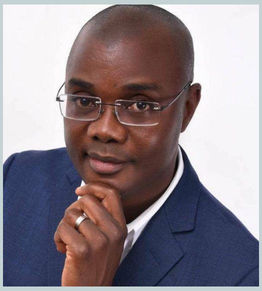
African Private Equity and Venture Capital Association

MEMBER PROFILE

OASIS CAPITAL GHANA



Matthew Boadu Adjei
Founder and CEO

Oasis Capital Ghana Limited is a sub-Saharan growth and venture capital fund manager, located in Ghana and the Ivory Coast. They work to provide African entrepreneurial businesses with risk capital in the form of equity and quasi-equity facilities, helping them to realise sustainable returns through their business development services.

AVCA speaks to Matthew Boadu Adjei, Founder and Chief Executive Officer of Oasis Capital Ghana on the importance of Africa's SME market, their capital raising experience and hopes for the future.

NAME OF PROFESSIONAL SERVICES FIRM
Oasis Capital Ghana

FIRM TYPE
General Partner

PROFESSIONALS FOCUSED ON AFRICA
10

Q: Could you tell us a little bit about your background and how you came to found Oasis Capital?

My career started in corporate finance in Ghana in 1999. I had to travel abroad to pursue an MBA program in 2002. I came back home after completing my MBA in the UK and started working in private equity, investing in SMEs in Ghana and Liberia. I left in 2008 and helped set up the Ghana office of GroFin as its first country manager. GroFin is a private development finance institution specialised in financing and supporting small and growing businesses across the continent.

At the time I was following the work of Ghana's Venture Capital Trust Fund (VCTF), which sought to catalyse the general ecosystem for PE and VC in the country. In 2010 I founded Oasis Capital Ghana with the support of VCTF and other local investors to help overcome the deficit in essential services in sectors such as education, health, housing, hospitality and financial services. We reached final close of our first fund at US$13mn in 2011, with five local investors contributing 70% and two Dutch investors making up the remainder. By 2015 we had fully invested the fund and achieved attractive returns. Since our launch almost a decade ago we've grown from a team of three to twelve with three partners and have offices in Accra and Abidjan. We launched a US$50mn fund in 2015, reached a first close in September 2016 and a final close in December 2017; and are staying true to our mission: investing in and supporting promising SMEs.

Q: How important is the SME segment to Africa's development?

We see SMEs making a vital contribution to Africa's development, particularly in terms of being lead generators of employment and drivers of sustainable growth. Moreover, SMEs are a key instrument for wealth creation and lead to the emergence and development of a middle class. This is vital for Africa's growth, and not just in terms of improving livelihoods but also for improving our democracies and giving a voice to the citizens. Finally, SMEs – particularly those at the smaller end of the spectrum – tend to accelerate innovation, especially in the tech space.

Q: What are the most promising industries you seek to invest in?

Our business model is very clear: we want to provide essential services for the growing middle class. We invest in several sectors including education – ranging from nursery to tertiary schools – hospitality, financial services, and health – from primary care all the way to specialised treatment. We see education as a particularly important sector because it is key to the development of an economy. The private sector has a major role to play in these sectors when governments are unable to allocate sufficient resources to them.

Q: What are the key challenges faced by African SMEs?

The most commonly cited challenge faced by African SMEs is access to finance. SMEs on the continent tend to initially be financed by family, friends and banks, though PE is playing an increasingly important role in the ecosystem. One of the key challenges faced by these firms is that they lack a track record, which is a prerequisite for accessing financing opportunities.

Beyond that, there's also the issue of skill sets within SMEs, which can be classed into three groups. These firstly include what I call "necessity entrepreneurs". This includes individuals who are driven by a need to survive and don't typically have formal training or structures in place to run their business. This significantly constrains their ability to grow their enterprises. Secondly, "tenderpreneurs" are individuals whose businesses grow thanks to their political connections. Most of these eventually become extinct, though many businesses have their origins here. The third category of entrepreneurs – the most prized but also rarest – includes individuals who have managerial experience within the formal system and then go on to start their own ventures. The common thread here is that SMEs often require some degree of handholding to progress to the next stage of their growth trajectory. This is most clear in areas such as strategy, business planning, accounting and training, where internal processes and capacities may be limited.

Q: How can the public and private sectors accelerate the growth of SMEs?

According to the World Bank, up to 90% of businesses in sub-Saharan Africa are SMEs and the ecosystem's contribution to growth and employment should be a key priority for governments. Putting SMEs at the forefront of development strategies will help address the financing issue but it's vital that these measures be accompanied by technical support to address capacity constraints within SMEs. In tandem, these two forces will help create highly sustainable SME ecosystems, thereby creating much needed jobs and accelerating Africa's growth.

