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ENKO CAPITAL, a major player in the African financial sector

As an alternative to banks and the volatility of the stock markets still in their infancy, private equity in Africa is a real alternative funding source in the opinion of Alain Nkontchou. This London-based market finance professional is co-founder of ENKO CAPITAL and Chief Investment Officer of Enko Africa Debt Fund, the Enko Capital fund focusing on African debt.

With a portfolio of assets under management of $400 million, in just a few years Enko Capital has become a significant fund manager in the asset management sector in Africa.

Three separate entities

The financial group is now made up of three entities: an African private equity fund, an African debt fund and an African listed equity fund.
The Enko Africa Debt Fund, the fund dedicated to African debt, was launched in March 2016. It invests only in sovereign and corporate debt denominated in local currency or in US dollars throughout Africa, with the exception of South Africa.
Enko Africa Private Equity, managed by co-founder of the Group, Cyrille Nkontchou, enables investors to invest in medium-sized companies that may be listed on local stock exchanges a few years after the investment. Enko Opportunity Growth (EOGF) is a fund dedicated to investing in equity markets across Africa, outside of South Africa.
For Alain Nkontchou, Enko Capital is not committed to investing in a particular sector. “We invest where there is a strong growth and wealth creation potential, and countries emerging from crisis also offer interesting opportunities for investment. But in general, we prefer to focus in countries where macroeconomic management is sound with an institutional and regulatory framework favourable to searching for foreign capital”.

The advantages of capital investment

Regarding the advantages of capital investment for project developers in Africa, the financier has a clear opinion: “In Africa there is a chronic shortage of capital that could be intended for private investment because, in addition to the savings rate of households that is already very low (average GNP per inhabitant being US$ 1,600 in sub-Saharan Africa), there are few financial products available to attract available savings, and local banks predominantly prefer to finance public debt. So the cost of credit for small businesses, when they have access to it, is very high, which is a significant handicap. Capital investment can be an attractive and less expensive alternative to the bank debt financing gap. This is all the more so as it is generally accompanied by an improvement in the company’s governance and the implementation of a long-term growth strategy. Moreover, for the capital investor, such an operation would allow him to maximise his return if the growth forecasts of the company’s profits were to be realised.”

The benefits of Africa

Mobilising savings in Africa is not easy, if it is possible at all. Second, the regulatory framework is not clearly defined. But everyone agrees that the source of stable capital is internal savings and not foreign investment. Alain Nkontchou confirms as much: “Foreign investment is opportunistic and sometimes driven by external dynamics to the recipient countries, which can have serious consequences on their balance of payments when these funds are repatriated." Africa has the advantage of having a population with strong growth with the emergence of a middle class, requiring financial products and anxious to build long-term savings for retirement. This is a considerable asset that could be a source of permanent capital to finance local economies.Regarding the debt market, for Alain Nkontchou the rates of return on local debt in Africa are higher than the international average because inflation rates are generally much higher (above 10% on average) and real interest rates are also high, to take into account currency depreciation.

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Increasing appetite for African countries' debt

However, with the drastic drop in the level of interest rates in OECD countries, international investors have a growing appetite for African debt, which has led to a substantial reduction in their cost of borrowing and, naturally, a considerable increase in their debt stock. This has led to a steady rise in the debt ratios of African countries, one of the highest that sub-Saharan Africa has experienced since receiving debt relief.

Falling price of raw materials

On the other hand, export earnings have been rising more slowly than foreign borrowing due to the fall in price of raw materials, which could raise concerns if the current price rallies of raw materials were to reverse. In some countries, the lack of fiscal discipline and overinvestment largely explain the excessive growth of public debt. As a result, government bonds in sub-Saharan Africa are increasingly subject to non-concessional conditions.

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Avoiding a new debt crisis

For Alain Nkontchou, it is necessary for African governments to restore a balance between their economic growth potential, their legitimate need for investment generating productivity growth (infrastructure, education, health), and the extent of non-productive public spending (size of the public sector) in order to avoid a new debt crisis, which could have serious consequences for their economies.

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