



SAAMA 2023 Hybrid Conference

Asset Management:
Pioneering the

African Renaissance

AN AFRICAN COOPERATIVE RENAISSANCE: A CASE
STUDY BY VOLITION CAPITAL INVESTMENTS LIMITED
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Background & introduction



- Asset management is crucial for wealth creation & growth. It is the technique of investing across a variety of asset classes with the goal of reaching individual or corporate financial goals. ([New Capital Link](#))
- However, middle to lower class Africans tend to be cut off from high value investment opportunities, as they create wealth within the asset management space.
- In addition to this, their capacity to create wealth is severely impacted by factors ranging from limited income and assets, to how income is diminished by consumption patterns and the economic vulnerabilities of their countries.
- **Therefore, this presentation examines the role that cooperatives can play in addressing barriers to generational wealth creation, particularly for the middle class in Africa and the Diaspora.**

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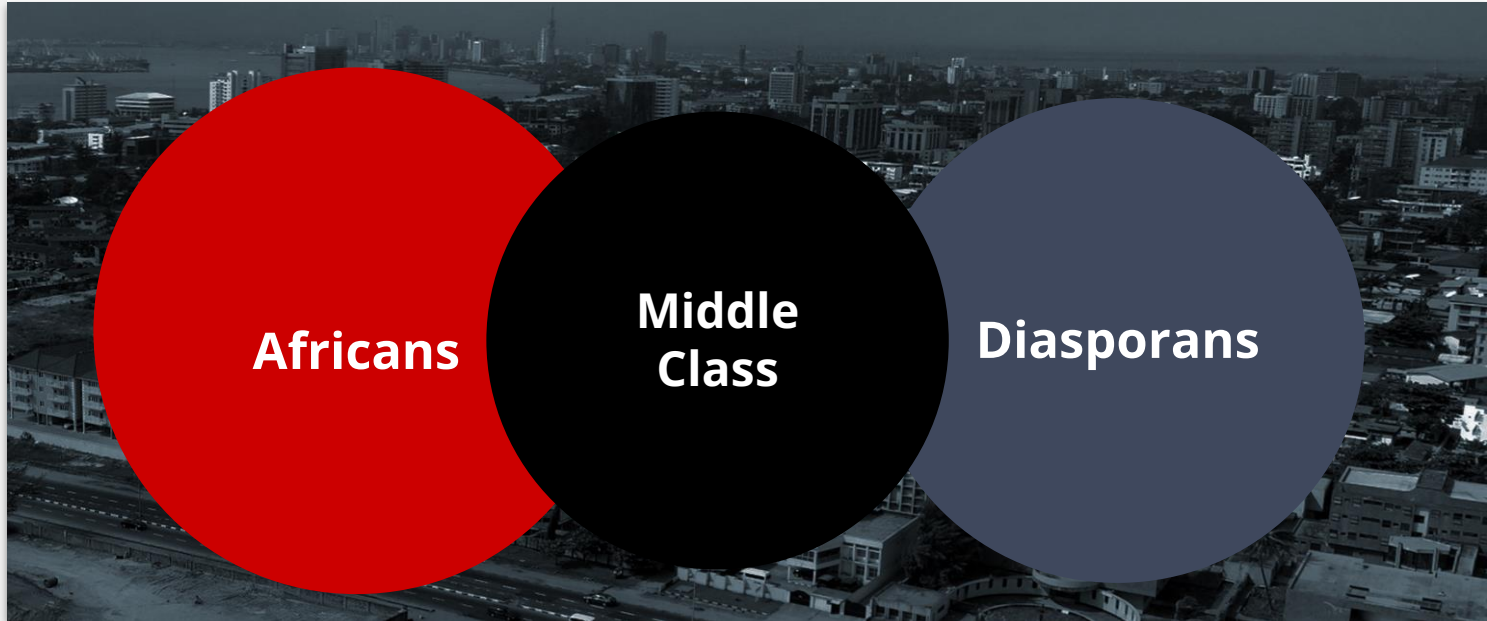


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CORE MARKET SEGMENTS

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Core segments



According to the World Bank, in Africa, the middle-class earn about \$5,000 a year. In the Diaspora, they may earn up to \$200,000 according to the Pew Research Center.



