Report

Unlocking African Prosperity

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Table of Contents

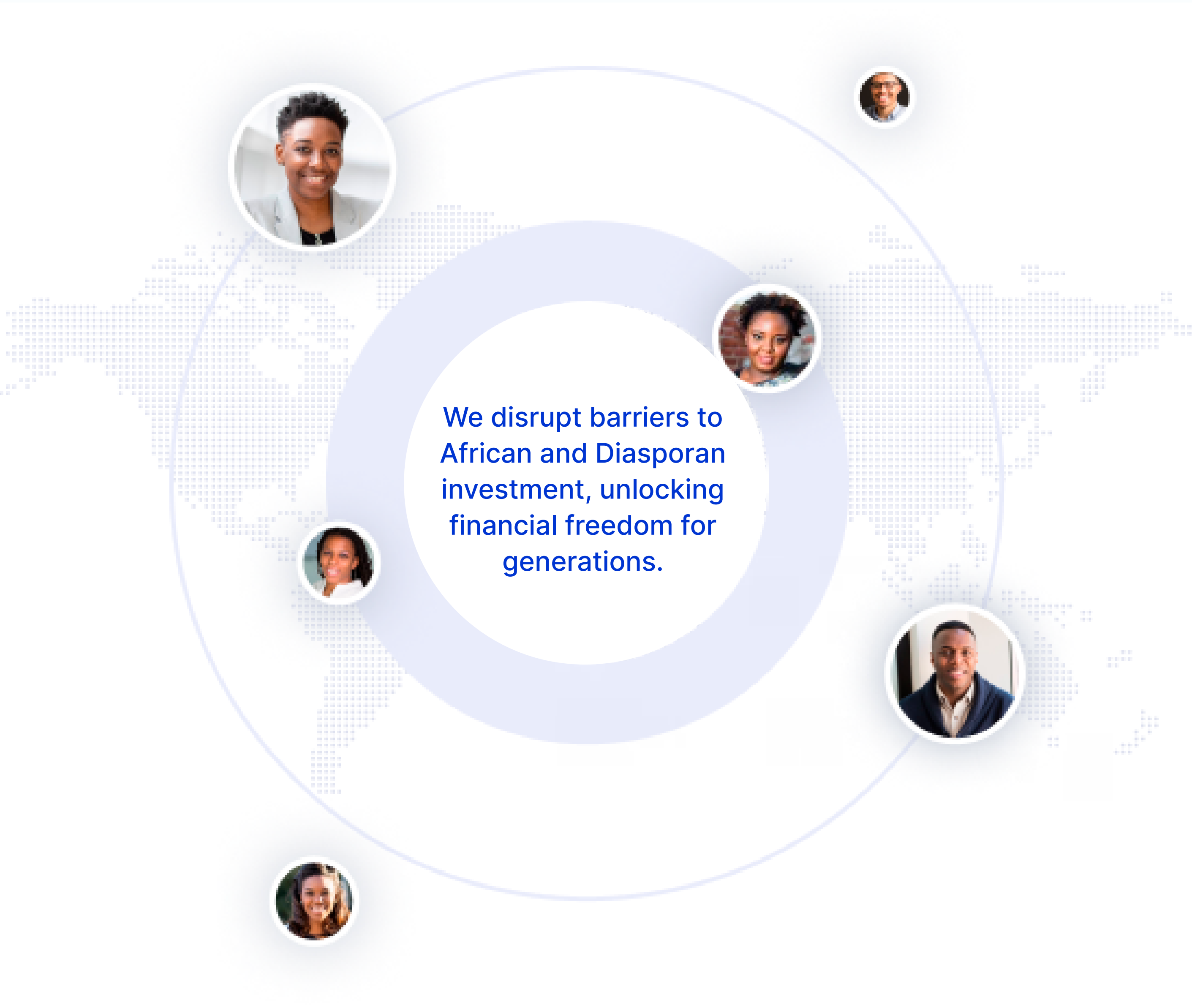
About Opportunik

Opportunik is the global fund for Africans.

It is a CIMA licensed private USD fund, administered by Accuvise, a registered administrator with over $216 million in assets.

Opportunik believes nothing should hold back the hardworking from achieving their dreams and is on a mission to make financial opportunities accessible to everyone, no matter where they are.

The company is led by a pan-African team of brilliant and driven professionals with a wealth of experience in investment management and finance.



About Volition Cap

Volition Capital Investments Limited (Volition Cap), is a game-changing asset manager based in Lagos, Nigeria. Its core mission is democratizing wealth for the African & Diasporan middle-class.

Licensed by the Securities & Exchange Commission (SEC) as a Fund Manager, the company's main distinction is having created an African-born fund management model using local investment clubs and remittance investing.

Core services include portfolio design, investment management and advisory for individuals, investment clubs, businesses and families.

As a part of its CSR initiatives, Volition Cap provides free investment courses.

Our core mission is democratizing wealth for the African & Diasporan middle class

Executive Summary

Africa's potential for accelerated prosperity can be realized more quickly than commonly perceived. This achievement does not depend on aid or grants; rather, it hinges on harnessing the continent's opportunities for both its middle class residing on the continent and within the diaspora. The report " Unlocking African Prosperity" analyses the potential of middle class Africans and diasporans from a wealth creation perspective.

The research delves into various avenues for unlocking Africa's wealth opportunities, such as promoting investment over saving, leveraging remittances from the African diaspora, and developing investment solutions tailored for the African middle class. In particular, it uncovers the power of alternative investments as a major leapfrogging tool for African investors, for quantum wealth creation. It provides recommendations for stakeholders, particularly fund managers interested in capitalizing on the growing African and Diasporan middle class and its wealth creation potential.

As per the 2023 Henley & Partners Africa wealth report, the total investable wealth currently held on the African continent amounts to USD 2.4 trillion and is expected to reach USD 3 trillion by 2031 fuelled by several factors. These include economic development, a burgeoning youthful population with a growing entrepreneurial spirit, an emerging middle class, and enhanced political stability supporting asset values across the continent. While the general trend is positive, with virtually all countries seeing a material growth in wealth and middle class populations over the past decades, it masks wide divergences that exist across the continent. Specifically, just 5 countries, namely South Africa, Egypt, Nigeria, Kenya, and Morocco account for the lion's share (56%) of the continent's high-net-worth individuals, including an even larger (over 90%) of the billionaires. In addition, anecdotal research suggests that many of these assets are held by institutional investors, such as pension funds and insurance companies.

Furthermore, despite the promising growth in investable assets, the wealth management market appears dominated by a few major players targeting high-net-worth individuals, leaving the middle class under-served. The African and diasporan middle class, albeit facing such economic and institutional constraints, still possess significant collective disposable income that could be channelled into investment products. In addition, these challenges present opportunities for fund managers ready and able to adapt their solutions to the needs of the middle class segment of the population. This research report delves into various avenues for unlocking Africa's wealth opportunity to provide actionable insights for stakeholders, particularly pension funds and wealth fund managers interested in capitalizing on the region's middle class potential. It argues that alternative investments, not traditional investments will unlock wealth for Africans.

Organisation of the Study

The study commences by outlining the research's key aims, which is then followed by a literature review that contextualizes the central issues underpinning the study's aims. This review provides a synopsis of the African middle class's growth, emphasizing the main catalysts behind this development. This is followed by a description of the research methodology which outlines the main research framework supporting the study. An analysis of the survey results follows, providing a detailed examination of investment behaviours and preferences of respondents. Subsequently, the study explores the role of remittances in wealth creation, providing insights into how these funds are currently being used and the potential they hold for investment. Finally, the paper concludes with a set of key findings and recommendations.

Aims

I. **Analysing the potential of the African and diasporan middle class for wealth creation:** The study aims to analyse the potential of the African middle class and diaspora, recognising their increasing importance in wealth creation and the region's economic development. This involves understanding the growth and characteristics of these demographics, their economic impact, and how they can contribute to prosperity in Africa.

II. **Exploring investment behaviours and preferences among the African and diasporan middle class:** The focus is to understand the investment preferences of the African middle class, including their attitudes towards risk, and factors influencing their investment decisions. This comprehension can assist in unveiling unique insights that can contribute to the formulation of investment solutions specifically tailored for Africa's middle class. This includes studying their risk tolerance, preferred investment vehicles, and the impact of factors such as income level, age, and investment horizon on their investment decisions.

III. **Establishing the merit for alternative investment:** An in-depth exploration of a nontraditional investment approach, assessing its potential to unlock wealth on par with the transformative impact that mobile phones have had on emerging markets in Africa, in contrast to the adoption of fixed landlines in developed markets.

IV. **Evaluating the role of remittances in wealth creation:** An exploration is conducted into the role of remittances, especially their part in investment and wealth accumulation within the African diaspora. The focus is on how remittance funds could be harnessed for wealth generation via productive investments.

V. **Offering recommendations for wealth management:** This research will also deliver practical insights and advice for wealth managers and institutions that aim to cater to the African and diasporan middle class.

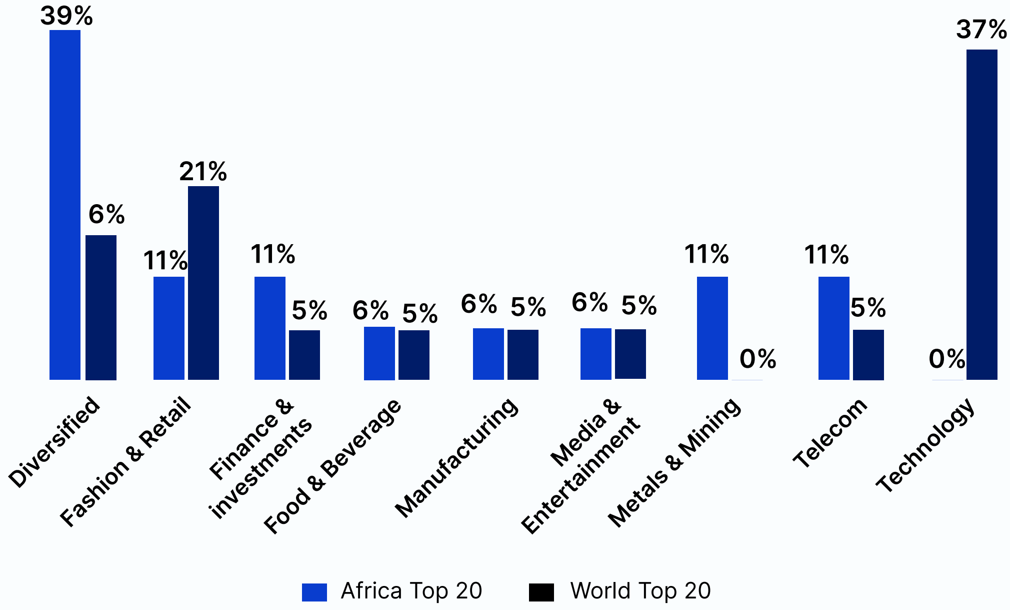
Literature Review

Introduction

This literature review aims to place the study within the wider framework of ongoing academic and economic dialogues, providing a foundation for the methodologies used in our study. It explores existing views and theories related to the financial behaviours, investment preferences, and potential of the African and diasporan middle class. This includes an examination of literature on the growth and characteristics of the African middle class, the role and impact of remittances, and the strategies for promoting investment and wealth creation. Through the evaluation and integration of these sources, this literature review will shed light on the present state of understanding and substantiate the need for the current investigation.

Conceptual Framework

This study is set against the backdrop of a rapidly evolving African economic landscape characterised by the significant growth of African middle class wealth (Melber, 2022). This is driven by factors such as economic development, urbanization, political stability, and a youthful and entrepreneurial population (AfDB, 2011). Africa's middle class is increasingly recognized as a pivotal player in wealth creation and economic development (EY Global, 2020). Additionally, remittances from the African diaspora are considered an underutilized resource that can significantly contribute to wealth creation. Despite this potential, the African and diasporan middle class encounter distinctive hurdles that include socio-economic and institutional limitations, a deficit in financial literacy, a lack of access to meaningful investment opportunities and the absence of investment solutions tailored



Sources: Forbes (2023), Billionaires Africa (Ajayi, 2023), OGF

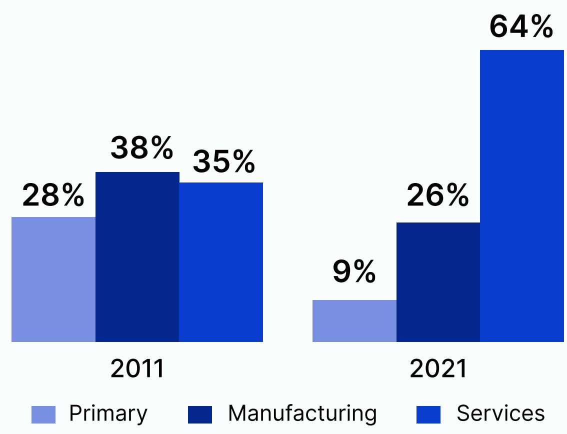
Figure 1: Industry Focus for African and World's Billionaires.

to their unique needs, all of which impede their capacity to generate sustainable wealth.

