businesses created after August 2009, foreign companies are obliged to have a local partner for 51 percent of their investment in Algeria and a 30 percent local partner in their import companies. Tax exemptions are granted to foreign investors. Nevertheless, there is an obligation to reinvest profits generated by tax exemptions locally. Additionally, the government uses price ceilings, tariffs and redistribution schemes to control prices for some large consumption products.

Infrastructure is one of the major challenges. Investment in infrastructure came to a virtual standstill in Algeria between 1991 and 2001, due to civil war. This led to a significant backlog in infrastructure maintenance and improvement. Meanwhile, the country’s vast desert geography poses a permanent challenge to infrastructure developments. In addressing these problems, the government has made transport a priority. Major upgrades and expansions are part of its extensive public investment programme.

Most of the population, and hence the bulk of economic activity, is located along the northern coastal strip. Road connections focus primarily on long-distance connectivity on both the east-west and north-south axis.

In addition to the four main modes of regional and international transport – air, shipping, roads and railways – pipelines are of significant importance in Algeria, as they connect the Algerian oil and gas industry to Europe.

However, if the government did decide to ease the regulations, foreign investors could be attracted, considering that the country is rich in natural resources, is in need of infrastructure developments and that the government plans to diversify its economy.

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**Figure 169: World Bank Governance Indicators Algeria**

<table>
<thead>
<tr>
<th>Governance Indicators</th>
<th>Governance Score (-2.5 to + 2.5)</th>
<th>Percentile Rank (0 to 100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voice and Accountability</td>
<td>-0.89</td>
<td>22.75</td>
</tr>
<tr>
<td>Political Stability</td>
<td>-1.17</td>
<td>12.80</td>
</tr>
<tr>
<td>Government Effectiveness</td>
<td>-0.60</td>
<td>31.58</td>
</tr>
<tr>
<td>Regulatory Quality</td>
<td>-1.19</td>
<td>11.48</td>
</tr>
<tr>
<td>Rule of Law</td>
<td>-0.68</td>
<td>29.38</td>
</tr>
<tr>
<td>Control of corruption</td>
<td>-0.48</td>
<td>38.76</td>
</tr>
</tbody>
</table>

Source: World Bank

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60 PwC Market Research Centre based on IMF data
Capital Markets

The Algerian stock market capitalisation is minuscule at less than 1 percent of GDP and it has not fluctuated much since 2006 apart from an increase in market capitalisation in 2011. The index also increased in 2011 but fell back to approximately 1,000 in 2013 and 2014 (see figure 170). There are just four firms listed on the equity market of which NCB Rouiba had almost 50 percent, SAIDAL had 30 percent, Alliance Assurance and EGH Chaïne EL AURASSI the smallest share. Similarly, the bond market is also very small containing just one bond for Sonelgaz, although the value has increased from DZD 51m in 2013 to DZD 107m in 2014.

Mutual funds investing in Algeria

Lipper does not list any registered funds as investing in Algeria.
Collective Investment Schemes

In Algeria, there are two types of CIS permitted: SICAV (investment companies with variable capital) and FCP (mutual funds). Foreign funds are not permitted. This market remains underdeveloped as it depends on the development of a capital market, which remains very small in Algeria. The only existing SICAV, the “SICAV CELIM”, was licensed in 1998 and is a closed-end fund; its shares are still held only by its founding shareholders, the National Bank of Algeria, Bank of Local Development and the Algerian Insurance Company. In 2014, the SICAV CELIM’s AuM amounted to DZD 172.1m (USD 1.95m) (see figure 171) and the AuM has hardly changed during its existence. The majority of the fund’s assets are invested in bonds. The share of bond investments represented 38 percent of the fund’s total investments in 2012, while deposits and equities accounted for 13 percent and 49 percent respectively of the total investments (see figure 172).
Alternatives

In Algeria, private equity firms need to be approved and supervised by the Commission d’Organisation et de Surveillance des Opérations de Bourse (COSOB). In 2013, there were two companies operating under Article 10 of Law 06-11 related to private equity firms: El Djazair Istithmar Spa, with capital of about DZD 1bn (USD 12.6m) and which is owned by two public banks (the Banque de l’Agriculture et du Développement Rural (BADR) and Caisse Nationale d’Epargne et de Prévoyance (CNEP) bank) and Finalep (Société Financière Algéro-Européenne de Participation), with capital of about DZD 191.7m (USD 2.4m) and which is owned by Local Development Bank (40.0 percent), French Development Agency (28.7 percent), Popular Credit of Algeria (20.0 percent) and European Investment Bank (11.3 percent). Two other companies, SOFINANCE Spa and Ras El Mel Investment Algérie, are likely to soon obtain the approval of the COSOB and, therefore, the status of private equity firms.