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The African middle-class



- The rapid evolution of the middle class in some Asian and Latin American countries in the 1990s coupled with the rising number of studies underlying the role of this group in economic development sparked worldwide interest in the topic (e.g., [Chun et al., 2017](#)).¹
- ***Sub-Saharan Africa's rising population and economies have led to a growing middle class and, in turn, more spending power which provides a vast source of potential for prosperity.”(African Development Bank)***
- Countries with strong economic growth, secure, well-paid jobs, and higher levels of tertiary education tend to have more middle-class individuals.

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“The growing size and prosperity of the middle classes across many emerging markets offers a tantalising reward to those asset managers that can address the needs of institutional clients and retail investors in these countries.”

Financial Times

“The investment industry is a natural beneficiary of the growth in wealth and savings among the middle classes in emerging markets”

Kunal Desai, Portfolio Manager, Mobius Capital

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The African diaspora



- “The African diaspora has become the largest financier of Africa! And it is not debt; it is 100% gifts or grants, a new form of concessional financing that is the key for livelihood security for millions of Africans,” ~ Dr. Akinwumi Adeshina, President Africa Development Bank (AfDB)

The African Diaspora has grown to become such an important source of foreign exchange for Africa that the African Union (AU) has designated it as a sixth development ‘zone’ (Edozie 2012), the others being West Africa, East Africa, Central Africa, Southern Africa and North Africa. - Adams Bodomo, 2013

- “The African diaspora in the US has reached a new level of influence. The Biden administration will provide support to small- and medium-sized businesses with a specific focus on the African diaspora, their businesses and investors across the United States.” - Dana Banks, Senior Director for Africa, National Security Council
- According to 2021 estimates, by the World Bank, remittance inflows to subsaharan African countries rose 14.1 % to \$49 billion USD, roughly 3.8% of Africa’s current GDP (\$3.1 trillion)

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THE PROBLEM

Wealth gaps among
Middle-class Africans

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Statement of the problem



- Africans and Africans in the Diaspora are late to the global wealth game.
- They have less in terms of inherited generational wealth, and access to wealth creation opportunities. Middle class Africans also start later, and work harder, all the while paying more in taxes while taking care of a relatively higher number of dependents (also known as black tax).
- Middle class Africans and Africans in Diaspora, will need to accelerate wealth creation by 7-10x if they are going to make any impact.
- Asset management solutions carefully designed for this segment, can help middle class African or diasporan investors, create and grow wealth at this rate.

