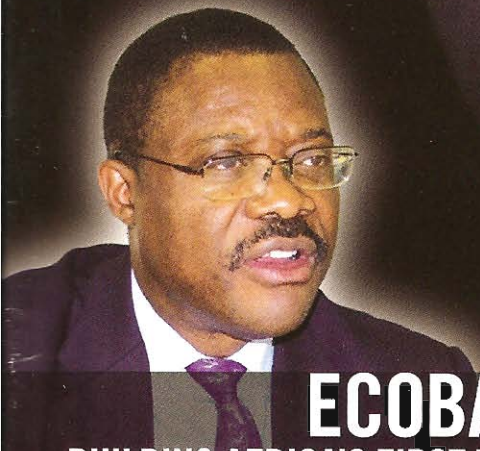


AFRICAN BANKER

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**WOMAN
POWER
IN AFRICAN
FINANCE**



STAR INTERVIEW

ECOBANK'S EKPE

BUILDING AFRICA'S FIRST MULTINATIONAL BANK

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BASEL 2: WHAT YOU NEED TO KNOW

THE HENSHAW FUND'S BARBARA JAMES

A Fund of Funds for Africa

Spearheading the drive for equity investment in Africa, Barbara James was instrumental in establishing the African Venture Capital Association. Mission accomplished, she has now turned her attention to launching Africa's first independent Fund of Funds.

BY STEPHEN WILLIAMS

It was back in 2001 that Barbara James decided to shift her career. James had been working as a management consultant within the UK's financial sector when she made a decision to focus on Africa and returned to university to study for a doctorate. Her studies involved researching the interface between technology and development in Africa. Specifically, she was interested in the role of technology and finance.

"I was very struck," she recalls, "by the impact and potential of private equity in economies and I decided to focus the rest of my career on the industry. As part of that, I needed to identify who the venture capitalists were in Africa. There wasn't an existing pan-African venture capital association, so forming one seemed the obvious first step to building up the continent's industry."

Association launches with dynamic agenda

Getting together with a few like-minded fund managers and encouraged by the FMO, the Netherlands' development agency, James was able to launch the African Venture Capital Association (Avca) in 2003, at first working part-time whilst she pursued her doctorate thesis, then in 2005 being elected to serve as Avca's full-time chief executive officer, a post she held until stepping down in May this year.

"Venture capital is a very specific type of finance," James explains. "It is equity financing for businesses that wish to grow exponentially. It's appropriate for start-up businesses, it's appropriate for businesses that have recently started and have expansion plans and it's perfect for large businesses that want to grow. It's very different from the loans and debt finance,

which companies also need, in a number of ways. First of all, there are no repayments or interest rates. A venture capitalist invests for the medium to long term – about three to five, sometimes even 10 years – and in that period a business does not have to make repayments. This can be a lifeline for many businesses in their growing phase that cannot afford to make repayments on loans.

"Also, the venture capitalist does not just lend the business money, they also get involved with running the business. Typically they will get a seat on the board of the company as a way of helping to take decisions, and also introduce them to their own networks and take an active role. That's unlike a bank loan where the lender is simply interested in its repayments, not helping run the business."

Typically a venture capitalist will buy shares in the company, add value and then sell their shares at a profit.

James quotes key statistics that illustrate that developing venture capital is the way forward for Africa. She says that one in 10 jobs in the US are attributable to companies that have had venture capital financing, and in the UK the figure is even greater, one in five jobs.

"If you believe that Africa will be prosperous in the next 20 to 30 years, then the businesses that will create and generate that prosperity will require venture capital," James insists.

"As an industry, venture capitalism has a very important catalytic role in Africa's development."

200 venture capital funds in Africa

James says there are about 200 venture capital funds operating right across Africa with about \$15bn under management.



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PHOTO: STEPHEN WILLIAMS

◀ The funds are investing about \$1bn a year. Avca has some 100 members, comprising about 70 fund managers - but as South Africa has its own venture capital association, a lot of South African funds belong to that country's association rather than the pan-African Avca.

There are no reliable statistics regarding the success rates of African venture capital but, currently, venture capital funds are operating in around 25 countries in Africa. South Africa's industry association has published figures that indicate the top quartile of South African funds is making returns of 40% or more every year.

Investment beyond S Africa on the increase

Increasingly, South Africa's funds are making pan-African investments and when Ethos, one of the country's largest funds, recently raised \$750m, a good proportion was for investment outside South Africa itself.

"They may not describe themselves as pan-African funds," James says, "but in my conversations with many South African fund managers, it is increasingly apparent that they are taking a greater interest in the rest of Africa."

Egypt and Nigeria are growing and increasingly active venture capital markets, so it's no surprise to learn that James' new African Fund of Funds, the Henshaw Fund, is initially focusing its activities on South Africa and these two markets.

The fund is named after James' maternal family - the Henshaws are a distinguished royal family from Calabar, Nigeria, although she was born in Kinshasa where her father, a policeman, was at the time under secondment to the UN.

This new initiative, which James started after stepping down from her chief executive role at Avca, was inspired by research undertaken by Avca to advise Tony Blair's 2005 Commission for Africa.

One conclusion of the research was that, compared to the US and European venture capital industries, industry in Africa is not attracting either international or local, i.e. African, institutional capital. Nor is it attracting pension or insurance funds or foundations, the endowment funds, etc.

"The European and American venture capitalism industries are the largest investors as an asset class. Africa's venture capital industry is dominated by the development finance institutions in international terms, and in local terms by the banks," James says.

"One of the reasons for this problem is that, until now, there has not been a Fund of Funds vehicle. There are specific reasons why institutional investors and others like high net worth individuals - which the Henshaw Fund is targeting - would still prefer to make investments in Africa through a Fund of Funds. They do not have the personnel, the capabilities, the experience,



Barbara James addresses the Avca annual conference in Dakar, Senegal

"SOUTH AFRICA'S INDUSTRY ASSOCIATION HAS PUBLISHED FIGURES THAT INDICATE THE TOP QUARTILE OF SOUTH AFRICAN FUNDS IS MAKING RETURNS OF 40% OR MORE EVERY YEAR"

the inclination, the research or the knowledge to invest in African markets.

"A Fund of Funds is primarily an investor in funds so it increases the pool of investment funds by attracting new investors. A special aspect of invest-

ing in Africa - and I'm very excited about the continent's current investment climate - is that the markets are uncorrelated to the US, European and major Asian markets and therefore were unaffected by their recent steep equities downturn caused by nervousness over losses in the US sub-prime mortgage market.

"So we are now seeing, backed by rapidly improving corporate governance regimes, increasing international interest in Africa. That's hugely encouraging." ■