As such, this study is grounded in the interplay between the potential for wealth creation among the African and diasporan middle class, their investment behaviours, and the socio-economic factors that underscore their unique challenges in wealth generation. These variables are interrelated and together form a complex system that shapes investment behaviours of the middle class in Africa and the African diaspora. The study contends that the middle class holds the key to unlocking Africa's prosperity. However, numerous factors have eroded its potential, and the goal of this study is to delve into these factors to gain a comprehensive understanding of how Africa can fully achieve prosperity. Additionally, remittances are considered an underutilized resource that can significantly contribute to wealth creation. The role of wealth managers and financial institutions as facilitators in this system is also considered. This framework guides the analysis and interpretation of the survey data, with the aim of providing insights to unlock the potential prosperity of the African and diasporan middle class.

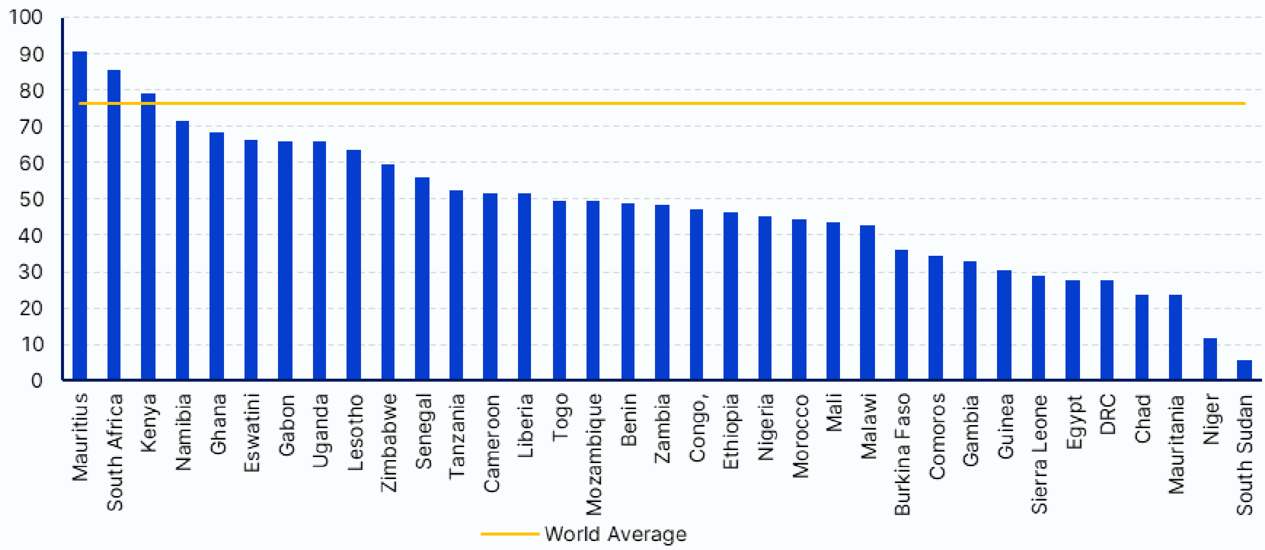
Emerging African Economy: The Rise of the Middle Class

For centuries, Africa's development and investment have been tied to natural resources, such as agriculture, mining, and minerals. However, while natural resource utilisation still plays a major role as a source of wealth generation across the continent, momentum has shifted. Other industries such as telecommunications, manufacturing, real estate, retail, and financial services have become increasingly important drivers of wealth



Source: UNCTAD, OGF

Figure 2: Break Down of Greenfield Investments in Africa by Sector



Source: World Bank, OGF

Figure 3: Account Possession with A Financial Institution (Adults +15 years of Age)

creation across the continent. This can better be understood from the fact that only around 10% of Africa's billionaires are in the natural resource-focused metals & mining sector.

The shift in Africa's dependence from natural resources is further demonstrated by the growing share of greenfield investments in the knowledge-dependent services sector, alongside a declining share in the comparatively lower value-add primary sector. Simultaneously, the region has experienced significant income growth, with GDP per capita increasing from USD 1,860 in 1990 to USD 4,070 in 2021 (excluding North Africa). A World Bank report from 2019 reveals that the rate of poverty in Africa has decreased from 54% in 1990 to slightly above 41% in 2015. Accordingly, not only has Africa reduced the number of people living in extreme poverty than three decades ago, but there is also a substantial expansion of the African middle class population.

While its exact size is disputed due to varying definitions and limited quality data, the middle class in Africa presents a wealth creation opportunity if properly harnessed. The African Development Bank (AfDB) estimates the African middle class to range between 350-500mn people, defined as those earning between USD2-20 per day. However, the Brookings Institution's figure is 32 million, with a higher income threshold of USD10-100 per day. IPSOS (Van Blerk, 2018), on the other hand, incorporates additional criteria like education level and spending cap on utilities, and estimates around 100 million middle class people with total daily spending exceeding USD 400 million across Sub-Saharan Africa (excluding South Africa, which is less representative of the continent because of its relatively high level of development compared to most other African countries).

World Data Lab forecasts a significant middle class growth in several African countries like Angola, Djibouti, and Cote D'Ivoire by 2030, defined as those spending between USD11-110 per day in 2011 PPP. As per the World Data Lab forecasts, the combined annual spending power of Africa's middle class is anticipated to increase from around USD 2 trillion in 2020 to over USD 3.2 trillion by 2030. In total, World Data lab suggests that there were 176m middle class individuals in Africa in 2019.

The rise in Africa's middle class has driven a notable policy shift from largely aid-dependent poverty alleviation, which is suspected of impeding aspirations for higher economic performance, to promoting prosperity via infrastructure development, education, entrepreneurship, and trade. Meanwhile, empirical research by the IMF emphasizes the critical role of financial inclusion in poverty reduction by fostering increased savings, which in turn support economic growth, raise income and stabilises consumption over time.

However, a significant obstacle is that a large portion of Africa's population still resides in rural areas, often lacking access to established financial infrastructure like bank branches and other related services. The proportion of the rural population in Africa, although steadily decreasing from 83.7% in 1960 to 52.2% in 2021 (as a percentage of the total population), remains above the global average of 44%. The World Bank indicates that around 530 million adult Africans, which equates to 46% of the total population in Africa, did not possess a bank account in 2021.

Thankfully, there has been a significant increase in mobile phone usage throughout Africa, which is significantly enhancing the availability of financial services to a larger segment of the population, particularly in the rural regions. This is evidenced by the rapid growth of financial technology (fintech) firms, especially in the mobile money transfer (MMT) sector. The IMF estimates that over 400 fintech companies are active throughout Africa. Additionally, in 2018, Africa accounted for about 70% of the volume of worldwide mobile money transactions and two-thirds of the transactions value. This also highlights Africa's capacity for technological leapfrogging, partly due to the continent's youthful demographic that is progressively becoming more tech-savvy.

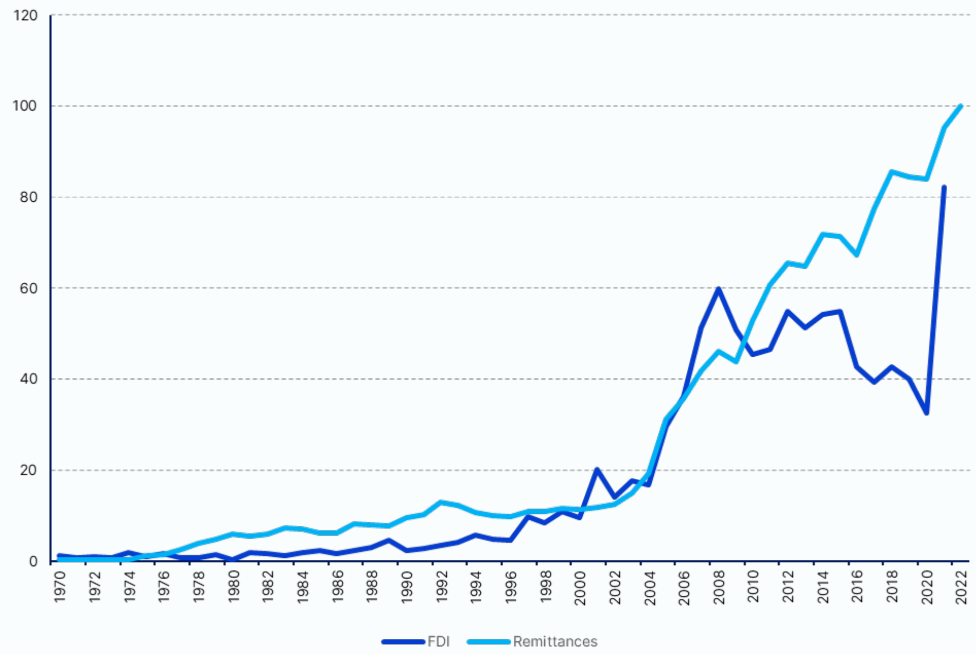
As Africa continues to experience growing wealth (as demonstrated by the increasing number of high-net-worth individuals or HNWIs and the middle class), the discourse needs to extend beyond just financial inclusion, where Africa is primarily seen as a consumer market. It should also encompass wealth inclusion to help the region's burgeoning middle class gain exposure to high-growth global investment opportunities. At present, high-growth investment opportunities available on the continent, such as those in real estate, are predominantly accessible to high-net-worth individuals who can readily meet the substantial minimum investment outlays. As an example, the aforementioned report by Henley & Partners suggests that wealth managers who are operating in Africa typically focus on individuals who possess more than USD 500,000 in assets that are investable. However, this benchmark is often unattainable for a significant portion of the African middle class.

Leveraging Remittances to Drive Wealth Creation

Remittances do not only provide a financial lifeline to millions of households across Africa, but data shows that they have become one of the continent's largest sources of external financial flows. In 2022, for instance, personal remittances received in Africa amounted to USD 99.91 bn, equivalent to approximately 3.3% of the continent's GDP. Unlike FDI, which saw a material drop in 2020 during the height of the Covid-19 pandemic, remittances were relatively resilient, demonstrating that they represent a more stable source of external financial flows even during times of economic crises.

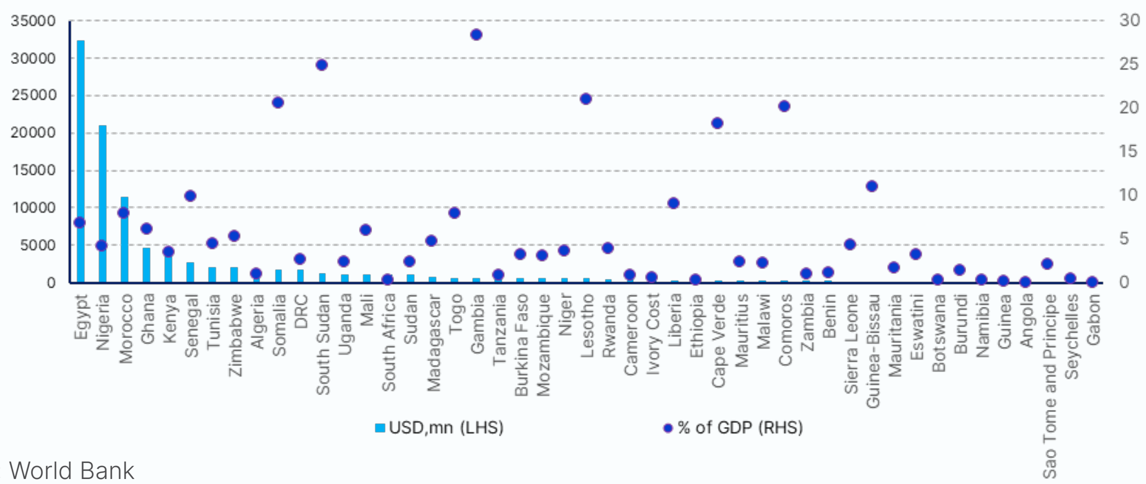
While there are differences among countries in terms of the size of remittances both in absolute amounts and as a percentage of GDP, remittances are more evenly distributed across Africa than other capital flows, including foreign direct investment (FDI), most of which goes to a few big emerging markets. As a share of GDP, remittances were significant in the Gambia (28%), South Sudan (25%), Lesotho (21%), Somalia (21%), and Comoros (20%) in 2022. In absolute numbers, Egypt, Nigeria, Morocco, Kenya, and Ghana were the top five recipients in 2022, benefiting from their large diaspora populations mainly residing in developed nations such as the USA, UK, and Canada as well as in wealthy Middle Eastern nations, such as Saudi Arabia, the UAE and Qatar.

The 2022 World Migration Report (McAuliffe & Triandafyllidou, 2021) revealed that the African diaspora grew from approximately 17 million to over 19.5 million people between 2015 and 2020. This increase was primarily seen in Europe, Asia, and North America, with respective populations of 11 million, nearly 5 million, and about 3 million African-born immigrants in 2020. Moreover, intracontinental migration also showed a significant rise, with the number of Africans residing in different countries within the continent surging from around 18 million in 2015 to 21 million in 2020. Countries such as South Africa, Tunisia, Botswana, Gabon, Equatorial Guinea, Côte d'Ivoire, Libya, Seychelles, and Mauritius were the leading sources of remittances among their African counterparties. These countries also have a substantial African migrant population.