Investors

Sovereign Wealth Fund

The Revenue Regulation Fund (FFR) is managed by the Bank of Algeria, and its assets are mainly used for financing the Algerian treasury deficit. According to the Sovereign Wealth Fund Institute, the AuM amounts to USD 54.8bn. The FFR was established in 2000 in order to help stabilise the Algerian economy in the face of fluctuations in gas and oil prices. Very little is known about the fund’s investments as the institutions responsible for the management of the fund do not disclose any information about its activities.

Pension Funds

The assets of the social security funds have increased hugely since 2006 from DZD 3.4bn (USD 0.05bn) to an estimated DZD 417.2bn (USD 4.76bn) in 2014 (see figure 173).

The social security funds are composed of the Caisse National des Assurance Sociale (CNAS) and the Caisse National des Retraites (CNR) at the national level and at the regional level, they are composed of one social security fund and one pension fund per region.
In 2014, the total assets of insurance companies are estimated to have reached DZD 239bn (USD 2.7bn), a CAGR of 19.1 percent from 2006 (see figure 174). The assets were mainly invested in government securities (40.0 percent) and in term deposits (33.2 percent) (see figure 175).

The Algerian insurance industry comprises 23 insurance companies, of which 7 are life insurance. The majority of all insurance premiums were generated by public companies. However, the insurance penetration rate is only 0.8 percent of GDP, considerably lower than the African average of 3.5 percent insurance penetration.

**Figure 174: Assets and Premiums of the Life Insurance Industry**

<table>
<thead>
<tr>
<th>Year</th>
<th>Assets</th>
<th>Premiums</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>59.0</td>
<td>45.8</td>
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<tr>
<td>2007</td>
<td>66.3</td>
<td>53.6</td>
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<td>2008</td>
<td>76.4</td>
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<td>2011</td>
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<td>140.0</td>
</tr>
<tr>
<td>2012</td>
<td>180.5</td>
<td>179.4</td>
</tr>
<tr>
<td>2013</td>
<td>200.8</td>
<td>199.4</td>
</tr>
<tr>
<td>2014</td>
<td>239.2</td>
<td>239.2</td>
</tr>
</tbody>
</table>

**Figure 175: Asset Allocation of Insurance Companies**

- **Government securities**: 40.0%
- **Team deposits**: 33.2%
- **Real estate assets**: 13.9%
- **Transferable securities**: 8.6%
- **Other**: 4.3%

Sources: PwC Market Research Centre analysis, Ministere des finances
Distribution

As there is only one closed-end fund in Algeria there is no distribution.

Banks

Commercial bank assets grew from DZD 5.2tr (USD 75.4bn) in 2006 to DZD 12.0tr in 2014 (USD 137.2bn) (see figure 176). There are 29 institutions under the supervision of the Bank of Algeria; 20 banks (14 private and six public), four financial institutions, (three credit companies and one Mortgage Company) and five leasing companies which provide funding to SMEs.

Public banks play a major role in the banking sector. According to the IMF, in June 2013, the six public banks held more than 86 percent of the banking sector’s total assets and play a crucial role as the provider of funds for priority public projects. Out of the 14 privately owned Algerian banks, 13 are foreign owned and one is a joint venture. The privately owned banks are more focused on financing international trade. In the past few years, the Algerian government has taken some measures to give incentives to private banks to shift more of their activities towards the SME sector.
Outlook

The laws hinder the engagement of foreign businesses or investors, and potential investments are relatively scarce.

As no easing of laws is in sight, the probability of foreign investors investing in Algeria is very low.

However, if the government did decide to ease the regulations, foreign investors could be attracted, considering that the country rich in natural resources, is in need of infrastructure developments and that the government plans to diversify its economy.

