

The Narrowing Gate

Concentration, Credit and the Missing Middle in African Private Capital



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The Gate Narrows

Maturing capital markets eventually become more discriminating about where capital is deployed. African private capital showed that discipline clearly in the first half of 2026.

The headline numbers point in opposite directions. Deal volume fell 16% year on year to 211, while value rose 65% to US\$3.7 billion.¹ Beneath those totals sits a more revealing figure. The average deal was US\$32 million against a median of US\$5 million, a gap that reflects a market carried by a few large transactions rather than broad growth.²

Practitioners describe the same shift. At the 4th Sub-Saharan Africa Private Equity Breakfast in Johannesburg, leading dealmakers described the old model of entering early and relying on multiple expansion as largely obsolete.³ Their conclusion was that capital has not left Africa, but has become more discerning about where it goes and what it expects in return.

This paper argues that Africa does not simply have a shortage of capital. It has an increasingly visible mismatch between the capital being raised and the businesses able to absorb it on institutional terms. Capital, risk and corporate readiness are not meeting at the same point. The opportunity, therefore, is not only to raise more capital. It is to build the structures that make more African companies financeable.

Capital has not left Africa. The threshold for receiving it has risen.

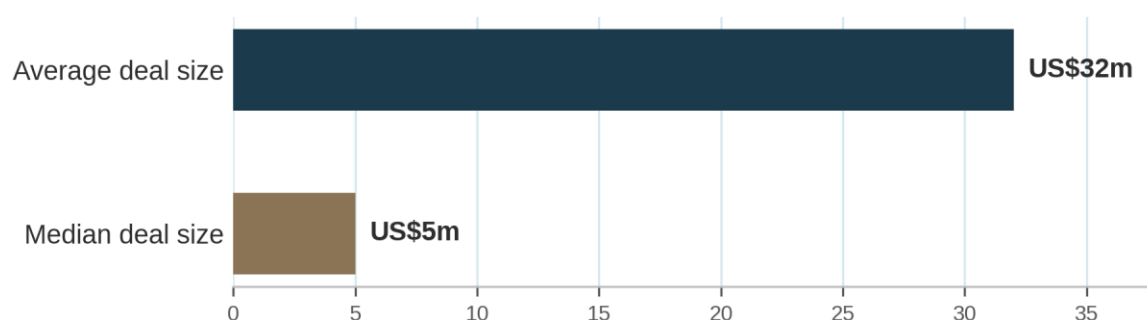
Fewer Deals, Higher Hurdles

It would be tempting to read the first half of 2026 as a simple move toward bigger cheques. The longer record does not support that reading.

In 2025, US\$5.1 billion was invested across 530 deals, with volume up 8% while value fell 5%, which AVCA read as a shift toward smaller, more disciplined transactions.⁴ AVCA's Head of Research described the mid-market as the new centre of gravity as valuations reset and liquidity tightened.⁵

Six months later, the picture changed. Three mega-deals accounted for over 40% of capital deployed in the first half of 2026.¹

What stayed constant was discipline. In 2025, it appeared in smaller ticket sizes. In the first half of 2026, it appeared in the concentration of value among a small number of larger transactions. Cheque size is not the real variable; the hurdle for receiving institutional capital is. AVCA notes that the median ticket held firm even as volume fell. Most transactions still sit in the middle ground. Only the headline totals have been lifted by a few giants.

Figure 1. Average versus median deal size, African private capital, H1 2026

Source: AVCA, Q2 2026 African Private Capital Report; Daba Finance, July 2026. Terramont Capital Partners analysis.

The same narrowing is visible, through a different dataset, in African venture funding. Africa: The Big Deal reports that rounds below US\$500,000 fell from 52% of deals in 2021 to 19% in H1 2026.⁶ Those figures describe the startup market rather than the wider private capital universe, but the direction is the same.