Source: World Bank, OGF

Figure 4: Foreign Financial Inflows into Africa



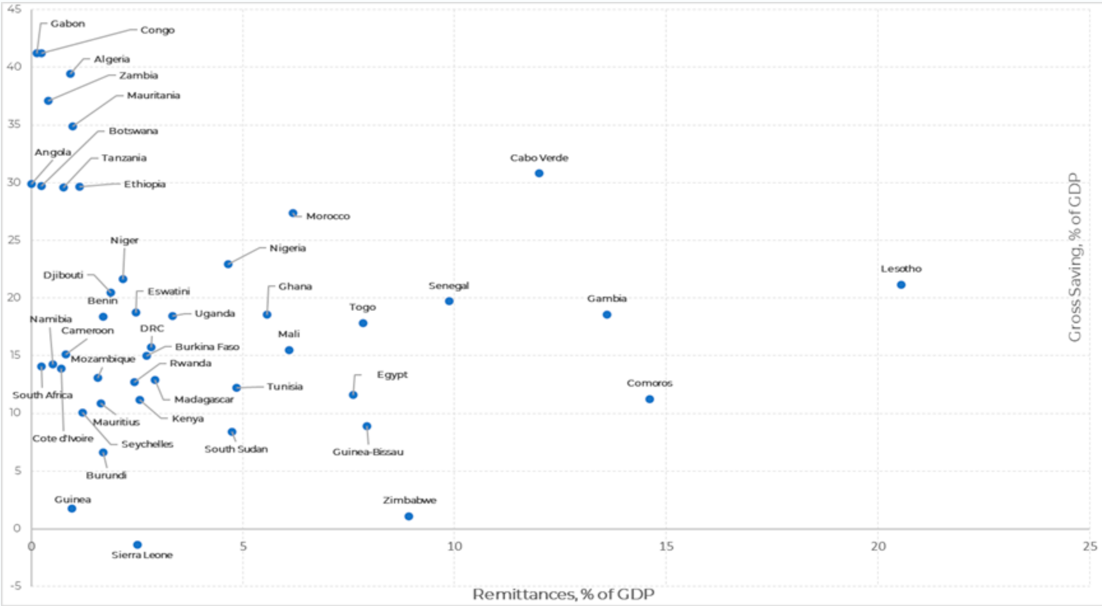
Source: World Bank

Figure 5: Remittance, % of GDP (2022)

For instance, Côte d'Ivoire, thanks to its relatively strong economy, hosts a significant number of immigrants from neighbouring countries like Burkina Faso, Mali, and Guinea while South Africa is a key host country particularly for migrants from Zimbabwe, Lesotho, Eswatini, Mozambique and Malawi within the Southern African Development Community (SADC) bloc.

The experiences of certain countries outside of Africa, particularly Israel and India, have shown the huge potential of the diaspora population as a source of savings and capital for investment. In Africa, Ethiopia is the most widely publicised similar lesson about leveraging the diaspora as a source of funding after it first issued the diaspora bond in 2011, earmarked for funding the Grand Ethiopian Renaissance Dam (GERD). Although diaspora bonds provide an avenue for the diaspora community to save and invest in their home countries, the above cases of Israel, India and Ethiopia share one common dimension: lending to the government. The potential lack of trust in the government is one likely drawback regarding the effectiveness of diaspora bonds in some countries.

That said, an increasing number of countries have floated the idea of issuing diaspora bonds for infrastructure funding. Countries with large diaspora populations (such as Nigeria and Ethiopia) can tap into the funds within that community to invest locally. The success of such bonds will likely depend on the ability of African governments to build relationships with their diaspora as well as providing transparency on how the proceeds are used. Where trust is low in the public sector to deliver, then private instruments may be better equipped to fill in the gap.



Source: World Bank

Figure 6: Remittance Versus Saving Profiles (10-year averages, % of GDP)

Furthermore, the discussion on diaspora bonds often focuses on how African governments can use these flows as a source of funding for infrastructure and long-term projects. However, this perspective may overlook the wealth creation needs of the remittance senders who, like any investor, have varied needs and goals. The private sector is better equipped to fill this space.

Countries that receive a high percentage of remittances (as a percentage of GDP) such as Lesotho, Gambia, and Cape Verde, tend to have high gross savings rates. Nevertheless, savings are also high in countries where remittances, as a percentage of GDP, are not as high as in these aforementioned countries. For example, over a 10-year period, the average value of remittances in countries such as Zambia, Gabon, Mauritania, Algeria, Botswana, Tanzania, among others, has been less than 10% of GDP, but these countries have also had among the highest average gross savings rates over the past 10-year period (2012-2022).

Financial services like savings products and entrepreneurial loans can promote investment for households that receive remittances. However, specialised MTOs, such as Western Union that dominate the market have largely neglected to offer their clients ancillary financial products, such as investment products that could lead to higher returns. Several potential reasons exist as to why MTOs, who are usually the first to handle remittances, might not expand their services to include investment solutions for their customers. These could range from the extra regulatory responsibilities that come with becoming a fund manager, the need for further investments like recruiting trained investment personnel, to perhaps not seeing any significant opportunities in this area. Except for the final reason, existing investment managers are generally well-prepared since they already possess an asset management license and staff.

Alternative Investments - The Unlocking Key?

While it is encouraging to see the remittance numbers from diaspora, and making a case for turning them into investments, developing the right instruments for investment is what will truly unlock wealth for Africa.

Leapfrogging

Leapfrogging is a behavioural mechanism in which either technological innovations are skipped during development or individual versions of products are deliberately omitted to obtain a more advanced, improved version of the desired technology or innovation (Killmer, 2023). As such, leapfrogging refers to bypassing intermediary steps or technologies to move directly to more advanced systems or practises. In the context of economic development, developing countries can accelerate their progress by adopting modern systems without going through a similar evolution that developed countries underwent.

Certainly, leapfrogging has been evident in various industries and sectors in Africa. Some notable examples include Telecommunications, where many African countries skipped over landline telecommunication technologies to adopt mobile phones, which facilitated a faster and cheaper method to build communication infrastructure.

Companies like Safaricom in Kenya have also popularised mobile money through M-Pesa. Crucially, M-Pesa bypasses traditional banking systems to offer mobile banking to Kenyans, particularly those disenfranchised from the traditional banking system (Jack and Suri, 2011). Meanwhile in Nigeria, Flutterwave and Paystack provide payment solutions that traditional banks struggle to offer more efficiently.

In energy, off-grid solar energy solutions in rural areas bypass the need for traditional electrical grid infrastructure. Companies like M-KOPA Solar provide affordable solar energy systems, leapfrogging directly to renewable energy technologies and bypassing extensive grid systems.

In Healthcare, telemedicine and mobile health apps are revolutionising healthcare access, especially in remote areas. Platforms like Babylon Health offer consultations via smartphone. Meanwhile, platforms like Daktari Africa offer consultations without the need for physical clinics.

Online learning platforms have made quality education more accessible, bypassing traditional education systems, thus revolutionising the Education system. Eneza Education provides a platform that utilises lowtech USSD/SMS technology to provide quality and affordable educational resources to underserved learners in remote schools (Eneza Education, 2023).

In Agriculture, drones and IoT technologies are being used for precision farming, skipping over less efficient traditional methods. Zenvus, an agtech company, uses intelligent sensors to provide farmers with precise data that enables them to apply the right fertilizer and optimally irrigate their farms (Ndung'u and Signé, 2020).

What Are Alternative Investments?

Donohue and Sacks (2018) define alternative investments as financial assets that do not fall into the traditional investment categories of stocks, bonds, and cash (or cash equivalents). They are often complex, illiquid, and riskier than traditional investments. The aim of including alternative investments in a portfolio is to diversify assets and potentially enhance returns.

Types of alternative investments include:

- Real Estate: Buying property, Real Estate Investment Trusts (REITs).
- Private Equity: Investments in mature private companies that need capital for expansion.
- Private Debt: Capital market instruments not financed by banks (i.e., a bank loan) or traded on an open market (Chladek, 2020).
- Venture Capital: Investing in startups that solve local problems, like agri-tech for farming.
- Impact Investing: Investments that offer both financial returns and social/environmental impact (Bugg-Levine and Emerson, 2011).
- Hedge Funds: Pooled funds that use various strategies to invest in equities, bonds, derivatives, and other asset classes.
- Commodities: Investments in physical goods like gold, oil, or agricultural products.
- Collectibles: Art, rare stamps, wine, and other tangible assets.
- Derivatives: Financial contracts like futures, options, and swaps.
- Infrastructure: Investment in large-scale public works like bridges, energy, and water supply.
- Cryptocurrency: Digital or virtual assets like Bitcoin and Ethereum.
- Structured Products: Pre-packaged investments that typically include assets linked to interest plus one or more derivatives (Investopedia, 2023).

Suitability of Alternative Investments

Within the realm of investments, Africa may find more value in leapfrogging traditional investment avenues in favour of alternative ones that offer higher returns, a more significant impact,

and a better fit for the unique challenges and opportunities the continent presents. Africa has a pressing need to bridge the income and wealth gap swiftly. Alternative investments, by virtue of their higher returns, offer a quicker way to accumulate wealth. For example, private equity investments allow investors to partake in high-growth startups that can offer exponential returns if successful. In comparison, traditional investments often have lower returns and longer maturation periods.

The flexibility of alternative investments means they can be tailored to meet specific economic and social objectives, such as infrastructure development or sustainable agriculture. For example, real estate investments, especially in fast-growing African cities, can facilitate economic gains and societal improvements like housing and community development. Unlike traditional investments with set structures and limitations, alternative investments provide more room for creative financial structuring, making them adaptable to various investment needs and conditions.

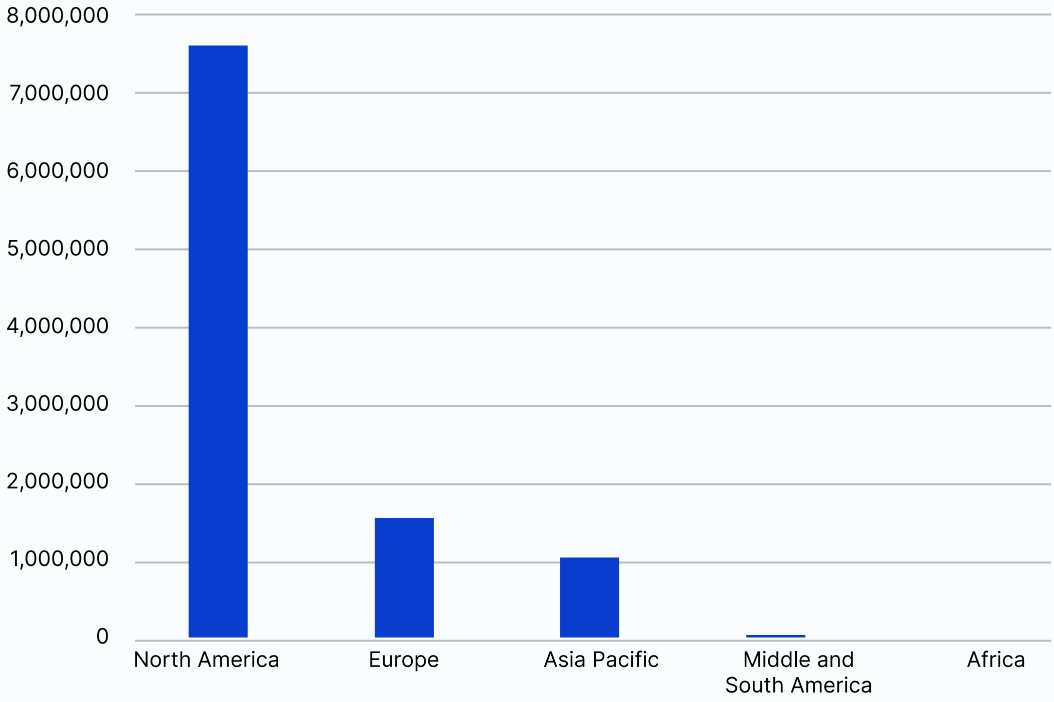
Africa's rapidly changing economic landscape requires investment vehicles that can adapt quickly. Venture capital is a prime example, which can be focused on tech startups, offering solutions tailored to Africa's unique challenges, like mobile banking or healthcare tech. As such venture capital can underpin employment and innovation (WEF, 2015).

Alternative investments can also be more in tune with local challenges and opportunities. For example, a private equity investment in a local agribusiness can have economic and social impacts, unlike putting the same capital in far-removed global stocks.

Traditional investment vehicles, like stocks and bonds, are often interlinked with global markets and geopolitical events. Therefore, alternative investments, such as commodities or real estate, can hedge against such vulnerabilities, especially on a continent with abundant natural resources.