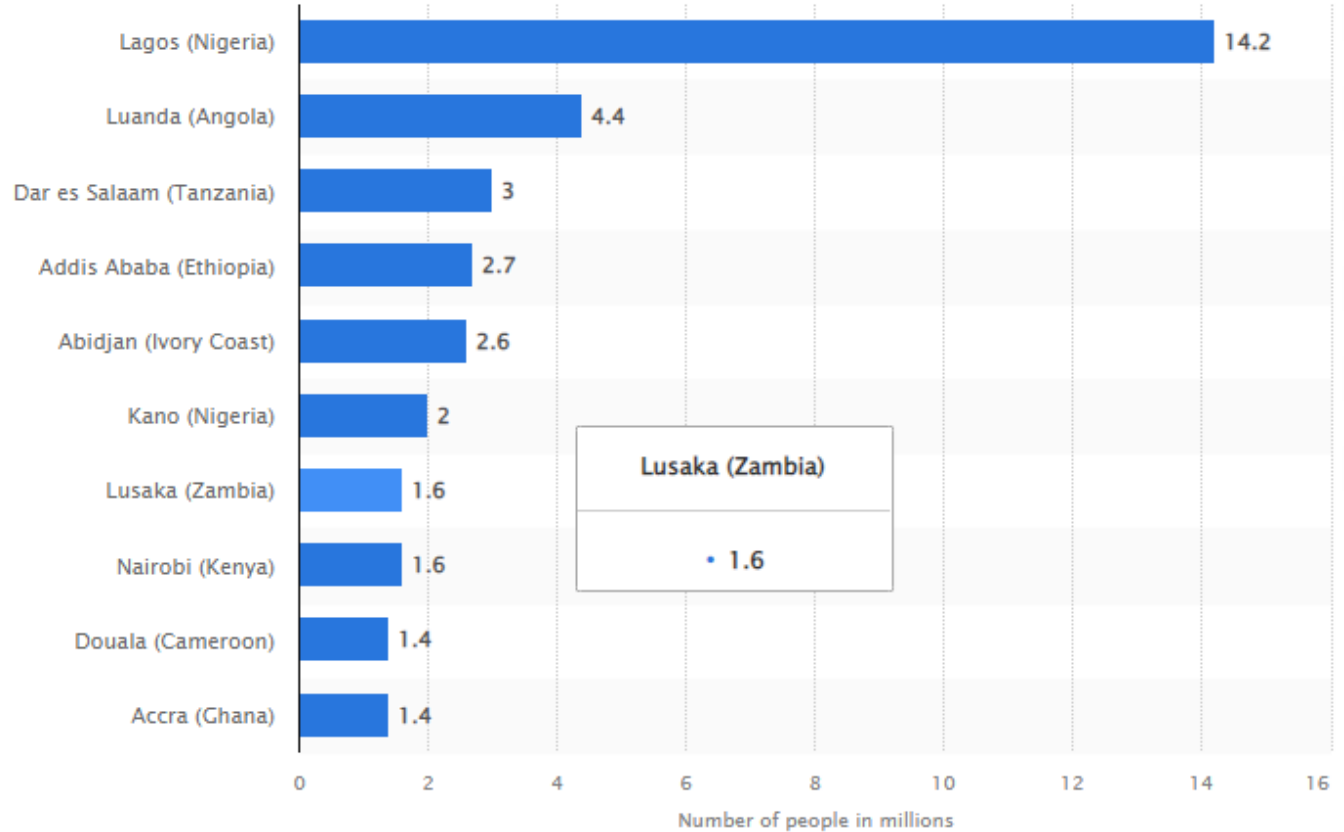
Sources: Examining the Black-White wealth gap, Kriston McIntosh, Emily Moss, Ryan Nunn and Jay Shambaugh, Brookings Blog, Feb, 2020 <https://tinyurl.com/2474jwj7>

Wealth gaps between different ethnic groups in Britain are large and likely to persist, Resolution Foundation Press Release, December, 2020 <https://tinyurl.com/5asffxcm>



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Middle-class populations in key African cities