Perhaps because of the considerable liquidity available as a result of the successful oil industry, the Algerian financial sector remains quite underdeveloped. The government has, nevertheless, sought to diversify and develop the financial sector. A sovereign fund has been created, which had assets of 33 percent of GDP in 2013 and is therefore likely to become a significant institutional investor. Regulatory changes are key to the development of the fund industry in Algeria. The ongoing reforms of eight public companies to be listed on the stock exchange will provide opportunity for the growth of the fund industry. As Algeria only has one existing SICAV, the “SICAV CELIM” which has been licenced since 1998 and is a closed-end fund, we did not predict future growth of the fund industry.
**Tunisia**

*Tunisia’s economy was badly affected by the Arab Spring but continued political stability will bring about a return to growth and an ageing population is likely to boost the asset management industry.*

**Macro Environment**

With estimated real GDP growth of 2.3 percent in 2014, Tunisia’s growth has recovered from negative values observed in 2011 (see figure 177). The projected growth in 2020 is 4.7 percent. The slowdown in growth could be explained by social and political instability in the country that followed the turbulent events of the Arab Spring.

---

**Figure 177: Tunisia Real GDP Growth (%)**

![Graph showing Tunisia Real GDP Growth (%) from 2007 to 2020](image)

- **6.3** 2007
- **4.5** 2008
- **3.1** 2009
- **2.6** 2010
- **-1.9** 2011
- **3.8** 2012
- **2.3** 2013
- **2.3** 2014
- **3.0** 2015e
- **3.8** 2016e
- **4.5** 2017e
- **5.0** 2018e
- **4.8** 2019e
- **4.7** 2020e

**Sources:** IMF, PwC Market Research Centre analysis based on IMF data
The population in Tunisia is currently estimated to be at 11m, as of 2014. This represents a growth of 1 percent compared to 2013.

While both GDP and the population grew, GDP per capita increased from USD 4,316.8 in 2013 to USD 4,466.6 in 2014.

Inflation in Tunisia was 4.9 percent in 2014 and is projected to decrease to 4.0 percent by 2020 (see figure 178).

**Political Stability and Corruption**

The World Bank Worldwide Governance Indicators are six aggregate governance indicators, which are composite measures based on a large number of underlying data sources (see figure 179).

Tunisia scored close to the 50th percentile in all of these indicators except political stability where, following the Arab Spring, it received a low score. The World Economic Forum's Global Competitiveness Index echoes this, indicating that Tunisia is slowly stabilising and structural reforms will restore shaken investor confidence.

**Investment Overview**

Tunisia is already part of several global value chains and it has relatively strong ties to the EU. Most notably, Tunisia is a part of textile and electronics value chains. The electronics industry has seen significant development in the last decade, particularly in the areas of aeronautics and automotive components. However, for Tunisia to achieve higher growth, it must address several issues, in particular political and social uncertainty, corruption, shortage of skilled workers and insufficient logistics infrastructure.

When looking at a decomposition of Tunisia's GDP by sector, we can see that the largest contribution to GDP comes from non-business activities including the public sector, which accounted for 19 percent of total GDP at year end 2012 (see figure 180).

This is followed by the manufacturing industry, which contributes 18 percent. Of that, the mechanical and electrical industry represents 6.8 percent of GDP and the textile industry accounts for 4.5 percent.

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Capital Markets

The market capitalisation of the Bourse de Tunis appears to be on an upswing, again following a drop resulting from the Arab Spring. The Index is also edging up past 5,000 again (see figure 181); the number of transactions increased from around 30,000 per month in 2013 to 40,000 per month in 2014. The majority of the companies listed on the exchange are financial, but there is a good level of diversity across sectors among the 67 listed companies. However, the primary market is predominant and use of the secondary market is limited as it remains rather illiquid.