While traditional investments are often centred around financial hubs and are managed by large institutions, alternative investments can be more decentralised, making them more accessible to a broader population, including the growing middle class, not just high-net-worth individuals or institutions.

Our research shows that to unlock prosperity for Africa, alternative investments have to become the leapfrogging factor, just as mobile phones did.



Source: Refinitiv (Glow, 2023), OG

Figure 7: ETF Assets Under Management

Comparing global investment markets for instance, as of year-end 2022, the assets under management for ETFs in the US market totaled over USD 7 trillion, while Africa (and Middle and South America) totaled less than USD 1 billion. For Africa, as a continent, to reach the level of market maturity that the US market alone has eclipsed with traditional investments like ETFs, it will take decades. That said, countries like Nigeria, South Africa and Kenya have experienced great successes with alternative investments such as venture funding and infrastructure finance.

Bypassing the scepticism about Alternative Investments

Investors are skeptical of alternative investments for several reasons (Chambers et al, 2020).

Lack of Transparency

Challenge:

Alternative investments like hedge funds, private equity, and commodities often lack the level of disclosure, reporting, and regulatory oversight found in traditional markets. Fewer regulations can make it difficult for investors to fully understand the risks involved.

Solutions:

1. Providing detailed, frequent reports that break down the fund's holdings, risks, and performance.

2. Explaining investment strategies and risks in layperson's terms to make it easier for investors to understand.

Complexity

Challenge:

The strategies employed in alternative investments, such as hedge funds, can be complex and challenging to understand, making them less accessible to the average investor, who may not fully grasp the underlying structure. Unlike stocks or bonds, for example, there may also not be standardised metrics to evaluate performance.

Solutions:

1. Offering educational resources to help investors understand the investment strategy and underlying assets.

2. Adopting or creating straightforward performance metrics easily comparable to traditional investments.

Illiquidity

Challenge:

Many alternative assets have long lock-up periods or less frequent trading, making it harder to exit the investment quickly. Private equity deals, for example, often have long lock-up periods, sometimes extending several years. Meanwhile, many alternative assets cannot be quickly sold on public exchanges.

Solutions:

1. Introducing more lenient lock-up periods or options for early withdrawal, even if it comes with certain conditions.

2. Facilitating a secondary market for shares to provide an exit route for investors.

High Fees

Challenge:

Alternative investments could have high management and performance fees, reducing investors’ net returns.

Solutions:

1. Offering a more competitive fee structure that aligns with the fund’s performance.

2. Breaking down fees clearly so investors know what they are paying for.

Limited Track Record

Problem:

Some alternative investments, such as cryptocurrencies, and in particular altcoins, are relatively new and need a longer-term performance history.

Solutions:

1. Compiling and presenting long-term performance data to provide a more comprehensive view.

2. Getting an independent audit to verify performance numbers.

Diversification

Challenge:

It may be difficult to adequately diversify within the alternative space due to the uniqueness of each investment type. Additionally, some alternative investments may not provide the diversification benefits initially sought by investors.

Solutions:

1. Creating funds that invest in various alternative assets to offer built-in diversification.

2. Providing data on how the fund correlates with traditional asset classes.

Risk Profile

Challenge:

The risk associated with alternative investments can be higher than traditional investments, making them less suitable for conservative investors. Assets like commodities or real estate can be highly volatile, offering the potential for both high returns and significant losses.

Solutions:

1. Utilizing and disclosing advanced risk metrics like Value at Risk (VaR) or stress tests.

2. Clearly communicating the strategies used to manage various types of risks.

Due Diligence

Challenge:

Proper evaluation of alternative investments often requires specialised knowledge and resources. Moreover, proper vetting of these investments can be a lengthy and resource-intensive process.

Solutions:

1. Using standardised, clear documentation could make the due diligence process easier.

2. Offering potential investors the opportunity to speak directly with the fund managers or other experts involved provides more comfort.

The Role of Fund Managers

While the African middle class is characterised by a rising disposable income, escalating ambitions, and an insatiable yearning for elevated living standards, it remains an economically varied demographic. As suggested by the African Development Bank, this demographic's financial habits are shaped by a multitude of factors such as regional economic circumstances, the urban-rural divide, and the level of digital technology accessibility. The investment requirements of this diverse group are similarly broad, generally encompassing the demand for accessible, affordable, and dependable options. Additionally, the middle class desires flexible solution offerings and investment products attuned to their income patterns while addressing risks related to health, life, and property.

Traditional financial institutions have often overlooked Africa's middle class. This is due to apprehensions about risks and the associated costs of reaching this demographic as well as the lower income at an individual level compared to the HNW cohort, which has been the focus of many existing wealth managers. As a result, the middle class frequently turns to customary savings and investment structures, such as village Cooperative Financial Products (CFPs). This trend was highlighted in a United Nations Development Programme survey (UNDP, 2023), which revealed that a considerable portion of savings in African households is still maintained in customary forms, such as livestock.

Furthermore, the prevalence of limited financial inclusion has stimulated the development and continued existence of customary Cooperative Financial Institutions (CFIs) throughout Africa. This gives people the opportunity to utilize financial products and services that are suitable to their needs. Customary financial cooperatives can pose a competitive threat to third-party managed collective investment schemes (CIS) aiming to attract middle class clients for asset management. Not only can financial cooperatives yield significant profits for their members, but their member-owned framework can foster trust and loyalty among their participants. This stems from the fact that such structures offer their members some degree of control over their financial wealth, providing more adaptability than when their resources are managed by a third party, such as a CIS.

Notwithstanding the above, a study by the FinMark Trust (2013) examining customary financial products particularly cooperative financial institutions in Southern Africa revealed that CFIs had less appeal in South Africa, a nation with the most advanced financial system compared to other African countries. This suggests that the widespread popularity of CFIs in many African countries may be more attributable to the lack of available financial products/services that cooperative members can easily access, given their unique circumstances as a group, rather than these products being more desirable than contemporary financial solutions, such as third-party managed CIS. Therefore, fund managers who grasp the distinct challenges pushing the middle class to customary cooperatives can create value by providing competitive solutions tailored to the needs of these underserved individuals. They can enhance value for the middle class through their expertise and additional resources that can be used to better manage investment risks. This can help safeguard the wealth of the middle class even during periods of financial instability.

Conclusion

In conclusion, a review of the literature reveals a pivotal shift in Africa's economy, marked by the evolution of economic sectors beyond natural resources, a burgeoning middle class, and the growing importance of diaspora remittances. This section has highlighted the distinctive hurdles encountered by the African middle class and the immense opportunities they present for fund managers who can identify these challenges and provide solutions that effectively address them. Additionally, the potential of remittances as a consistent external financial resource and the imperative to leverage this for wealth creation are emphasized. The crucial role of financial institutions and fund managers in offering bespoke (and alternative) financial products and services to meet these groups' distinct needs is also underscored. Ultimately, this section accentuates the need for a paradigm shift from viewing the African middle class primarily as a consumer market to recognizing its potential for wealth creation and investment.

Research Methodology

The research methodology for this study comprises both primary (survey) and secondary data collection methods. The secondary data collection involved a comprehensive desktop research, in which a multitude of sources were utilized. These included national statistics that provided insights into the economic conditions and demographic trends in African countries, as well as journal and news articles that offered a broader understanding of the size and economic trends of the African middle class and Africans in the diaspora.

The primary data collection was conducted through a carefully designed survey targeted at the middle class in Africa and the African diaspora. The sample size consisted of 178 respondents from five main target countries - Nigeria, Zambia, Kenya, South Africa, and Zimbabwe. The survey was meticulously structured to capture a comprehensive range of responses related to financial behaviours, knowledge of financial securities, investment preferences, and attitudes towards risk among the African and diasporan middle class. It offered a unique opportunity to gain firsthand insights into the investment behaviours and preferences of the target demographic.

Data Analysis

The survey data was analysed to identify key trends and patterns. A comparative analysis was performed to investigate potential systematic differences and similarities in investment profiles across the represented African countries in the sample. In addition, the research incorporates a literature review to contextualize the findings within the broader academic and economic discourse. This approach of combining quantitative survey data with insights from secondary sources provided a robust framework for the study and facilitated a comprehensive understanding of the potential for unlocking African prosperity.

Ethical Consideration

This study was conducted with the utmost commitment to ethical research principles. Survey participants were clearly informed about the purpose of the study, the nature of their involvement, the use of their data, and their right to withdraw their participation at any point, ensuring a transparent and respectful research process. All data collected was anonymised to protect the privacy and confidentiality of the participants, ensuring that no personally identifiable information was associated with the findings.

Throughout the analysis and presentation of the findings, care was taken to portray the data accurately and impartially, without misrepresentation or bias. Additionally, all sources of data and opinions other than the primary survey were appropriately acknowledged and referenced, maintaining the academic integrity of the study.

Limitations

As with any research endeavour, this study inevitably has its potential limitations, some of which are outlined here. First, the cross-sectional nature of the survey might limit its ability to capture changes in behaviours and attitudes over time. Second, the reliance on survey data could be a limitation as responses might be influenced by self-report bias, where respondents might provide socially desirable answers rather than accurate ones (Brownback & Novotny, 2018). Lastly, while the survey's sample size of 178 respondents mainly from Nigeria, Zambia, Kenya, South Africa, and Zimbabwe provided valuable insights, the findings may not fully represent the diversity of the African and diasporan middle class across all African countries. These potential limitations should be considered when interpreting the study's findings and conclusions.

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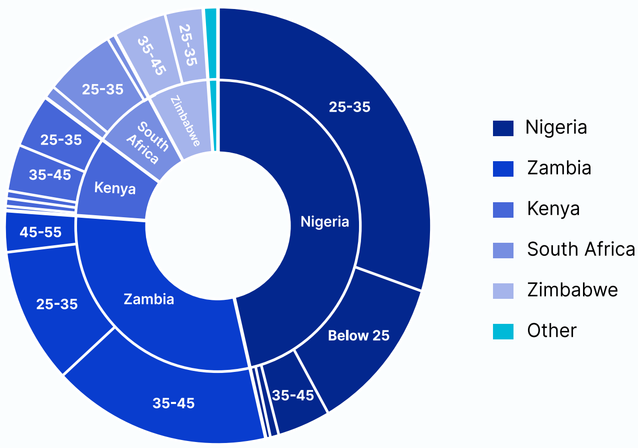
Analysis of the Survey Results

An in-depth online survey was conducted to understand the investment habits of Africans and diasporans, addressing crucial topics like familiarity with financial assets, portfolio allocation, risk-return preferences, investment horizons, objectives, liquidity needs, and remittance habits. These insights are vital for fund managers tailoring investment solutions to these demographics' preferences, challenges, and aspirations. Additional demographic data offered a comprehensive profile of the respondents, linking investment behaviours to individual circumstances, backgrounds, and country.

Existing research has highlighted that the financial habits of Africa's middle class are influenced by a myriad of factors, which underpin their desire for financial flexibility, income generation, and strategies to manage risks related to health, life, and property. The insights collected from this survey can prove to be invaluable for fund managers aspiring to fulfil the unique investment preferences, address inherent challenges, and help achieve the wealth goals of both Africans and the African diaspora. The insights can support the development of bespoke strategies that truly resonate with this unique investor population.

Demographic and Economic Profiles of Respondents

The survey garnered responses from a total of 178 participants (65% males and 35% females) from at least 7 African countries. In

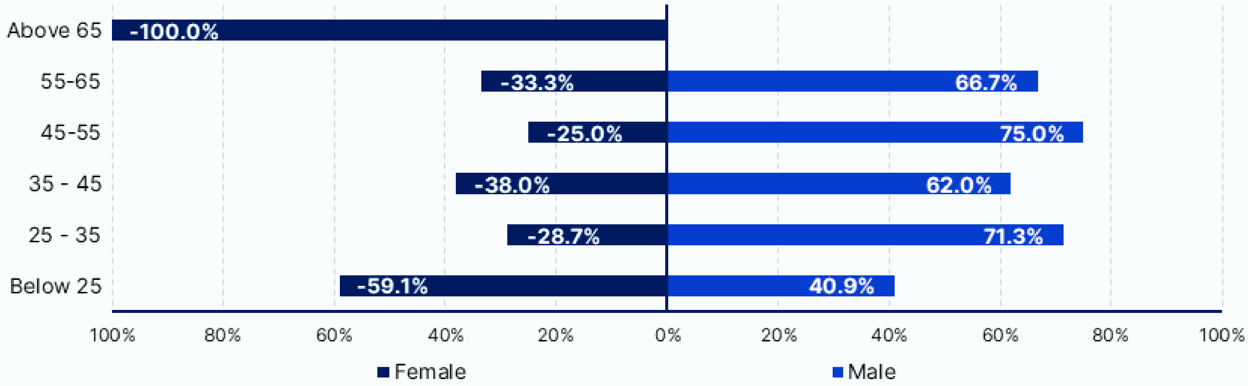


Source: Survey Results (OGF)

Figure 8: Distribution of Respondents by Nationality

Note: Segments of the chart not labelled constitute less than 1%. Source: Survey Results (OGF) terms of nationality, Nigeria, Zambia, Kenya, South Africa, and Zimbabwe are the top nationalities of respondents, in that order.