From Venture Abundance to Capital Discipline

In April, *The Capital Rotation* described private equity overtaking venture capital as the engine of African private markets. That rotation has since become more visible in the data. Venture deal volume fell 34% to 102, its lowest first half since 2020, as fintech retreated, while private equity expanded 22%.¹

This should not be overstated. Venture still accounted for 48% of deal volume and 43% of deal value.² It has not disappeared. Its value is also concentrating: in the first quarter, venture funding rose 2.3 times to US\$1.4 billion, but a single megadeal made up 57% of the total.⁷

The lesson is less that venture has retreated than that the burden of proof has risen. During the period of abundant global liquidity, investors were more willing to fund growth ahead of demonstrated economics. The current market places greater weight on revenue quality, unit economics and a credible path to cash generation.

Credit Moves to the Centre

As equity grows more selective, credit grows more confident. Private debt recorded its strongest first half by value, at about US\$0.6 billion.^{1,2} This follows 2025, when private debt deal volume rose 57%, a record high.⁴

Investors are telling AVCA the same story. Its 2026 sentiment survey finds private credit shifting from a complementary to a strategic allocation, valued for income visibility, downside protection and its fit with longer exit timelines.⁸

The reasons are practical. Many established African businesses generate real cash but have owners reluctant to cede control or accept heavy dilution. Investors, meanwhile, face long and uncertain exit horizons. For businesses with demonstrable cash generation, and for investors navigating extended exits, structured credit increasingly fills the space between traditional bank lending and control-oriented private equity.

The more important point is not that debt is replacing equity. Capital structures are becoming more bespoke. The toolkit now includes DFI-supported senior debt, unitranche facilities, mezzanine, preferred equity and revenue-linked instruments, each answering a different combination of cash flow, collateral, currency and control. The businesses that attract capital will be those whose advisers match the instrument to the enterprise, rather than forcing the enterprise to fit a single instrument.

The real shift is not from equity to debt. It is from standard structures to bespoke ones.

Liquidity: Improving, Not Yet Solved

Our May paper, *The Liquidity Inflection*, argued that exits, not entry, are the defining test of African private capital. The first half of 2026 offers cautious encouragement.

Exits held at 34. Trade sales nearly doubled to 53% of exits, with local corporates behind two-thirds of strategic acquisitions.¹ Final closes reached US\$1.3 billion, down 9%, but the number of funds closing nearly doubled to 13, and average time to close fell from 2.7 years to 1.8.

These are signs of a more functional exit channel, not yet proof of a mature one. Thirty-four exits in six months is progress, not depth.

The domestic buyer point matters more than the raw count. In 2025, domestic capital represented 68% of private capital acquisitions.⁴ If that pattern holds, African private markets may be becoming less dependent on international buyers for liquidity. A market that can buy from itself is a market that can plan its own exits.

Investors remain clear-eyed. AVCA's survey states plainly: "Liquidity, not opportunity, remains the binding constraint."⁸ Until capital can reliably find its way out, it will stay selective about coming in.

A Map Distorted by Mega-Deals

The regional picture has been redrawn, though the redrawing says as much about deal size as geography. West Africa led by volume with 28% of deals, while large transactions lifted North Africa to first place by value at US\$1.1 billion and doubled East Africa's capital, displacing Southern Africa.¹

When a handful of transactions can reorder the table, regional rankings by value become fragile. Deal counts and median sizes offer a steadier guide to where activity is genuinely taking root.

The Missing Middle

Between bankability and institutionality sits a large and poorly served middle ground: businesses established enough to need meaningful growth capital, but not always able to access it efficiently.

For the purposes of this paper, we use the term broadly for founder-controlled or family-controlled businesses seeking roughly US\$5 million to US\$50 million of capital, typically profitable or with a credible path to profitability, and with a genuine regional growth opportunity. Some face institutional-readiness constraints. Others are simply underserved because ticket size, risk or financing structure does not suit conventional capital providers. This describes an important segment of Africa's established corporate economy, and the median H1 deal sits at its lower edge.