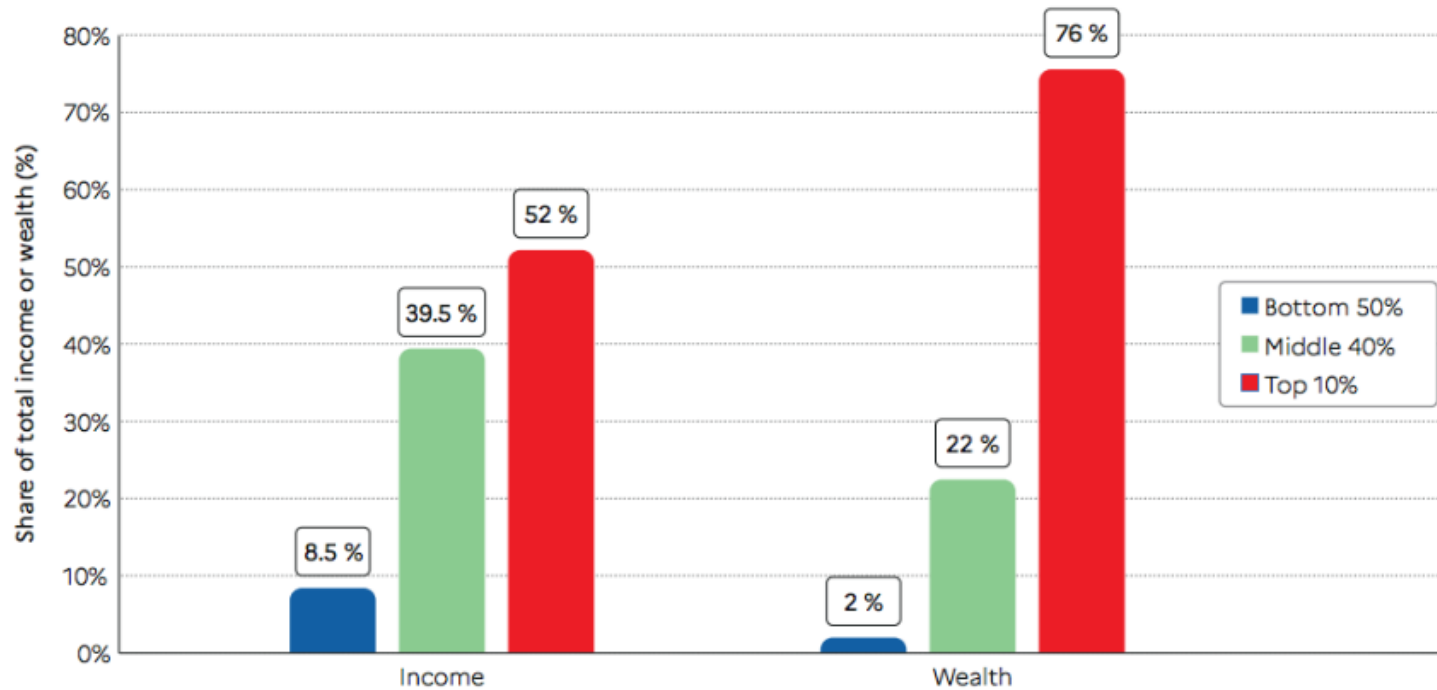


Source: Statista, 2023

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Global income and wealth inequality

Figure 1 Global income and wealth inequality, 2021



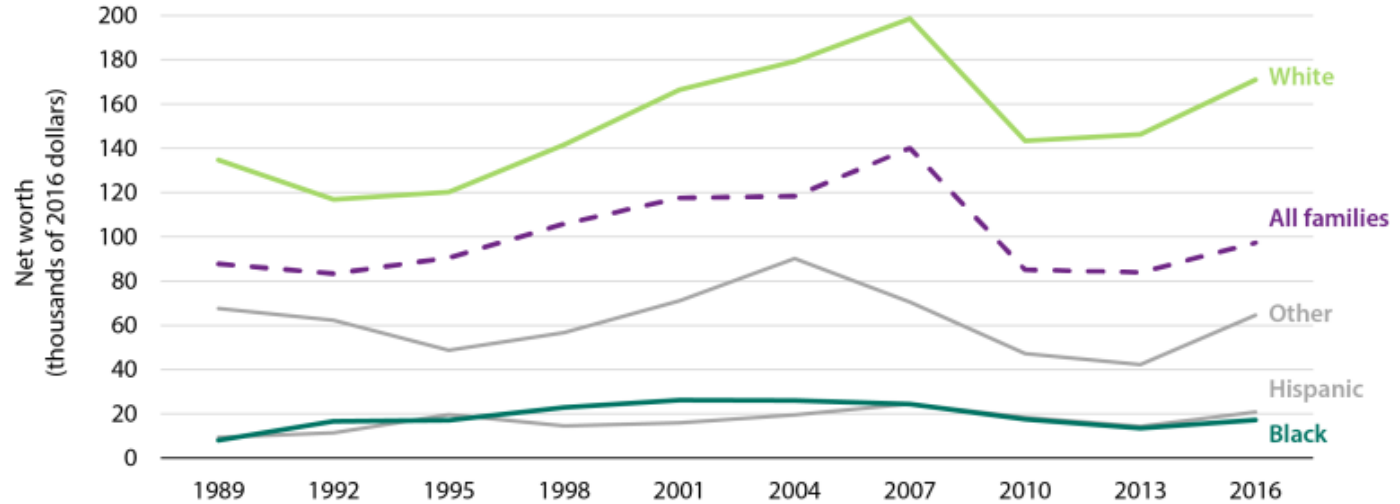
The highest 10% of the global earning population took 52% of global income, whereas the bottom 50% earned a mere 8.5% of it. In terms of wealth, the top 10% owned 76% of wealth while, the middle 40% owned 22% of it.

Source: World Inequality Report- <https://wir2022.wid.world/executive-summary/>

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Median net worth by race & ethnicity

FIGURE 1.
Median Net Worth by Race/Ethnicity, 1989–2016



Source: Survey of Consumer Finances 1989–2016.
Note: Net worth refers to the difference between assets and debt for a household head. Race and ethnicity are those of the survey respondent.

THE HAMILTON PROJECT
BROOKINGS

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Black-white wealth gaps

USA & Canada

The net worth of a typical white family is nearly ten times greater than that of a Black family (2016).

