Due Diligence: ‘As an investment destination, sub-Saharan Africa is a marathon, not a sprint’

Mobolaji Adeoye, (28th November 2019). Personal Interview with www.howwemadeitinafrica.com

1. Explain your firm’s investment philosophy.

We invest in tech-enabled companies that foster collaboration and trust in industries across sub-Saharan Africa. Most industry value chains are informal, unstructured and fragmented on the continent. We look to back companies that act like marketplaces and empower industry players — regulators, buyers, sellers, etc — to transact and collaborate freely.

These tech-enabled businesses — they’re akin to infrastructure in our opinion — are powerful in that they can attract global capital into African markets and unleash economic growth. For example, Pezesha, a Kenya-based fintech, has created a holistic financial marketplace for SMEs. By offering lending, financial education, and debt counselling to borrowers, plus a credit scoring system to vet companies without a credit history, it derisks lending to SMEs. Lower risks bring commercial banks and capital providers onto its platform. As a collaborative structure, Pezesha is helping to tackle the $19 billion financing gap for SMEs.

2. What is the greatest investment lesson you’ve learnt?

My biggest investment lesson that I’ve learned is the importance of understanding the nuances of the private sector in African markets. Across the continent, private companies are either artisanal or corporate. Artisanal businesses consist of a sole proprietor who offers a good or service. They are mostly informal. Corporate businesses are scalable and sustainable. But, execution can be difficult as the business relies on many employees and involves the coordination of many resources.

The artisanal business dominates in Africa — it's smaller scale and less complex to execute. Yet, the corporate type has greater potential to scale but is trickier to get right due to its many moving parts.

We believe that institutional investors cannot invest directly in artisanal businesses. But investors can gain exposure to the scale effect and upside that these companies yield collectively en-masse without taking individual company risk. We do this by creating and investing in structures that empower small scale, informal, "artisanal" businesses.

In Kenya, for example, Livestock Trade Services (LTS), builds and manages quarantine centres to enable safe exports for the livestock trade. LTS brings transparency on livestock quality and promotes trust among industry players such as pastoralists, buyers and regulators. While global investors cannot invest in small livestock providers, they can provide liquidity to trust-building structures like LTS which help grow the entire industry.

3. Identify an untapped opportunity for private equity investors in Africa.

We believe that the largest opportunity is the unlocking of capital across industries which will allow small and medium-sized enterprises — the lifeblood of African economies — to flourish.

Africa is still transitioning from informal financing systems — think informal savings groups like susus, chamas and ajos in West Africa — to more formal structures. Yet, the vast majority of the population doesn't fully trust formal systems due to education levels, cultural nuances, and legal disputes. The same person who would default 5% of the time on loans from informal savings group defaults 40% of the time on commercial loans.

As investors, we look for entrepreneurs who are creating customised, scalable and localised solutions to our problems, not cutting and pasting global solutions. For example, many African SMEs have unpaid invoices from large credible companies. Unlike in developed economies, commercial bank lending against unpaid invoices is limited; this is a huge opportunity to provide credit to firms.

4. What is the biggest misconception about your job?

A huge misconception about investing in early-stage businesses is that it's easy — it only requires writing a cheque. Yet, it's a difficult job because an investor is in the trust business. An investor must earn the trust of its LPs, its portfolio companies founders and even the customers of its portfolio companies. Africa's private equity and early-stage investing is still in its infancy. It's a long term game. Delayed gratification matters. Process and transparency are everything. Investors must apply a systematic framework to every aspect of the business: relationship building, problem solving, and continuous learning and improvement. One key lesson for investors and founders is that your current limited partners and investors in your fund and company will likely be your best source for follow-on investments. They will also be the ones new investors use to assess if they want to commit to your fund or invest in your company. If you lose their trust, good luck in accessing additional capital.

5. Explain the toughest part of investing in early-stage businesses

The hardest part is finding high calibre entrepreneurs. They're diamonds in the rough because they possess a rare mix of skills and personality. They're intelligent and confident with sector knowledge. They have grit and a long- term orientation; they aren't looking for overnight success. They respect terms of agreement and strive for operational excellence. Lastly, they have a tonne of energy. For example, I will highlight Esigie Aguele, CEO at VerifyMe, a Nigerian identity management company. Esigie is probably one of the most dedicated people I know. He has high energy, immense integrity and embraces governance. A systems engineer, he astutely grasps the needs of a platform in Nigeria's KYC infrastructure. Once you find dynamic founders, your probability for success as an investor skyrockets.

6. Name the one deal you wish you invested in

I wish I had invested in MTN. Over the last decade, MTN has had the greatest impact on the continent and will continue to do so in the foreseeable future. By providing access to hard-to-reach African consumers through the mobile phone, MTN opened up new markets and drove innovation in tech-enabled businesses. It acts as the cornerstone of Africa's mobile economy.

7. What are the skills needed to succeed in Africa's private equity industry?

The first and most important skill that investors need is empathy. Empathetic investors understand the pain points of all its stakeholders.

It allows them to provide input to entrepreneurs in designing the right solutions as well as earn the trust of their limited partners. To thrive in Africa's private equity industry, investors must have intellectual curiosity which is critical in a fast changing environment like Africa. Intellectual curiosity — the constant desire to understand how things work — drives passion.

Lastly, as an investment destination, sub-Saharan Africa is a marathon, not a sprint. Investors need to have a long-term outlook. By thinking long-term, investors can avoid short term decisions which can lead to suboptimal outcomes.