Figure 181: Market Capitalisation (% of GDP) and Equity Market Performance

Sources: PwC Market Research Centre, World Bank, CMF
### Mutual funds investing in Tunisia

**Figure 182: Top Funds Invested in Tunisia* by Proportion of Assets Invested**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Fund Name</th>
<th>Africa allocation (%)</th>
<th>Allocation to Tunisia (%)</th>
<th>Perf. (%) 2015</th>
<th>Perf. (%) 2014</th>
<th>Perf. (%) 2013</th>
<th>Perf. (%) 2012</th>
<th>Perf. (%) 2011</th>
<th>Fund Domicile</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Invest AD Emerging Africa A USD</td>
<td>92.21</td>
<td>6.94</td>
<td>-5.26</td>
<td>0.54</td>
<td>5.56</td>
<td>n/a</td>
<td>n/a</td>
<td>Luxembourg</td>
</tr>
<tr>
<td>2</td>
<td>Bellevue F (Lux) BB African Opportunities B EUR</td>
<td>82.16</td>
<td>6.00</td>
<td>-5.30</td>
<td>2.17</td>
<td>4.92</td>
<td>1.58</td>
<td>1.44</td>
<td>Luxembourg</td>
</tr>
<tr>
<td>3</td>
<td>FCP Capital Participations</td>
<td>100.00</td>
<td>5.82</td>
<td>-9.22</td>
<td>8.87</td>
<td>-0.34</td>
<td>-3.74</td>
<td>-0.22</td>
<td>Morocco</td>
</tr>
<tr>
<td>4</td>
<td>Julius Baer EF Africa Focus EUR B</td>
<td>68.74</td>
<td>2.69</td>
<td>-17.15</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>Luxembourg</td>
</tr>
<tr>
<td>5</td>
<td>Ashmore SICAV Pan Africa Equity I USD Acc</td>
<td>93.63</td>
<td>2.40</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>Luxembourg</td>
</tr>
</tbody>
</table>

Source: Lipper and PwC Market Research Centre analysis

* Data extracted from Lipper 30/04/2015

The top five funds investing in Tunisia invest a very small proportion of their assets in the country. These funds are generally also investing quite heavily in Egypt and Morocco with some limited exposure to other African countries. Returns over the past year have been negative (see figure 182).
Distribution in Tunisia is mostly through banks as the insurance companies represent a small proportion of the market.

**Mutual Fund Industry**

According to the Conseil du Marché Financier (CMF), there are 27 Tunisian fund managers of listed mutual funds active on the market, most of which are banks. Foreign funds are not allowed to be marketed in Tunisia. Total AuM grew at a 7.1 percent CAGR and reached TND 4.9bn (USD 2.5bn) (see figure 183). The mutual fund market took a serious hit due to the political turmoil of 2011. Net sales dropped significantly and the total AuM actually decreased by 12.6 percent from 2011 to 2013, dropping from TND 5.2bn (USD 3.1bn) in 2011 to TND 4.5bn (USD 2.7bn) in 2013 before increasing again in 2014 (see figure 184).

In the early years of the industry, the most successful types of funds dominating the market were open-ended mixed funds; recently, though, the market has been largely dominated by bond funds.

Investors in mutual funds are mostly retail investors, probably due to the fact that the local tax system isn’t particularly favourable to institutions. According to data from the CMF, the portfolio allocations of mutual funds in recent years were focused on bonds. Asset holdings of mutual investment funds are heavily focused on government debt, especially treasury bonds. Equities only accounted for about 6.6 percent of total assets in 2013 (see figure 185).

However, in the case of Venture Capital and Private Equity funds, investors are mainly institutional given the strong fiscal incentives.
Alternatives

Tunisia has what it calls an alternative capital securities market that was launched in 2007, which includes Venture Capital (VC) and PE Funds, since there are no hedge funds or real estate funds in Tunisia.

The aim of this market is to provide capital to SMEs that cannot be listed on the main market and to encourage capital investments for start-ups as well as to stimulate the private equity sector. The Association Tunisienne des Investisseurs en Capital (ATIC), which is the Tunisian PE and Venture Capital Association, also promotes VC and PE investments in Tunisia.

The three main types of structures include: 1) Risk Capital Investment Company (SICAR), 2) high risk VC mutual investment fund companies (FCPR) and 3) seed funds. The last two are considered to be VC and PE Mutual Funds; there are currently 34 VC Investment Funds and five seed funds.

According to the CMF and the ATIC, there are 12 alternative asset managers who manage these capital funds. Total AuM of both the seed and high-risk VC investment funds amounted to approximately TND 56.2m (USD 34.2m) in 2013.