Gaps in wealth in the US reveal the effects of accumulated inequality and discrimination, as well as differences in power and opportunity.

Black Canadians do not have the same access to investments as white people.

United Kingdom

People of Black African ethnicity typically hold the lowest wealth which amounts to less than one eighth of the typical wealth held by a person of White British ethnicity.

Even high earners will struggle to save their way to wealth, while White British individuals are more likely to inherit significant sums.

Sources: 1) *Examining the Black-White wealth gap*, Kriston McIntosh, Emily Moss, Ryan Nunn and Jay Shambaugh, Brookings Blog, February 2020 <https://tinyurl.com/2474jwiz> 2) *Canadian Centre for Policy Alternatives Report on Wealth inequality along racial lines*, Financial Post- <https://tinyurl.com/2p824c4t> 3) *Wealth gaps between different ethnic groups in Britain are large and likely to persist*, Resolution Foundation Press Release, December 2020 <https://tinyurl.com/5asffxcm>



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Black-White wealth gaps contd.

\$171,000

Average net worth of White Family in 2016 - US



\$17,150

Average net worth of Black Family in 2016 - US



3.6%

Population of Black families in the top 10% income bracket - US



6 to 1

Ratio of White to Black Wealth - UK



£24,000

Median wealth of people with Black African Ethnicity - UK



£197,000

Median wealth of people with White British Ethnicity - UK



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Percentage of Black Canadians that fell into the bottom half of economic family incomes compared to 47 percent for whites



\$60,437

The average income for non-visible minorities in Canada



\$37,152

The average Black Canadian male income



Source: 1) *Examining the Black-White wealth gap*, Kriston McIntosh, Emily Moss, Ryan Nunn and Jay Shambaugh, *Brookings Blog*, Feb, 2020 <https://tinyurl.com/2474jwj7> 2) *Canadian Centre for Policy Alternatives Report on Wealth inequality along racial lines*, Financial Post-
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\$82,700,000,000

Amount Africans received in personal remittances in 2019 - almost double FDI

**Diaspora
wealth**

\$300,000,000

Amount raised in Nigeria's first diaspora bond

70,000

Number of African professionals migrating yearly

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Age dependency ratios

Top emigration Countries				Top Destination Countries		
Countries	Situation	GDP per Capita (USD)	Age dependency ratio (young) ^b	Countries	GDP per Capita (USD)	Age dependency ratio (young)
Burkina Faso	<u>Landlocked^a</u>	1,562	88	Australia	43,655	28
Cote d'Ivoire	Fragile	3,290	78	France	37,306	30
DRC	Fragile	737	90	Italy	33,587	21
Mali	Fragile	2,285	95	Saudi Arabia	50,284	42
Nigeria	<u>Largest^a</u>	5,639	83	Spain	32,814	22
Somalia	Fragile	n.a.	93	UK	38,658	28
Sudan	Fragile	3,927	72	USA	52,549	29
South Africa	Inequality	12,390	44			
South Sudan	Fragile	1,741	77			
Zimbabwe	Fragile	1,688	75			
SSA		3,477	80	OECD	37,635	28

NOTE: Age dependency ratio, young, is the ratio of younger dependents (people younger than 15) to the working-age population (those ages 15-64). Data shown as the proportion of dependents per 100 working-age population.

Source: *What if Africa calls upon its diaspora to boost economic transformation?* Nadege Desiree Yameogo, 2016-World Bank Blog. <https://tinyurl.com/3u74mzxp>



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The challenge



- How might middle-class Africans and Africans in the Diaspora accelerate wealth creation and significantly bridge wide disparities in wealth, to secure the prosperity of generations unborn?
- How might they access higher value investments, usually reserved for accredited investors?
- How do they leverage existing remittances as investment capital?
- How do they bridge investment access using dual citizenship and global investments?

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THE SOLUTION

Asset management models for accelerating middle-class wealth creation in Africa and the diaspora

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Collective investments as wealth accelerator

There is significant research making a strong case for using collective investments across borders for accelerating wealth creation.