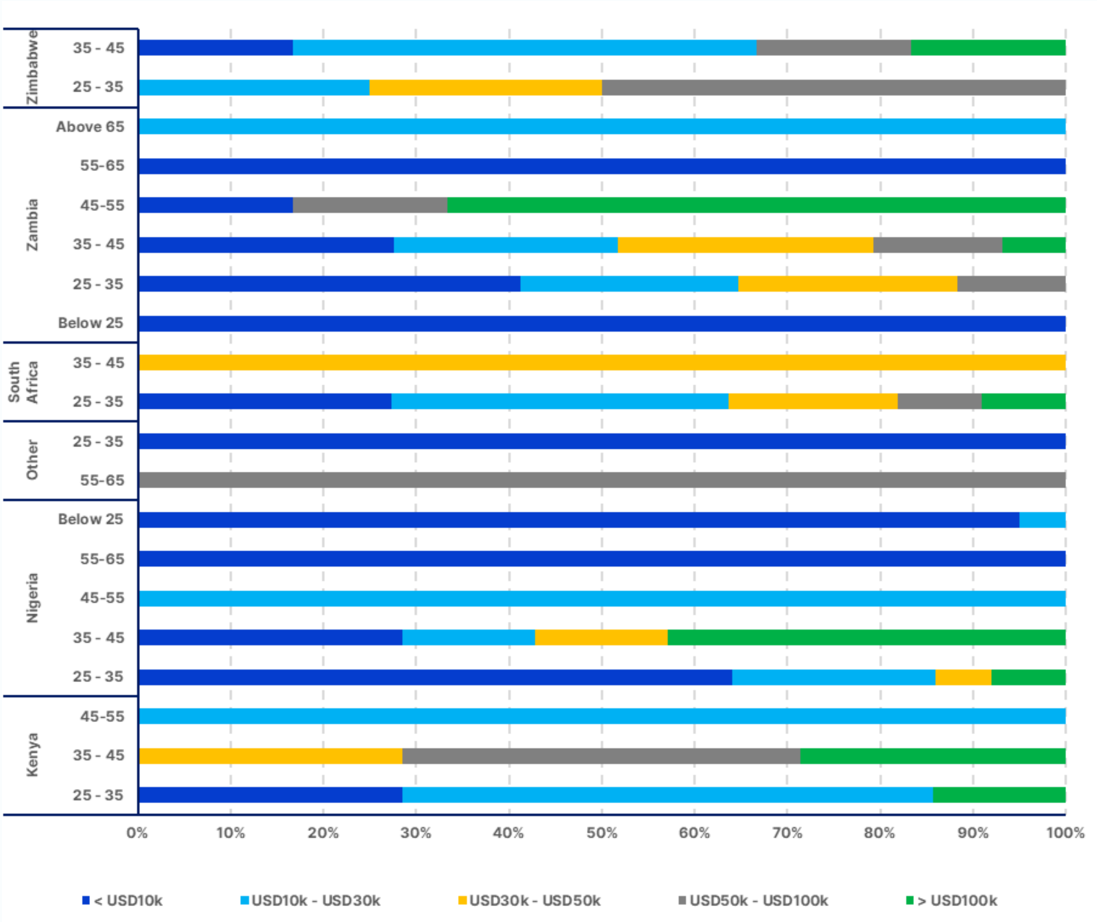
Most respondents fall into the 25-35 and 35-45 age brackets. As such, the survey predominantly captures perspectives from a relatively youthful adult group, which mirrors Africa's generally younger population.



Source: OGF Survey Results

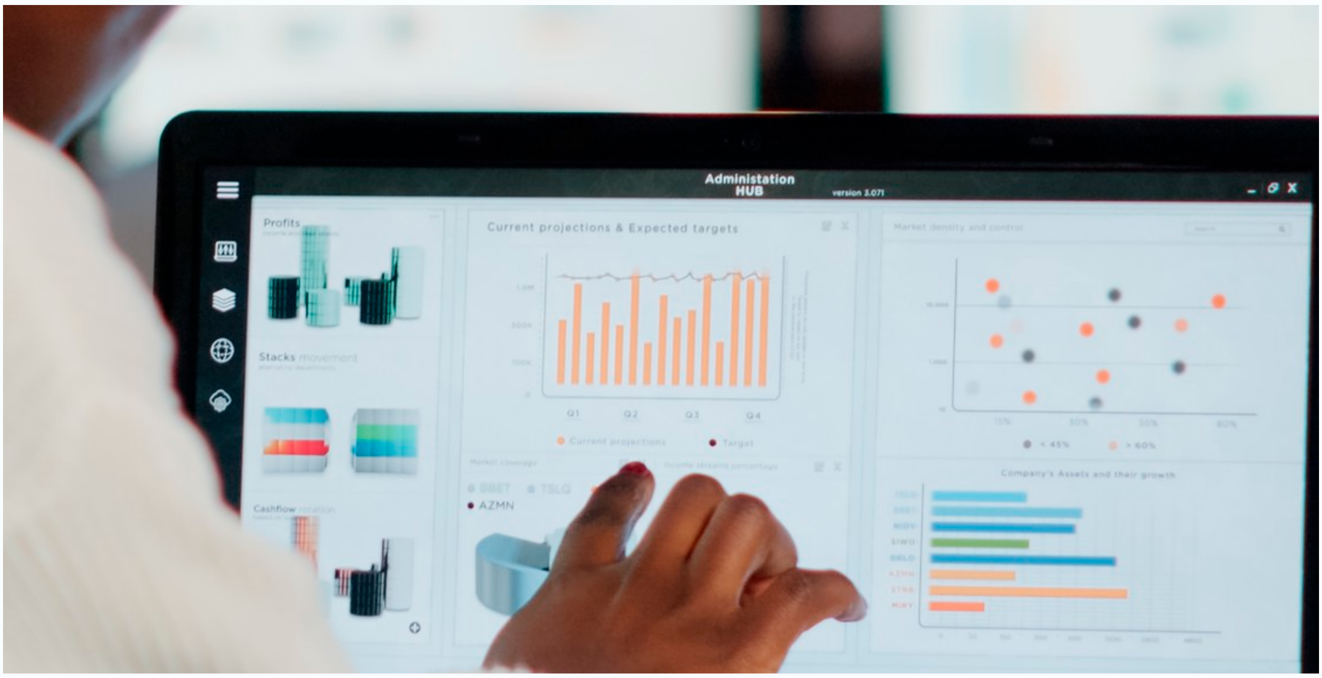
Figure 9: Distribution of Respondents (Male and Female, All Nationalities)

Pertaining to annual earnings, around 55% of those surveyed indicated an income of at least USD 10,000, broken down as such: 23% earn between USD 10,001 and USD 30,000; 13% reported earnings within the USD 30,001 to USD 50,000 range; 9% make an income ranging from USD 50,001 to USD 100,000, and 10% earn above USD 100,000 per year. It is likely that the individuals' investment behaviours, including preferences for risk and return, among other factors, would vary depending on their income levels. The following visual provides an income breakdown by the age of respondents per country.

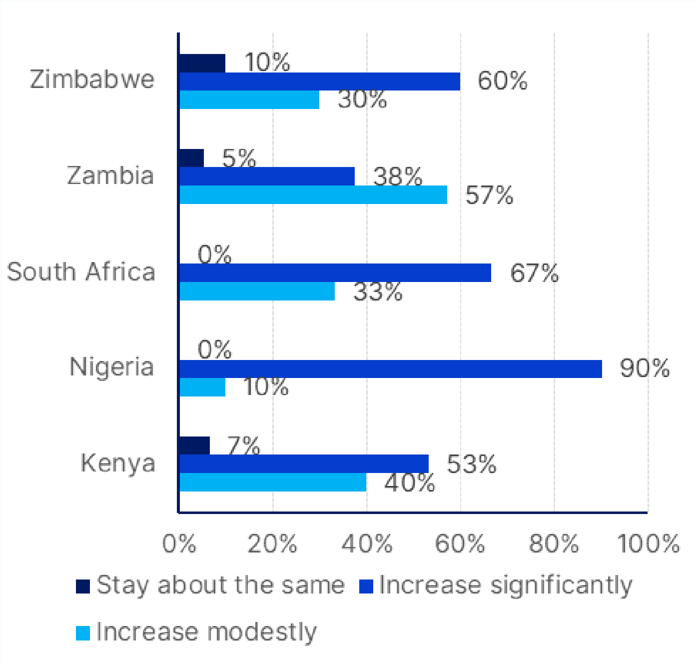


Source: OGF Survey Results

Figure 10: Distribution of Respondents' Income by Age & Country



Many studies on Africa's middle class have consistently pointed not just an increase in the size of this demographic, but also a considerable growth in their wealth. This can be attributed to higher education levels and a growing wave of successful entrepreneurship within this group. In line with the above, close to 80% of this study's survey respondents anticipate their income to increase significantly over the next five years. This pattern is uniform across all nations, with Zambia being the sole exception. In Zambia, 57% of the participants anticipate a modest rise in their income over the ensuing five years, a proportion that surpasses the 38% who predict a significant income growth. It is important to note, however, that these self-reported expectations of income growth could be influenced by various behavioural biases, such as overconfidence or overt-pessimism.

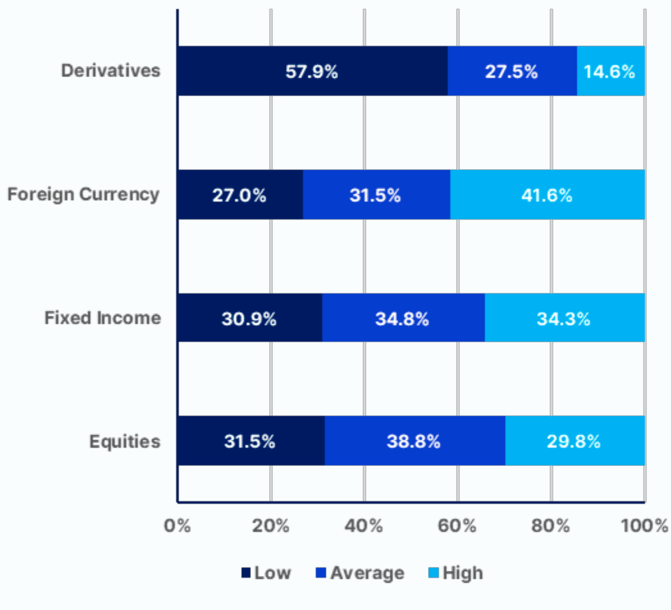


Source: Survey Results

Figure 11: How Respondents Expect Their Income to Change Over the Next 5 years

Financial Instruments and Asset Allocation

The survey assessed how respondents' familiarity with financial securities influences their investment habits. About 37% of all respondents confessed to having little knowledge of financial assets, while 33% claimed average understanding, signifying a substantial portion of respondents with low to moderate familiarity with financial instruments. Yet, a third of the participants do have advanced knowledge of financial instruments. In terms of individual securities, derivatives were the least understood, which is expected as they are typically used for specialised investment applications and risk management, and hence, less known to those outside the investment profession. In contrast, foreign currency was the most understood financial instrument among respondents.

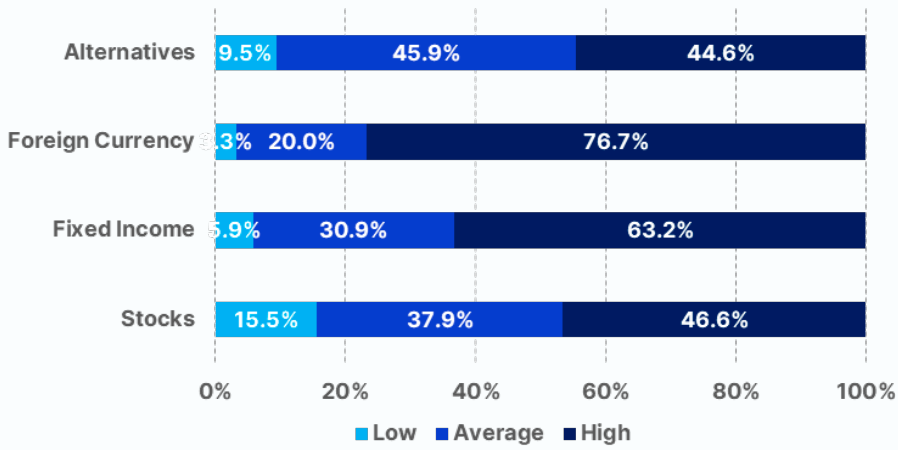


Source: OGF Survey Results

Figure 12: Knowledge and or Experience (% of Total)

The survey also probed whether an individual's understanding and experience with various asset classes impact their investment choices. In general, respondents' choice of investing in a particular asset class appears to be intrinsically linked to their knowledge and experience within that domain. The data indicates that respondents tend to refrain from investing in an instrument if they lack a solid understanding or experience with that instrument. For instance, those expressing significant familiarity with foreign currency make up the largest share of investors owning such assets, while those claiming limited knowledge form the smallest share. This pattern holds true across all financial instruments.