Investors

Pension Funds

Tunisia’s social security system is publicly run and private sector players are practically non-existent. The pension fund market is dominated by two main institutions which are under control of the state: the National Pension and Social Contingency Fund (CNPRS) and the National Social Security Fund (CNSS). The CNRPS covers public sector employees, whereas the CNSS covers private sector employees.

Although, they are both public establishments with financial autonomy, there is no official regulator of these funds since they are under control of the state.

Insurance assets

Total assets have increased at a CAGR of 10.7 percent from TND 2.01bn (USD 1.53bn) to an estimated TND 3.68bn (USD 1.98bn) in 2014 (see figure 186).

Many of the insurers in Tunisia are state owned and the industry is largely dominated by non-life insurers, reflecting the relatively underdeveloped insurance market. This is also reflected in the insurance penetration rate which stood at 1.8 percent of GDP in 2013.

Only local insurance companies are allowed to operate in Tunisia. Although most life insurance products are sold by the insurers themselves, in these recent years, banks have been allowed to sell some life insurance products as a means to promote the sector.

Figure 186: Evolution of Assets of Insurance Companies

Source: FTUSA, PwC Market Research Centre analysis
**Distribution**

Distribution in Tunisia is mostly based on banks as they have the largest network.

**Banks**

Total nationwide assets of commercial banks increased at a CAGR of 10.1 percent to an estimated TND 83.2bn (USD 44.7bn) in 2014 (see figure 187).

The Tunisian banking sector remains fragile as the market is highly fragmented and dominated by state owned banks. Nevertheless, the sector remains the primary lending source.

According to the IMF, reform of the governance and supervision of banks is urgent and there is a strong need for recapitalisation, especially for the publicly run banks. Non performing loans have been increasing and it is likely that bank recapitalisation will essentially be financed by issuance of government bonds.

Most of Tunisia’s fund managers are banks. According to the CMF, roughly 90 percent of funds are distributed by banks and the rest are distributed by the fund managers themselves.

**Figure 187: Evolution of Bank Assets**

Source: EFSA

![Figure 187: Evolution of Bank Assets](image)
Outlook

We believe that the ageing population structure in Tunisia will definitely impact the evolution of the fund industry; increased demand will create a necessity to open the market to private companies. Regulatory changes, such as opening the market to foreign funds, would, if implemented, also significantly boost the fund market. Perhaps the most crucial factor will be the maintenance of political stability following the Arab Spring events. The effects of the uprising on the mutual fund industry are clear: AuM dropped in the two years following the conflict and we predict it will not exceed its previous high until 2015. We predict AuM in Tunisia to reach TND 8.1bn by 2020.

There is growth potential in Tunisia, if the government addresses the issues it currently faces. Tunisia needs to stabilise its social and political situation, reign in the informal employment that threatens the stability of its social security system, tame corruption, close the skills gap between the working population and hiring businesses and improve its logistical infrastructure.

Figure 188: Projected AuM Growth of Collective Investment Schemes

Sources: PwC Market Research Centre analysis based on CMF data
**Outlook Nascent Markets**

The Nascent markets are those with the lowest proportion of mutual funds compared to their GDP. Of this group only Tunisia has an established fund market. Therefore, we believe that mandates will continue to comprise the bulk of the market to 2020 as the retail sector will remain small. Assuming the proportion remains stable we estimate AuM to reach USD 51bn in 2020.

Angola is a booming economy with considerable domestic financial assets available for investment thanks to the substantial oil discoveries. It is probable that with a proper legislative framework and the beginning of a capital market in 2017 the funds sector in Angola will develop from the two real estate funds which exist now to a prospering segment of the financial sector.

The Algerian financial sector remains quite underdeveloped, therefore, regulatory changes will be key to the development of its fund industry. Without considerable regulatory reform the fund industry in Algeria may stagnate.

Although Tunisia has quite a large mutual fund industry, it is likely to be surpassed by other countries in the promising group due to political instability and lower than predicted GDP growth. Therefore, it has been placed in the nascent group.