Q: You successfully reached final close of Oasis Africa Venture Capital Fund at US$50.5mn. Could you talk us through the capital raising process and your plans for the fund?

We successfully reached final close for our second fund at US$50.5mn in December 2017 – quite a leap considering our first fund closed at US$13mn, and just over our target of US$50mn! This was also our first time engaging with development finance institutions. The Dutch Good Growth Fund played a key role in our capital raise by providing a grant that financed a study to help us domicile the fund in Ghana, in addition to committing US$8mn. The IFC also committed US$7mn in the first close in September 2016, with other DFIs later joining. I'm proud to say that we raised US$15.5mn from seven Ghanaian institutions and investors. This included the first allocation to PE in Ghana by private pension funds following reforms, as well a HNWI who committed $US4.5mn after having allocated US$1mn to our first fund.

In terms of our plans, we've already made investments to 5 companies, 3 of which have been disbursed already. These include a US$5.5mn investment in a leading hospital in Abidjan. The funding will ensure the hospital remains a state-of-the-art facility and establish a new oncology centre. We now have a permanent physical presence in Abidjan and are using this to build an extensive network and identify a pipeline of attractive opportunities.

Q: You have a well-established presence in Ghana and more recently in Cote d'Ivoire. What are the key similarities and differences between these two markets?

Both countries are quite similar in terms of geography, climate and economy, though Ghana's services sector is more developed. With regard to differences, Ghana has a history of depreciating currency while Cote d'Ivoire's CFA franc is pegged to the euro and has proven to be more stable. The countries' different languages also entail a different cultural approach to business and regulation. We need to achieve greater integration between these two countries – and across the continent – to unlock growth. The specific differences between the two countries has shaped our investment strategies by the type of instruments we use and how we structure transactions in both countries. We tend to focus more on ordinary equity in Ivory Coast and tend to use our traditional quasi equity instruments which tend to have some inbuilt hedging mechanisms more in Ghana.

Also important is the legal regime: whereas Ghana is a common law country, Cote d'Ivoire is a civil law country and that is important to consider in drafting contracts

Q: Where do you see Oasis Capital in five years' time?

Within the next five years we aim to set up a third fund and establish offices in two or three additional markets. Our ambition is to be the lead SME fund manager in West Africa. Our natural targets for expansion are the likes of Senegal, Liberia, Sierra Leone and Benin, though our expansion strategy will be strategically shaped by events and developments in those countries. We're already in discussions with potential partners so that we can hit the ground running when we decide to establish a new presence.

Q: What kind of impact do you seek to have in the portfolio companies invested in by your

Our primary focus is to generate and sustain employment. We track employment and income levels among our portfolio companies' employees. The focus is often on generating jobs, but we find that wealth creation is equally important. Beyond these two areas of impact, we are also attentive to gender.

Q: What do you envisage to be the exit opportunities for the fund?

Our funds are structured to be highly liquid and as such combine a mix of equity and quasi-equity (i.e. mezzanine with some income participation). These structures are designed to be based on the cashflow of the companies and give us equity-like returns. We've been approached several times by trade buyers and while we do not yet have a track record of listing companies, it's not something that we are ruling out. We're also discussing a few opportunities to exit to larger PE firms.

Q: Can you tell us some key things you have learnt from Fund 1 which will be advantageous for Fund II?

We've certainly learned a lot since launching our first fund. One thing that was crucial to our selection process was, an entrepreneur's background and capacity is crucial to our selection process. We're now quite slow to select portfolio companies compared to when we started. Another key lesson we've also taken on board is to be highly involved from the get-go in terms of agreeing to a strategy prior to making an investment. ESG is now very key in our investment process, at both pre-investment and post investment stages. We map out the gaps and agree on action plans/programs to correct them, while continuously reviewing the system to mitigate potential risks. Finally, our investment structure has also evolved: we have become more creative and flexible in terms of the instruments we use and how we structure deals.

Q: What does the AVCA membership mean to you?

AVCA allows us to learn from other members who may be more experienced and have valuable lessons to share. The Association's extensive network also includes many limited partners and it's important that we connect with the right people if we are to continue expanding. Additionally, the annual Conference is a good opportunity to bring all the key players under one roof and learn from one another. Finally, AVCA's reports and data give us confidence that the industry is going in the right direction.

Want to learn more about Oasis Capital Ghana? Click here to explore AVCA's 2019 Member Directory.

CONTACT AVCA

37 North Row
3rd Floor
London W1K 6DH

E avca@avca-africa.org
W www.avca-africa.org
C www.avcaconference.com
T +44 (0)20 3874 7008

African Private Equity and
Venture Capital Association