Overall, the above findings suggest that prospective fund managers aiming to promote specific investment products or services to the middle class in Africa and the African diaspora should also prioritise client education. This emphasis stems from the observation that an individual's knowledge base significantly influences their wealth allocation decisions. Thus, empowering potential clients with knowledge could be a crucial strategy in successfully marketing any financial product or service. Investment goals are diverse, with the key ones being income for retirement, building wealth for the next generation, funding children's education, and supporting current expenditures.



Source: Survey Results (OGF)

Figure 13: Level of Knowledge/Experience of asset class versus investment in that asset class

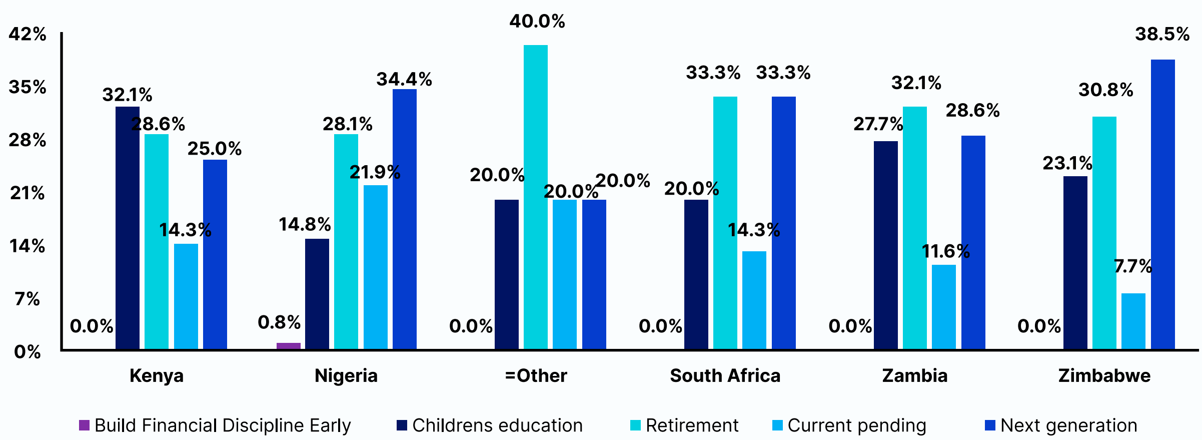


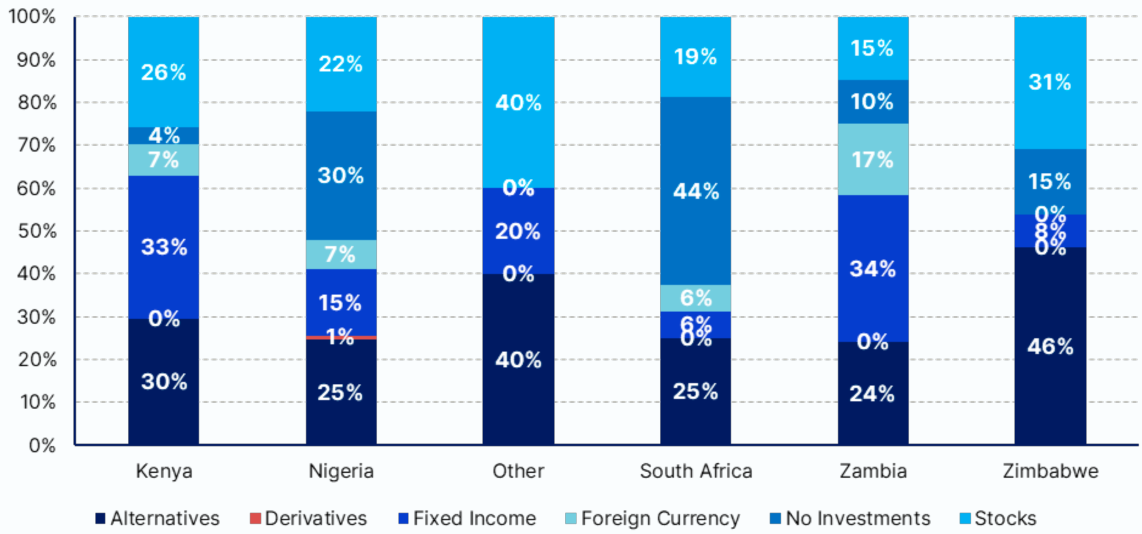
Figure 14: If you have investments, what is your primary goal for investing?

Data Favours Alternative Investments

When it comes to current investments, respondents favour alternative investments (32.3%), followed by fixed income (29.3%), equities (25%), foreign currency (13%), and derivatives (0.45%). Zambia and Kenya show a preference for fixed income securities, while Nigeria has a diverse spread across stocks, fixed income, and alternatives. Zimbabwean respondents largely opt for alternative investments, with equities next in line. **The appeal of alternative investments, for countries such as Kenya, Nigeria, Zambia and South Africa, could be predominantly ascribed to real estate investments. That said, in Zimbabwe, this could largely refer to commodity investments due to their efficacy in providing a hedge against inflation, a common challenge for Zimbabwean (and African) investors.**

Surprisingly, South Africa, with its advanced financial markets, and Nigeria, Africa's largest economy, have the highest percentages of respondents with no investments at 40% and 30% respectively. This contrasts with Zimbabwe, where only 15% of respondents reported no investments, the highest outside the former two nations. Kenya has the smallest percentage of respondents without investments, standing at 4%, while Zambia records only 10% of respondents reporting a lack of investments.

In South Africa, respondents primarily cited insufficient investment knowledge as the reason for not investing, unlike in Kenya where all non-investing respondents pointed to inadequate income. Notably, no South African respondents mentioned income as a barrier to investment, starkly contrasting with other countries. Risk is identified as a top deterrent from investing in South Africa and Zambia, while inadequate



Source: OGF Survey Results

Figure 15: Current Portfolio Allocation (% of Total respondents)

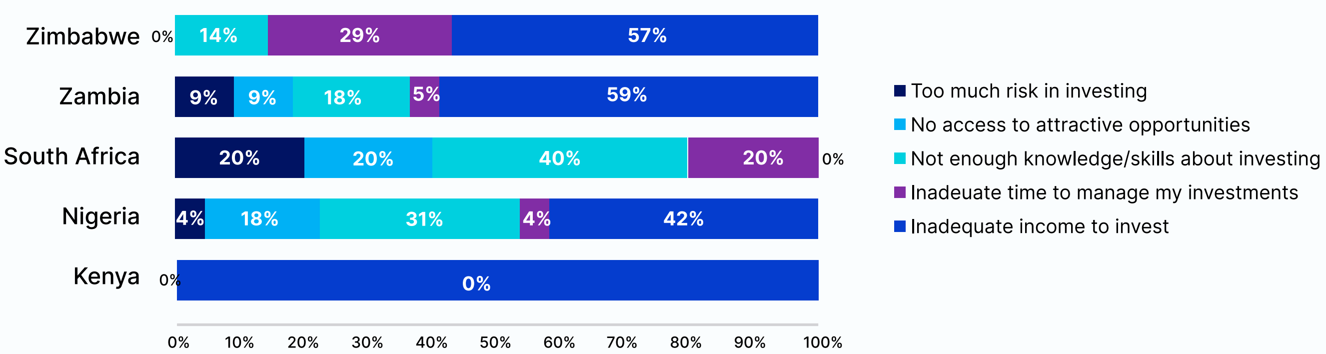
time to manage investment is a notable issue in Zimbabwe as well as in South Africa. For Nigerian respondents, the main investment barriers include insufficient income, lack of investment knowledge, and a lack of access to attractive opportunities.

Attitudes Towards Risk and Return

Generally, the findings indicate that most respondents (73%) prioritise safeguarding their portfolio to minimise potential losses over chasing high returns. The observations are generally consistent across different income groups, investment horizons, and age groups. This indicates a prevalent tendency towards risk aversion among the respondents, something fund managers should account for when tailoring offerings for the African middle class. All countries have large proportions of individuals who agree or strongly agree that safeguarding their portfolio to minimise potential losses is a priority over chasing high returns.

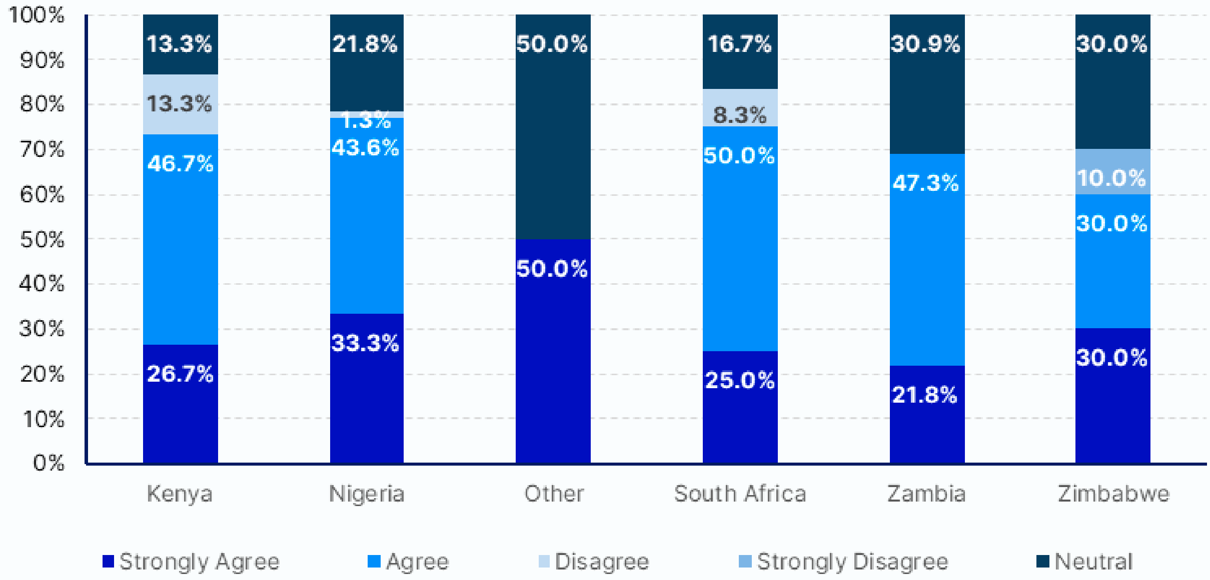
The results reveal that respondents with either very short (less than 3 years) or very long (over 10 years) horizons display a strong inclination towards safeguarding their portfolio's value rather than pursuing high returns. This tendency could stem from the immediate liquidity needs of those with shorter horizons. Additionally, those with longer investment horizons often have crucial financial goals, such as retirement or children's education, whose failure could have significant life impact. This assertion is further reinforced by the observation that two-thirds of respondents aged between 55-64 years, and everyone aged over 64, place an extremely high importance on protecting their portfolio value versus pursuing high returns.

Consequently, high liquidity requirements, along with the significance and impending realisation of investment goals, strongly influence an individual's propensity to prioritise portfolio safety. In terms of income level, protecting portfolio value is also important or extremely important among individuals of all income levels. Collectively, these responses hint at a pronounced level of risk aversion across different investment horizons and income brackets. It can be hypothesised that the middle class in Africa and the African diaspora might be more attracted to investment products that prioritise value preservation, even at the potential cost of lower returns.



Source: OGF Survey Results

Figure 16: Current Portfolio Allocation (% of Total respondents)



Source: OGF Survey Results

Figure 17: Do you agree with the following: I prioritise protecting my portfolio to minimise any potential losses ahead of pursuing high returns (% of Total Respondents)

The results reveal that respondents with either very short (less than 3 years) or very long (over 10 years) horizons display a strong inclination towards safeguarding their portfolio's value rather than pursuing high returns. This tendency could stem from the immediate liquidity needs of those with shorter horizons. Additionally, those with longer investment horizons often have crucial financial goals, such as retirement or children's education, whose failure could have significant life impact. This assertion is further reinforced by the observation that two-thirds of respondents aged between 55-64 years, and everyone aged over 64, place an extremely high importance on protecting their portfolio value versus pursuing high returns.