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*Figure 190: Outlook for Nascent Markets*

Sources: PwC Market Research Centre Analysis based on National Authorities and IMF data

* Due to data quality for Angola, these 2014 figures are estimates.
Appendix

1 - Glossary

AOA: Angola’s Kwanza (currency)
AuM: Assets under management
BWP: Botswana Pula (Currency)
**Compound Annual Growth Rate (CAGR):** The year-on-year growth rate of an investment over a specified period of time.
**Contractual CIS:** holders are entitled, contractually, to a predetermined performance or guarantee
DZD: Algerian dinar (currency)
**Diversified CIS:** include all the funds that do not belong to the bond CIS, money market CIS, contractual CIS, equity CIS
FGN: Federal Government of Nigeria
**Gini coefficient:** The Gini coefficient is a measure of inequality ranging from 0 to 1 with 1 being the most unequal.
GHS: Ghana Cedi (currency)
HNWI: An individual with a net worth of at least USD 1m
KES: Kenyan Shilling (currency)
**Labour Force Participation rate:** The labour force participation rate is the percentage of working-age people in an economy who are either employed or are unemployed but looking for work.
Lower middle income countries: World Bank definition - those with GDP per capita of USD 1,046 to USD 4,125
Upper middle income countries: World Bank definition – those with GDP per capita of (USD 4,126 to USD 12,745)
MAD: Moroccan Dirham (currency)
MUR: Mauritian (currency)
NGN: Nigerian Naira (currency)
NAD: Namibian dollar (currency)
NAV: Net Asset Value
**North-Africa:** In the United Nations classification of geographical regions, the following countries belong to Northern Africa: Algeria, Egypt, Libya, Morocco, Sudan (and eventually South Sudan), Tunisia.
Penetration rate: Indicates the level of development of insurance sector in a country. Penetration rate is measured as the ratio of premium underwritten in a particular year to the GDP.
REIT: Real Estate Investment Trust
SAIS: Southern African Innovation Support
SME: Small or Medium Enterprise, a business that maintains revenues or a number of employees below a certain standard.
TND: Tunisian dinar (currency)
UHNWI: Individuals with a net worth of at least USD 30 million (including shares in public and private companies, residential investments and passion investments such as art, airplanes and real estate).
**Wealth:** Total wealth includes both financial and non-financial wealth
**Working age:** Working age in this study is defined as from 20 to 64 years of age
ZAR: South African Rand (currency)
2 - Sources

National Authorities

FSB: Financial Services Board, www.fsb.co.za
South Africa National Treasury: www.treasury.gov.za
SARB: South African Reserve Bank, www.resbank.co.za
BAM: Bank Al-Maghrib, www.bkam.ma/
DAPS: Direction des Assurances et de la Prévoyance Sociale, www.finances.gov.ma/fr/Pages/DAPS
BoM: Bank of Mauritius, www.bom.mu
Mauritius Bankers Association: http://www.mba.mu/
Ministry of Social Security: http://socialsecurity.govmu.org/English/Pages/default.aspx
BON, Bank of Namibia: https://www.bon.com.na/
CBE: Central Bank of Egypt: http://www.cbe.org.eg/English/
National Pensions Regulatory Authority http://nppra.gov.gh/site/
National Pensions Administrator http://www.ssnit.org.gh/
CBK: Central Bank of Kenya: https://www.centralbank.go.ke/
CMA: Capital Markets Authority: http://www.cma.or.ke/
IRA: Insurance Regulatory Authority: http://wwwира.go.ke/
RBA: Retirement Benefits Authority: http://www.rba.go.ke/
SASRA: Sacco Societies Regulatory Authority: http://wwwира.go.ke/
BoB: Bank of Botswana, www.bankofbotswana.bw
NBFIRA: Non-Bank Financial Institutions Regulatory Authority: http://www.nbfira.org.bw/
Ministère des Finances, www.mf.gov.dz
(BNA) Banco Nacional de Angola: http://www.bna.ao/
(ARGSEG) Agência Angolana de Regulação e Supervisão de Seguros: http://www.iss.gov.ao/
National Stock Exchange