- “Social remittances are not just an important development tool, but also contribute to **transnational collectivity formation** through democratic values and attitudes, technological skills and innovative ideas, organizational practices, and networks of civic engagement (Council of Europe, 2006).”
- “Transnational social capital formation is a socially and culturally shaped process, dependent on the **norms and networks of trust and mutuality** (Eckstein and Najam, 2013).”
- “By facilitating organizational learning and exchange of knowledge, **migrants’ collective organizations** can enhance collaboration between public and private sectors.
- “Diaspora members contribute to sending **collective remittances** through various developmental projects **administered through networks** and organizations like “hometown”, ethnic, alumni, religious, professional, non-governmental associations, and investment groups” (Plaza and Ratha 2011).”²³

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The use of cooperative investments

International Cooperative Opportunities - US Case Study

- Based on exemptions in the Investment Company Act of 1940: Hedge Funds do not need to register with the SEC if they have fewer than 100 investors who are all considered accredited investors.
- Accredited investors can be syndicates.

Regional Cooperative Opportunities - Nigerian Case Study

- Cooperative Societies are regulated and legal investment entities.
- They are financially transparent and democratic organizations.
- They are eligible to make accredited and institutional investments.
- They can appoint their own fund managers and define their own investment classes.
- They have reduced fund administration costs.
- They have significant tax benefits.

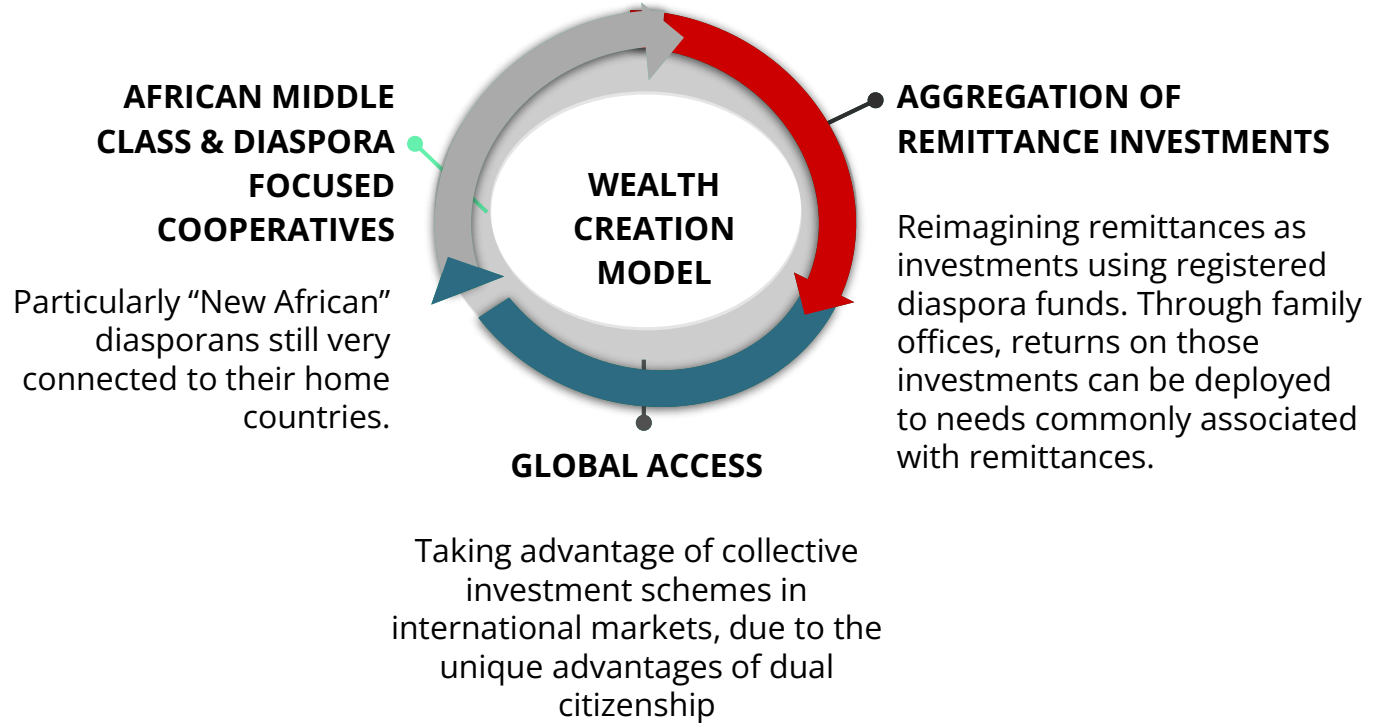
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“Collective Investment Schemes have enabled even fairly small investors to participate in the strong growth of capital markets in the past two decades. CIS make it possible for relatively small investors to obtain diversified investment portfolios with professional management at reasonable cost and to execute a widening range of investment strategies. Consequently, CIS have been instrumental in raising the financial sophistication of the population.”