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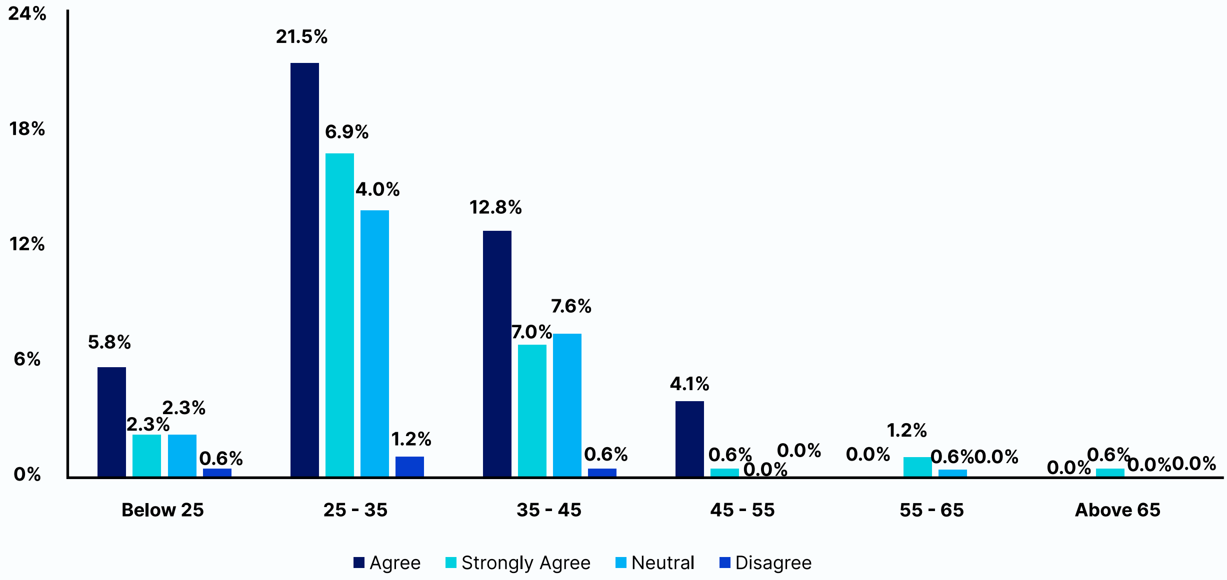
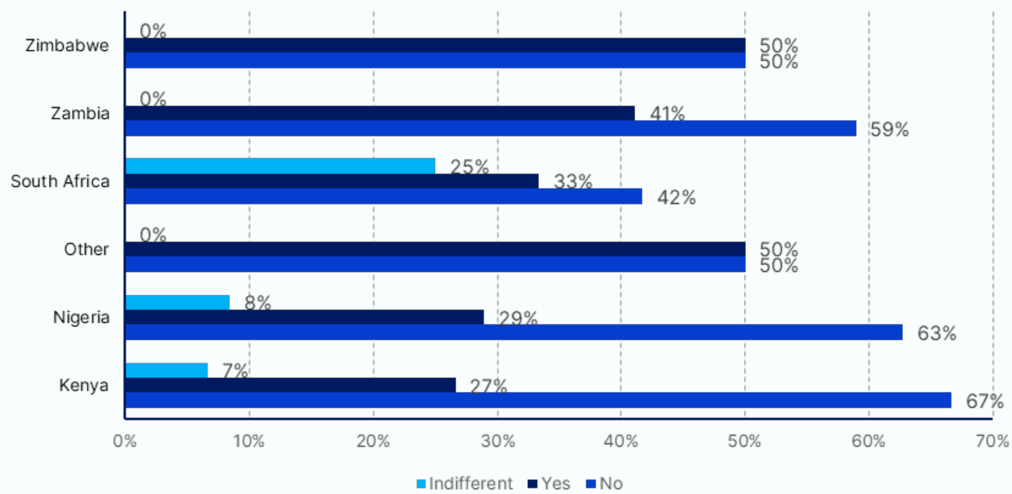


Source: Survey Results (OGF)

Figure 18: Do you agree with the following: I prioritise protecting my portfolio to minimise any potential losses ahead of pursuing high returns (By Age, % of Total Respondents)

A varied version of the question, namely “Would you invest where the value of your investment could rise as much as it could fall, such that you could get back less than what you invested?” looks at risk in terms of volatility (value rising as much as it falls). More respondents answered “No” than “Yes” to this question, except in Zimbabwe where responses were equal. These findings further imply that nationality does not significantly affect risk aversion among individuals.

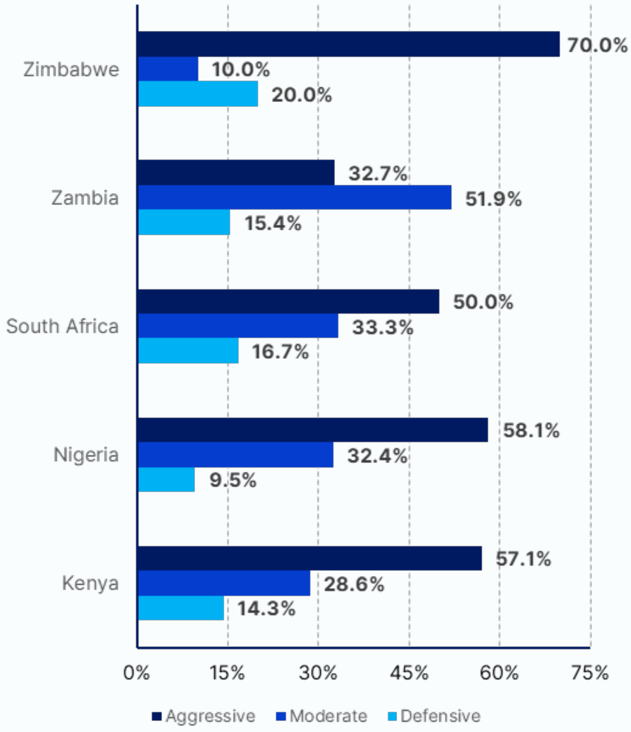


Source: OGF Survey Results

Figure 19: Would you invest where the value of your investment could rise as much as it could fall, such that you could get back less than what you invested?

The data reveals robust risk aversion across all ages, particularly regarding investment volatility. This trend is most pronounced among those aged 45 and above. This reinforces the assertion that risk aversion tends to increase as individuals near the time when they need their investments to meet their financial goals. The responses were more balanced in the 35-45 age group, implying that with increased wealth and distance from retirement, individuals in this age bracket are more willing to tolerate risk. Therefore, as wealth accumulates with age, so does the capacity to handle risk.

African investors often grapple with inflation. Respondents were posed with the question, “In terms of the risk that future inflation may diminish your purchasing power, what is your preference?” The results reveal that respondents of all incomes prefer growth that significantly exceeds inflation (aggressive), even if pursuing a growth-exceeding inflation strategy may result in larger fluctuations in the portfolio’s value. Even in Zambia, where most respondents prefer to keep pace with inflation, 32.7% still favour investments that significantly outpace inflation. In Zimbabwe, 70% of respondents, the highest rate among all countries, prefer growth over inflation, likely due to their experience with severe hyperinflation episodes.



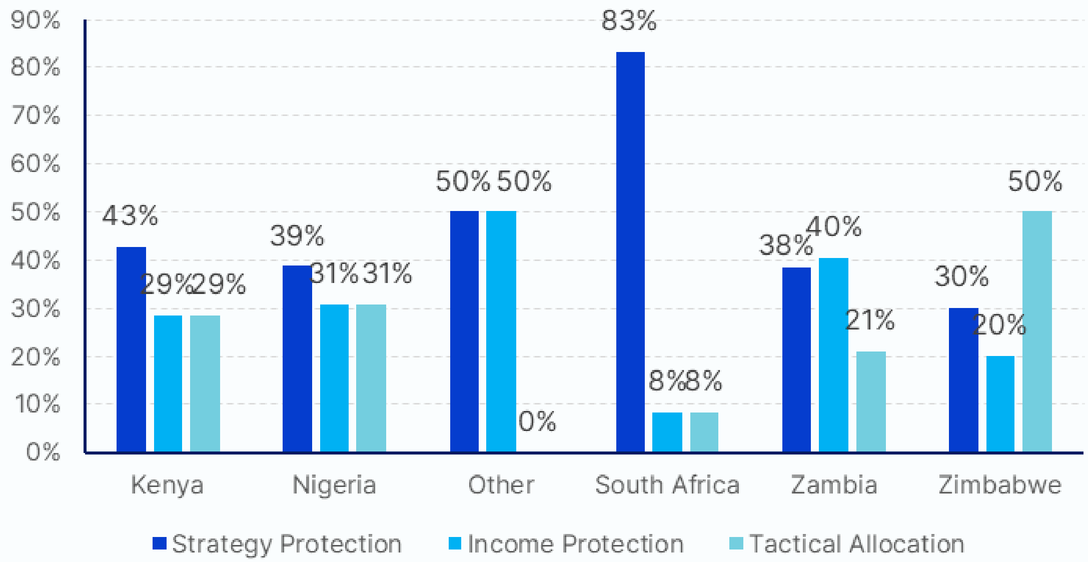
Aggressive = Growth to significantly exceed inflation, even if this leads to larger swings in my portfolio’s value; Moderate=Keeping pace with inflation; Defensive = Minimising swings in the value of my portfolio, even if this leads to growth not keeping pace with inflation.

Source: OGF Survey Results

Figure 20: What is your preference in terms of the risk that your money will buy fewer goods and services in the future because of rising prices?

In terms of the question: “If the value of your investment in a given asset were to drop by 25%, such as from USD200,000 to USD150,000 (25%) in one year”, most respondents in South Africa, Nigeria, and Kenya preferred sticking to their long-term strategy. In South Africa, Nigeria, and Kenya, tactical allocation and commitment to a long-term strategy are valued the same. In Zimbabwe, however, most respondents demonstrated a willingness to tactically adapt their investments to capitalize on potentially undervalued assets. In Zambia, on the other hand, maintaining a long-term strategy was as important as shifting to more stable options to protect income. Overall, these results show that long-term focus which could result in short-term losses would generally be preferred by investors in most countries though a few exceptions could exist.

In conclusion, despite common beliefs that nationality influences risk preferences, the above results do not show significant differences to support that risk aversion is driven by nationality. Other studies have also found that nationality is not a valid determinant of risk attitudes (Bartke and Schwarze, 2008) and Kan, et al (2021). Instead, economic factors like income, age, investment horizon and goals tend to shape risk aversion. Additionally, the results suggest a widespread aversion to inflation across all countries. Nations like Zimbabwe, with a history of hyperinflation, are especially resistant to inflation compared to volatility in portfolio values stemming from general market volatility.



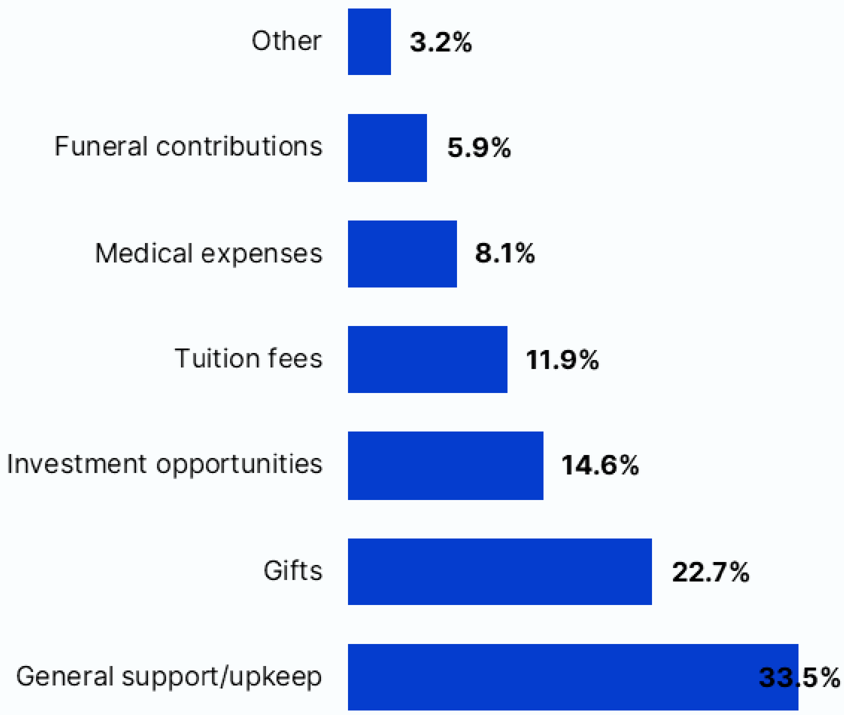
Source: Survey Results (OGF)

Figure 21: If the value of your investment in a given asset were to drop by 25%, such as from USD200,000 to USD150,000 (25%) in one year, you would?

Remittances

The survey also incorporated questions exploring various facets of remittances, including the main motivations for sending or receiving them. Remittances have ascended to be the dominant external financial flows to Africa. Consequently, they represent a potential income source that recipients can redirect towards investments. Approximately 37% of respondents, who reside outside their countries of birth, send out remittances, either regularly (21%) or occasionally (16%).

The results indicate that 33.5% of remittances are primarily for general support and upkeep, reflecting their crucial role in satisfying recipients' necessities. In addition, gifting makes up 22.7% of responses, implying that remittances also play a substantial role in sharing prosperity and supporting loved ones in special occasions or circumstances. Notably, about 15% of respondents use remittances for investing, signalling an existing interest in investment among this population. Fund managers may find this noteworthy. Additionally, remittances fund education and healthcare, respectively making up 11.9% and 8.1% of the responses, underscoring their role in long-term investments in human capital.