JSE: Johannesburg Stock Exchange, www.jse.co.za
Casablanca S.E: Casablanca Stock Exchange (Bourse de Casablanca), www.casablanca-bourse.com
SEM: Stock Exchange of Mauritius, www.stockexchangeofmauritius.com
NSE: Nairobi Stock Exchange: https://www.nse.co.ke/
BSE: Botswana Stock Exchange, www.bse.co.bw
SGBV: La Société de Gestion de la Bourse des Valeurs Mobilières, La bourse d'Alger (Algiers Stock Exchange), www.sgbv.dz

National Associations

ASISA: Association of Savings and Investment South Africa, www.asisa.co.za
Strate: South Africa's Central Securities Depository, www.strate.co.za
FMSAR: Fédération Marocaine des Sociétés d'Assurances et de Réassurance www.fmsar.org.ma
ASFIM: Association des Sociétés de Gestion de Fonds d'Investissement Marocains, www.asfim.ma
EIMA: Egyptian Investment Management Association : http://www.eima.org.eg/
ECMA: Egyptian Capital Market Association : http://www.ecma.org.eg/default_eng.htm
EPEA: Egyptian Private Equity Association : http://www.epea-eg.org/
KBA: Kenya Bankers Association: http://www.kba.co.ke/
ARBS: Association of Retirement Benefits Schemes: http://www.arbs.co.ke/
FNI: Fonds National d'Investissement, www.fni.dz
CNR: Caisse Nationale des Retraites, www.cnr-dz.com
International Associations and Organisations

**African Economic Outlook**: www.africaneconomicoutlook.org


**EMPEA**: Emerging Market Private Equity Association, www.empea.org

**International Monetary Fund (IMF)**: www.imf.org

**OECD**: www.oecd.org

**US Census Bureau**: www.census.gov

**World Bank**: www.worldbank.org

**World Economic Forum**: www.weforum.org

Private organisations

**Alexander Forbes**: www.alexanderforbes.co.za

**Credit Suisse**: Credit Suisse Global Wealth Databooks, www.credit-suisse.com

**Novare Investments**: www.novare.com
3 - World Bank Governance Indicators

**Voice and Accountability:**
- the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.

**Political Stability:**
- the likelihood that the government will be destabilised by unconstitutional or violent means, including terrorism.

**Government Effectiveness:**
- the quality of public services, the capacity of the civil service and its independence from political pressures; and the quality of policy formulation.

**Regulatory Quality:**
- the ability of the government to provide sound policies and regulations that enable and promote private sector development.

**Rule of Law:**
- the extent to which agents have confidence in and abide by the rules of society, including the quality of contract enforcement and property rights, the police, and the courts, as well as the likelihood of crime and violence.

**Control of Corruption:**
- the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests.

### 4 - Global Competitiveness Index Indicators

<table>
<thead>
<tr>
<th>Indicators 1-7 (best)</th>
<th>Algeria</th>
<th>Angola</th>
<th>Botswana</th>
<th>Egypt</th>
<th>Ghana</th>
<th>Kenya</th>
<th>Mauritius</th>
<th>Morocco</th>
<th>Namibia</th>
<th>Nigeria</th>
<th>South Africa</th>
<th>Tunisia</th>
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</thead>
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<tr>
<td>Institutions</td>
<td>3.4</td>
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<td>3.9</td>
<td>3.7</td>
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<td>4.2</td>
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<td>4.5</td>
<td>3.7</td>
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<td>Infrastructure</td>
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<td>2.0</td>
<td>3.2</td>
<td>3.2</td>
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<td>4.7</td>
<td>4.4</td>
<td>4.2</td>
<td>2.1</td>
<td>4.3</td>
<td>4.3</td>
<td>3.8</td>
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<td>Macro environment</td>
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<td>4.7</td>
<td>6.3</td>
<td>3.0</td>
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<td>3.7</td>
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<td>4.6</td>
<td>4.6</td>
<td>4.5</td>
<td>4.0</td>
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<tr>
<td>Labour market efficiency</td>
<td>3.1</td>
<td>3.5</td>
<td>4.6</td>
<td>3.1</td>
<td>3.9</td>
<td>4.7</td>
<td>4.9</td>
<td>4.4</td>
<td>4.1</td>
<td>4.5</td>
<td>3.8</td>
<td>3.5</td>
</tr>
<tr>
<td>Financial market development</td>
<td>2.7</td>
<td>2.5</td>
<td>4.2</td>
<td>3.2</td>
<td>4.1</td>
<td>4.8</td>
<td>4.3</td>
<td>4.3</td>
<td>4.3</td>
<td>4.1</td>
<td>5.4</td>
<td>3.4</td>
</tr>
<tr>
<td>Business sophistication</td>
<td>2.6</td>
<td>2.6</td>
<td>3.5</td>
<td>3.7</td>
<td>3.9</td>
<td>4.4</td>
<td>4.5</td>
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<td>3.7</td>
<td>3.8</td>
<td>4.5</td>
<td>3.8</td>
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</tbody>
</table>