OECD - Directorate for Financial and Enterprise Affairs

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Our Solution



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VOLITION CAP CASE STUDY

Findings from a 3,000-member
African based investment
cooperative

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Volition Cap Case Study

Key insights from our field research were gathered primarily from cooperative member & investor data from the Volition Cooperative investment program based in Nigeria.

Research Summary

- Number of Participants: 3,000 members
- Distribution: Middle-class Nigerians (70%), Nigerians in Diaspora (30%)
- Time period of research: Four years
- Average investment per annum: \$3,000

Highlighted Research Question

To what extent would you say you have achieved financial independence* over the last three years through a cooperative-based fund?

*Financial independence is a situation where daily expenses can be met from returns on investments



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Key Insights

1). Converting remittances to investments creates a win-win for Diasporans and their dependents back home.

In response to the key question on the growth rate of financial independence, about 45% of respondents said they had attained a financial independence rate of between 25-75 percent over three years.

This supports our thesis that cooperatives can accelerate the wealth of Africans on the continent. Furthermore, if Diasporans change remittances to investments they can achieve greater financial independence. Thus, rather than spending on a one-off gift, they can invest in a gift that keeps on giving to them and their dependents.

2). Aggregating local & diaspora funds in a cooperative investment pool can create significantly higher returns for African middle class and Diasporan investors.

Our findings show that 30% of Diasporans contribute about 40% to the total investment pool. This is apparently aided by the fact that they are earning in foreign currency, but spending locally via remittances, which gives them significantly higher investing power.

The investments of Diasporans improve the investment potential of Africans within the pool, by making the overall pool significantly larger, thereby increasing access to higher-value investments and returns for all members.



Applications for Asset Management

Using cooperatives to improve key wealth drivers

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Cooperatives: Potential Applications in Asset Management

#	Parameters	Key Challenges	Related Collective Cross-border Investment Opportunities
1	Income	<p>Lower income</p> <p>Higher taxes</p> <p>More dependents on limited income</p>	<p>Pool incomes into cooperative schemes for greater leverage.</p> <p>Reduce tax obligations using African cooperatives.</p> <p>Reduce dependence by converting dependents to beneficiaries of remittance investments.</p> <p>Invest in assets like real estate that can give younger dependents future inherited wealth.</p>

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Cooperatives: Potential Applications in Asset Management contd.

2	Assets	Poor accounting of assets Inability to leverage assets	Use family offices for documenting and passing on key assets through generations. Leverage individual assets by pooling together investments under a cooperative structure to access higher margins.
3	Access to Investments	Limited access to high-value accredited investments Limited access to globally diversified investments. Cultural boundaries and regulatory segregation limiting access to investment opportunities	Gain access to accredited investments using the cooperative model. Take advantage of diaspora relationships and dual citizenship to access globally diversified investment opportunities. Use cooperatives to bring people from different cultural backgrounds around a common mutually beneficial objective. Deploy cooperatives as corporate entities that can access accredited investments.

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Cooperatives: Potential Applications in Asset Management contd.

4	Consumption Patterns	Top areas of consumption including Food, Healthcare, Education, and Housing, putting a strain on the ability to build and grow wealth.	Instead of sending gifts home, deploy remittance investments to meet the basic consumption needs of family members and communities in Africa.
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Conclusion

- Middle class Africans and Africans in the Diaspora are late to the wealth creation game. The wealth gap between people of this market segment and their counterparts from all over the world is significant.
- Investments are an important path to wealth creation; however, Middle-class Africans and Diasporans often lack access to significant opportunities due to low buying power.
- By taking advantage of transnational cooperative investments which allow them to pool and make globally diversified investments, middle class Africans and Diasporans can accelerate wealth creation.
- Cooperative models are native to Africa and provide Asset Managers who are willing to explore them, an opportunity to tap into the significant investible resources of the middle-class.



Thank you!



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