These businesses do not all struggle for the same reason. There are at least four distinct gaps.

The readiness gap. Some businesses lack audited accounts, reliable management information, clean tax positions, transparent ownership or credible projections. Institutional investors cannot underwrite what they cannot verify.

The ticket-size gap. Institutional due diligence costs roughly the same whether the cheque is US\$5 million or US\$50 million. At the smaller end, the economics do not work for many funds, however sound the business.

The risk gap. Currency volatility, sovereign risk, short tenors, weak collateral regimes and political uncertainty can make a good company unfinanceable on conventional terms.

The structure gap. Some viable companies need an instrument that neither commercial banks nor conventional private equity funds naturally provide: longer than a bank loan, less dilutive than equity, more flexible than either.

Seen this way, Africa's mid-market financing gap is partly a capital gap. Increasingly, it is also a readiness gap and a structure gap.

The funding side shows how much still rests on development capital. In 2025, DFIs contributed 64% of fundraising commitments, while African investors accounted for 21%.⁴ Domestic participation is growing, which is encouraging. But the market still leans heavily on a small group of development institutions to anchor funds, and the mid-market feels that dependence most keenly.

Readiness, not money, is becoming one of the scarcest resources in African private markets.

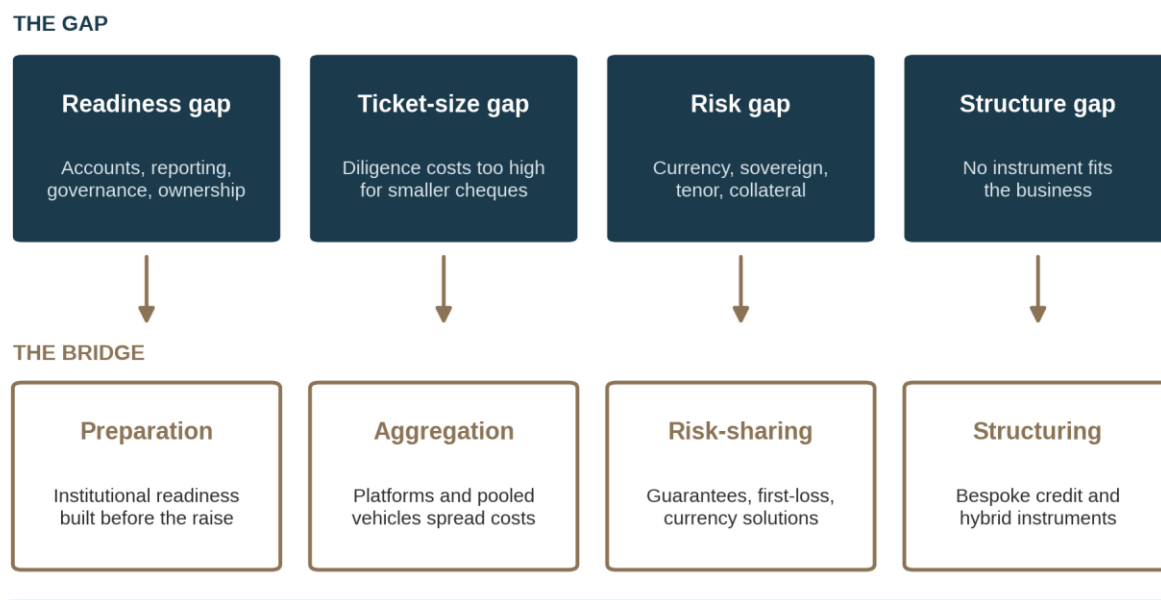
Building the Bridge

The capacity to mobilise capital is growing. In May, the World Bank Group announced that its Guarantee Platform, housed at MIGA, aims to more than double annual guarantee issuance in Africa to US\$6.4 billion by 2030, with new guarantees over four years expected to mobilise US\$23 billion in private capital.⁹

That figure needs careful reading. It is not a pool of money waiting for mid-market companies, and much of it will flow to energy, infrastructure and large projects. The mobilisation capacity is expanding. The harder problem is ensuring that investable businesses, financing structures and risk-sharing mechanisms can meet that capital halfway.