Source: World Bank
### 5- Indicators of investment potential

<table>
<thead>
<tr>
<th>Country</th>
<th>Political Stability*</th>
<th>Investor Protection**</th>
<th>Predicted GDP Growth***</th>
<th>Stock Exchange Index****</th>
<th>FDI Investment USD per capita*****</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>12.8 (+2)</td>
<td>83 (-33)</td>
<td>7.40%</td>
<td>1,060 (+49)</td>
<td>89.5 (+14.2)</td>
</tr>
<tr>
<td>Angola</td>
<td>35.6 (+4)</td>
<td>68 (no earlier ratings)</td>
<td>9.30%</td>
<td>No stock market</td>
<td>-806.8 (-899.9)</td>
</tr>
<tr>
<td>Botswana</td>
<td>84.8 (-3.5)</td>
<td>45 (+41)</td>
<td>7.60%</td>
<td>8955 (+1,920)</td>
<td>311.4 (+41.2)</td>
</tr>
<tr>
<td>Egypt</td>
<td>7.1 (-21.2)</td>
<td>117 (-50)</td>
<td>13.90%</td>
<td>8,745 (+1,920)</td>
<td>0 (-121.2)</td>
</tr>
<tr>
<td>Ghana</td>
<td>47.4 (+2.9)</td>
<td>34 (-8)</td>
<td>15.50%</td>
<td>2,261 (-8,171)</td>
<td>200.3 (+147.8)</td>
</tr>
<tr>
<td>Kenya</td>
<td>13.7 (+3.2)</td>
<td>83 (-16)</td>
<td>13.40%</td>
<td>5,142 (+1,621)</td>
<td>27.1 (+24.6)</td>
</tr>
<tr>
<td>Mauritius</td>
<td>77.7 (1.1)</td>
<td>12 (-1)</td>
<td>7.20%</td>
<td>2,070 (+887)</td>
<td>83.6 (-214.7)</td>
</tr>
<tr>
<td>Morocco</td>
<td>29.4 (3.6)</td>
<td>98 (+20)</td>
<td>7.10%</td>
<td>9,620 (-1,364)</td>
<td>196.0 (+116.6)</td>
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<tr>
<td>Namibia</td>
<td>77.3 (-22.5)</td>
<td>68 (-18)</td>
<td>11.80%</td>
<td>1,071 (+515)</td>
<td>596.0 (+268.7)</td>
</tr>
<tr>
<td>Nigeria</td>
<td>3.8 (-2)</td>
<td>57 (-18)</td>
<td>12.90%</td>
<td>34,657 (+3,206)</td>
<td>111.5 (+56.8)</td>
</tr>
<tr>
<td>South Africa</td>
<td>44.1 (-1.8)</td>
<td>10 (No change)</td>
<td>9.20%</td>
<td>49,518 (+28,009)</td>
<td>2,539.2 (+2,356.6)</td>
</tr>
<tr>
<td>Tunisia</td>
<td>45.9 (-30.3)</td>
<td>45 (-67)</td>
<td>8.50%</td>
<td>5,108 (+2,215)</td>
<td>60.3 (-208.9)</td>
</tr>
</tbody>
</table>

* Change compared to 2008 in brackets
** Measured by ranking by World Bank Governance Indicators (0 lowest and 100 highest) in 2013 and change from 2008
*** Measured by ranking in World Economic Forum’s Investor Protection Index (out of 144, lower scores are better) and change from 2008
**** CAGR of IMF predicted GDP growth 2014-2020
***** Measured by change in Stock Exchange Index between 2008 and 2014
****** Measured by the change in FDI per capita between 2008 and 2013
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