Source: OGF Survey Results

Figure 22: If you send OR receive remittances, what are your main reasons for sending or receiving remittances? (Select all that apply)

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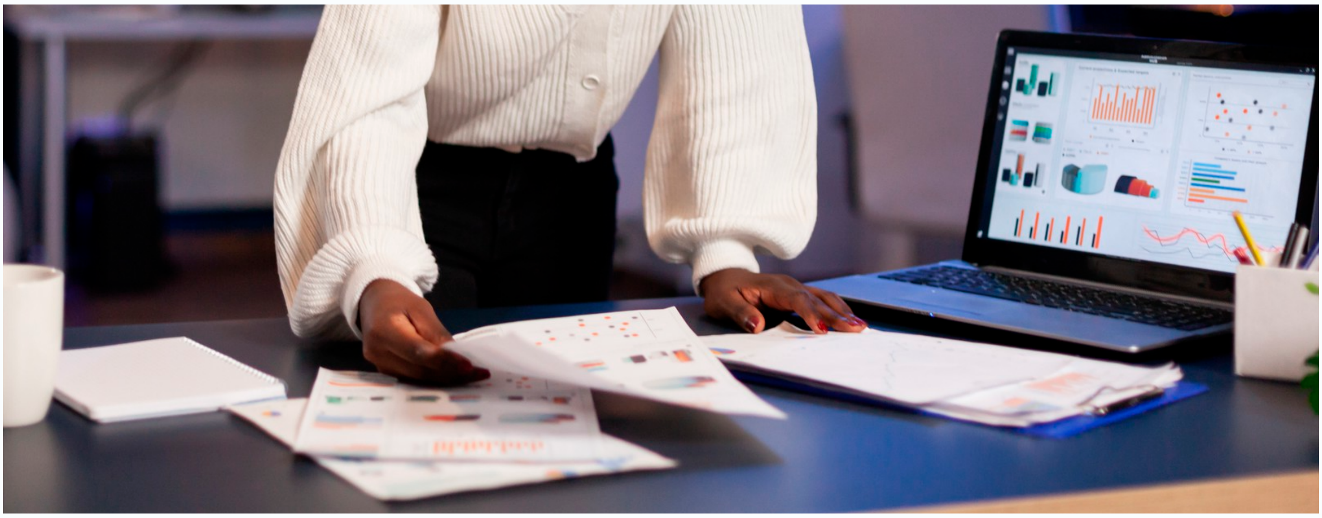
Discussion of the Survey Results

The survey offers insights into the investment behaviours, risk tolerance, and remittance practices of the middle class in Africa and the African diaspora, useful for fund managers to devise suitable strategies. A significant correlation exists between an individual's understanding of an asset class and their investment choice, pointing to the importance of client education. Generally, the middle class demographic exhibits high risk aversion, favouring strategies that minimise losses over high returns, regardless of income, investment horizons, nationality, or age. This preference suggests a need for low-volatility investment products or products with effective risk-mitigation features to appeal to this group of clients.

Younger, lower-wealth individuals tend to be more risk-averse, while middle-aged, wealthier respondents show higher risk tolerance. However, even higher income brackets express caution towards investments that might substantially fluctuate. Across income levels, the survey reveals a strong preference for growth that outpaces inflation. Nonetheless, there is a small increase in preference for stabilising portfolio value even if it lags inflation among higher-income and older individuals. Responses vary significantly based on income level and age when faced with a short-term drop in their portfolio, such as a hypothetical 25% drop in portfolio value. Wealthier individuals adopt mixed strategies (riding short market volatility by sticking to long term strategy, making tactical allocations, or aggressively seeking to protect income), while the majority across lower and higher income brackets tend to stick to long-term strategies despite short-term market downturns.

Finally, remittance-related responses indicate an interest in investment, with nearly 15% of respondents allocating remittances for investment. Given a substantial portion of remittances are used for general support, fund managers could consider micro-investment solutions or remittance investment plans. Partnering with remittance service providers (money transfer services) can also be explored to increase visibility and offer remittance investment solutions. Furthermore, remittances for tuition fees, medical expenses, and funeral contributions indicate potential interest in investment products that align with these causes. Ultimately, client segmentation and personalised communication can enhance the effectiveness of these strategies given the diversity of the African middle class.

Conclusion and Recommendations



Several factors, including economic development, a youthful and increasingly entrepreneurial population, and improved political stability, are driving the growth of Africa's middle class and investable wealth. The expansion of this middle class has underlined a significant policy shift, from seeking aid to promoting prosperity. The discourse should also encompass strategies for wealth inclusion to give this expanding middle class access to high-growth global investment opportunities, thereby unlocking its potential prosperity. Currently, high-growth investment opportunities within the continent, such as real estate, are mainly available to high-net-worth individuals due to substantial minimum investment requirements. However, the African middle class, despite facing economic and institutional constraints, has considerable collective disposable income that responsive wealth managers can unlock.

According to survey insights, the middle class in Africa is likely more receptive to investment products that effectively mitigate key investment risks, like inflation, due to their heightened risk aversion. Moreover, the products need to be accessible, considering the relatively lower income levels of this class compared to other regions. This disparity explains why existing wealth managers focus on high-net-worth individuals, leaving the middle class underserved. To foster African prosperity through a wealth management lens, there is a need for innovative solutions within the realm of alternative investments, as opposed to the prevailing emphasis on traditional investment vehicles, which often yield significantly lower returns in comparison to alternative options.

Additionally, the African diaspora represents a substantial potential for wealth creation in Africa through remittances. While strategies have focused on diaspora government bonds, this approach may overlook the wealth creation needs of remittance senders who have diverse investment needs and goals. The private sector's role in remittances has largely been as a facilitator of transfers, not as wealth managers. Wealth managers who can devise innovative investment solutions appealing to the diaspora could gain significantly from this largely untapped source of funds. Such solutions may need to cater to the underlying reasons for remittances, such as education, gifts, investing, general support, and funeral contributions. Partnering with Money Transfer Organizations (MTOs) could increase an investment manager's visibility among remittance senders and recipients.

This study was primarily conducted to offer practical insights for stakeholders, especially wealth managers, seeking to capitalize on the under-served African middle class. Drawing from literature reviews and survey insights, the study presents the following recommendations to unlock African prosperity.

A Shift Towards Alpha - Alternative Investments

Traditionally, African investors have favored conventional investment avenues such as stocks, bonds, and real estate. While these options offer stability and relative predictability, they often fall short in terms of generating significant wealth over the long term. In contrast, alternative investments encompass a wide range of opportunities, including private equity, venture capital, hedge funds, and commodities. These unconventional assets have the potential to deliver far superior returns and unlock immense prosperity for the continent. One of the major sectors that could benefit greatly from a well managed alternative investment portfolio is the pension fund industry across the continent. A small percentage of the capital they sit on could massively create wealth for future generations.

Maximizing the Impact of Remittances

Countries with large diaspora populations (such as Nigeria and Ethiopia) can tap into the funds within that community to invest locally. According to the IMF (2011), diaspora savings are held mostly as cash in low-yielding bank accounts in their host countries. Fund managers who can develop investment solutions that give the diaspora access to high-yielding investment opportunities could be able to unlock huge savings of the diaspora community.

Encouraging a Shift from Saving to Investment

While saving is a vital step towards financial stability, it often does not yield substantial growth over time, especially in high inflation scenarios. As highlighted by the IMF, surplus income may not be funnelled into savings due to unattractive returns on savings accounts, coupled with the reality of negative real interest rates, which implies that financial wealth is eroding rather than accumulating. It is therefore arguable that to unlock prosperity, it is necessary for individuals to shift from mere saving to active investing. However, encouraging a transition from savings necessitates showcasing the possibility of greater returns from investments compared to traditional savings, as well as imparting knowledge on risk-return trade-offs, and the concept that while investing is inherently risky, risk can be controlled and reduced through tactics such as portfolio diversification.

Client Education

Client education is crucial to address the psychological hindrances that deter individuals from investing. For instance, the perceived risk (risk aversion) and complexity associated with investing or financial instruments can be major deterrents for many African middle classes. Tackling these apprehensions through financial education and the availability of investment products that effectively address common risks on the continent, such as inflation, can prompt more people to engage in investing. These initiatives should aim to instill a comprehensive understanding of investment principles, the associated risks and ways that can be employed to effectively address risk and the process of making informed investment decisions. Instruments such as investment simulators can also aid individuals in grasping the intricacies of investing without the danger of losing actual money. Practical guidance on subjects like portfolio diversification, risk management, and understanding economic trends can also prove beneficial.

Developing Tailored Solutions

Considering the often-unpredictable nature of the African middle class income streams, products offering flexible terms may be more desirable for this group. Employing technology to offer inclusive financial solutions can address the demands of the African middle class by delivering services that are both accessible and reliable, while still being cost-effective. For instance, mobile-based investment schemes that accommodate small, regular contributions could cater to the need for flexibility.

In short, there is no one-size-fits-all solution to serving the African middle class. Factors such as income levels, urbanization rates, economic stability, risk tolerance, availability of financial products and financial literacy vary widely across and within countries. Prospective fund managers need to account for these differences when developing prospectuses while also being aware of the macroeconomic conditions and specific risks that characterize various African markets, such as commodity price volatility, political and currency risks as well as the influence of traditions. Significant rewards await successful fund managers catering to the African middle class, but achieving this success demands innovative and unconventional thinking.

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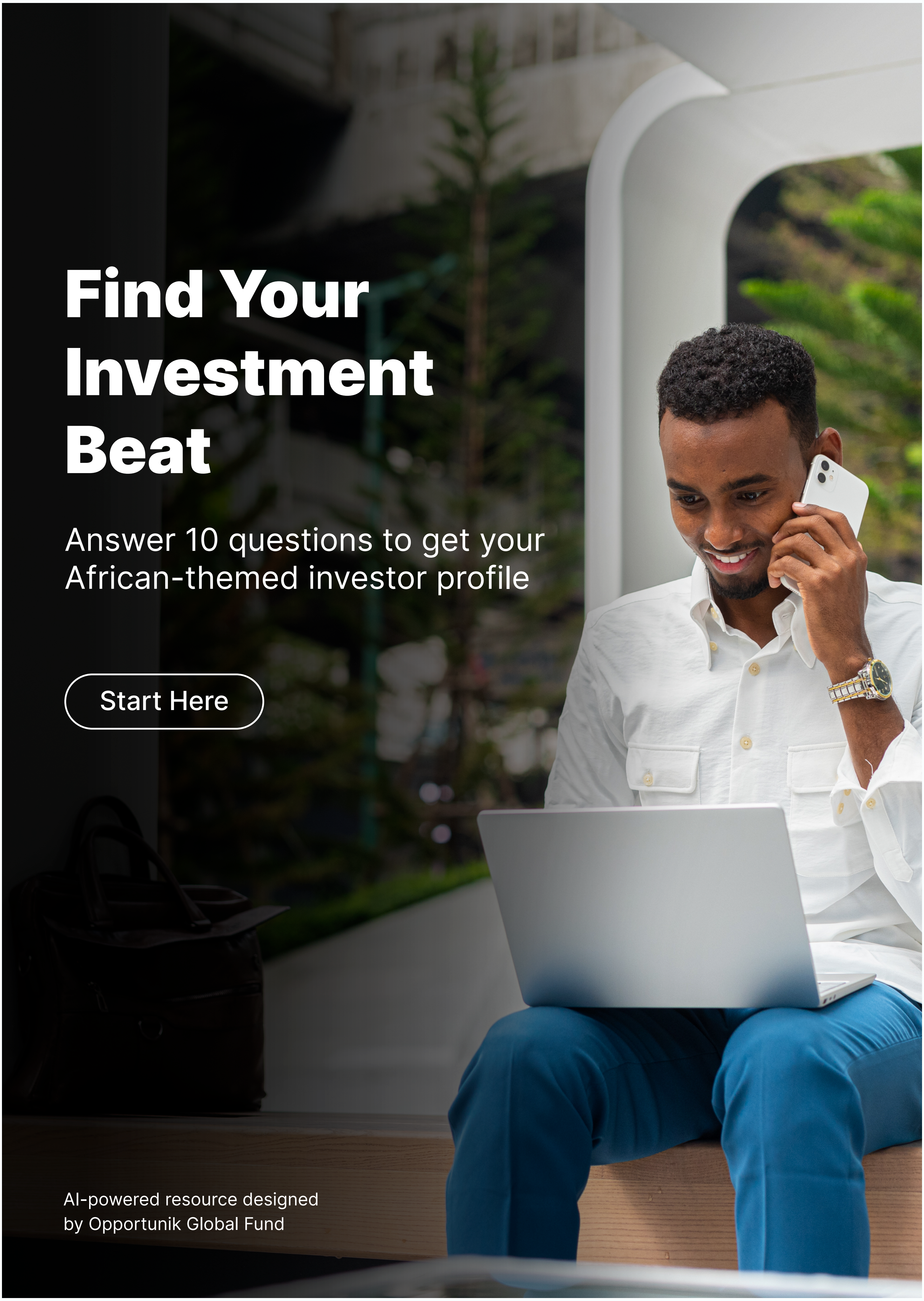
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