A working bridge has four parts, each answering one gap. **Preparation** builds governance, reporting and financial discipline before a business approaches investors, closing the readiness gap. **Aggregation**, through platforms and pooled vehicles, spreads diligence costs across smaller transactions, closing the ticket-size gap. **Risk-sharing**, through guarantees, first-loss capital and currency solutions, brings risk within reach of commercial investors. **Structuring** designs instruments that fit the cash flows and ownership of the business.

Figure 2. The four gaps of the missing middle, and the bridge that answers each



Source: Terramont Capital Partners.

Jurisdictions matter too. Cross-border capital tends to flow through platforms offering strong treaty networks, reliable fund and SPV infrastructure, legal certainty and enforceability, freedom of capital movement, credible substance requirements, regulatory standing, and efficient, fairly priced administration. Mauritius has long been one of the jurisdictions used for cross-border African investment structures, alongside others that compete on the same criteria. The jurisdictions that keep earning that trust will remain part of the bridge.

Implications

For business owners. Readiness is now the price of admission. It extends beyond audited accounts to sound governance, dependable management information, tax hygiene, transparent ownership, a credible strategy, strong cash conversion and, where relevant, environmental, social and compliance standards. Readiness achieved before a transaction also changes negotiating leverage: a prepared business negotiates terms, while an unprepared one accepts them.

For investors. The mid-market potentially broadens exposure beyond the handful of large transactions that increasingly shape headline deployment figures. Reaching it requires a different origination and diligence model, not simply smaller cheques written in the same way.

For development finance and capital providers. Guarantees, first-loss capital and other risk-sharing tools may offer particularly high additionality where viable mid-market transactions are held back by tenor, currency or perceived risk. Their value lies in converting marginal

transactions into bankable ones, not in subsidising deals that commercial markets would fund anyway.

For advisers and structuring platforms. The advisory challenge is to prepare businesses rigorously and to structure capital around economic reality rather than transaction convention.

Conclusion: Passing Through the Gate

A narrowing gate is not a closing one. The first half of 2026 points to a market becoming more selective. Increasingly, it favours proof over promise, cash flow over narrative and structure over speed. These are not new principles. They are the foundations on which durable capital markets are built.

Capital now arrives by appointment, and the appointment must be earned. The challenge ahead is one of matching. Capital is available, the means of mobilising it are growing, and sound businesses are plentiful. Too often, what is missing is the preparation, structure and risk-sharing that bring them together. At Terramont Capital Partners, this threshold is where our work begins: helping sound African businesses become ready to pass through the gate.

Africa's financing gap is increasingly a matching problem: capital, risk and corporate readiness are not meeting at the same point.

Endnotes

1. AVCA, Q2 2026 African Private Capital Report (H1 2026 in review), 28 July 2026.
2. Daba Finance, “Africa’s Private Capital Market Sees Mixed First-Half in 2026,” 29 July 2026, reporting AVCA data on average and median deal size, venture share of volume and value, and private debt investment value.
3. K. Dlothi, CMS South Africa, “Africa’s Private Equity Industry Is Growing Up,” 11 September 2026.
4. AVCA, 2025 African Private Capital Activity Report, 25 March 2026.
5. Forbes Africa, “How African Investment Moves; Sees 8% Deal Volume Growth in 2025,” April 2026.
6. Africa: The Big Deal, H1 2026 data, as reported by Daba Finance, July 2026. This is a venture funding dataset, distinct from AVCA’s private capital data.
7. AVCA, Q1 2026 Venture Capital in Africa Report, 8 June 2026.
8. AVCA, Investors Sentiment and Outlook, 8 April 2026.
9. World Bank Group, “World Bank Group to Double Guarantees for Africa to Catalyze Investment, Create Jobs,” May 2026.

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