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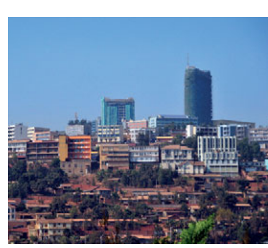

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RWANDA

As East Africa becomes an important PE destination, investors eye opportunities in Rwanda

BY ANNA LYUDVIG

REMARKABLE TRANSFORMATION

After decades of ethnic tension that culminated in the 1994 genocide, it is hard to believe that a country can recover and make such tremendous progress as Rwanda has done. The Republic of Rwanda has gone from strength to strength and illustrates what can happen when a government has a unified set of goals and a focused strategy. "The country has a clear set of rules, targets and priorities for business, all geared to putting young people to work and fostering economic and political stability," says Melissa Cook, founder and managing director of African Sunrise Partners.

Okomboli Ong'ong'a, partner East Africa for Phatisa's Pan African Housing Fund, agrees, saying that "the country as a whole continues to undergo a transformation towards a peaceful free market economy".

Rwanda geographically falls within East Africa, so from a private equity (PE) perspective all the activity will be driven by the PE funds based in Nairobi, according to Anthony Muthusi, partner, East Region, Transaction Advisory Services at Ernst & Young. He adds that unlike the other markets, Rwanda is a small market, but "fairly attractive in terms of ease of doing business and has fairly transparent investment policies".

Muthusi says that there are between 40 and 50 funds focusing on East Africa, with the largest number of them based out of Nairobi, Kenya, especially the small and medium-sized ones. "We are seeing an interest from private equity investors especially in sectors like retail and financial services. We know that PE funds like Actis have been in Rwanda for many years and they have done successful exits from portfolio companies," he adds.

For instance, in 2004, Actis acquired an 80% controlling interest in the second largest commercial bank in Rwanda, Banque Commerciale du Rwanda (BCR), for $6.05m, which was in 2012 sold to Kenyan regional bank, I&M Bank and French and German development finance institutions, Proparco and DEG.

On the radar screen

Rwanda is a core destination for Fusion Group, a financial services organisation with headquarters in London and Nairobi. Fusion has two independent product areas – real estate and private equity/SME funding – and the group's managing director Nish Kotecha is "incredibly excited by the opportunity that Rwanda and Kigali [Rwanda's capital] has to offer". The real estate business of Fusion Group sources real estate, while the private equity looks at investing in the growth sectors of Rwanda. "When you look at Rwanda it is all about infrastructure growth," says Kotecha.

At the moment, Fusion Group is working on the Kigali Heights Real Estate project, worth approximately $40m, to be completed by mid-next year. The project involves the construction of nine-storey commercial premises, to be let as office and retail space. On the private equity side, in July 2013, Fusion Capital acquired a 46.5% equity stake in Rusororo Aggregate for around Rwf 1.3bn (around $2m), the first fully commercial large scale aggregate mining company in Rwanda. "We sourced it, we found it and made it link to the urbanisation story that is happening in Kigali," adds Kotecha.

But the East African nation is very much on the radar screen of smaller private equity players. Avril Stassen, senior partner at Agri-Vie, a private equity investment fund focused on food and agribusiness in Sub-Sahara Africa, believes that as a private equity investor "one has to be looking very closely at opportunities in Rwanda".

"Rwanda is one of the highest growing countries coming from a very low base and we have been monitoring its progress; we are looking actively at opportunities, and we have not found anything suitable as of yet, but we are looking," he says.

Meanwhile, Phatisa's Pan African Housing Fund hopes to conclude at least one investment in 2014 in Rwanda and follow up with further investments over the next three years of the fund's investment period, according to Ong'ong'a.

Because Rwanda is small in terms of economic activity, the average ticket size for the country is between $3m and $6m, according to Muthusi. And experts agree that it is not easy to find suitable deals in that range. Ong'ong'a says that the market is "relatively unsophisticated and therefore a few players tend to hold all the cards". "There is some degree of political exposure that may limit the investability of opportunities," he says.

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> AVRIL STASSEN, AGRI-VIE

Stassen agrees: "We find very few businesses that have sufficient critical mass and size to be suitable for private equity in terms of our ticket size focus. Obviously, as the economy grows, that universe of potential investments will grow in the coming years."

Local partners

But that is not the only challenge. Experts agree that the biggest challenge in the country is to find strong management teams. For Fusion's Kotecha, it is not easy to find suitable deals in East Africa unless you have people on the ground with local networks. "You have got to be part of that local entrepreneurial community. You have to invest in the connectivity, putting local people on the ground, opening offices and building your brand bottom-up," he stresses.

Stassen agrees, saying that to be on the ground is critical. "We would not invest in a business in any country unless we have a local partner," he says.

Ong'ong'a adds that given the infancy of the private equity industry, there is a short supply of investment professionals and deal flow, but this will change over time as the industry grows. However, from Phatisa and its property fund's perspective, the banking sector and access to retail credit is a risk. "Often, our products require additional funding whose only source can be the banks. To the extent that the banking sector undergoes some kind of hiccup, we see this as a risk for both off-take and product development," says Ong'ong'a.

And while private equity players also raise concern about potential currency weakness and lack of infrastructure, they are quite confident about the political situation in the country. Kotecha says: "I would argue that Rwanda has lower risks to the rest of what is happening around Africa. If we saw a political risk we would not be as aggressive as we are in Rwanda."

"People have been critical of the president, but I think you have to go and see it and then come back and look at what he has done. I think it is phenomenal. And Rwanda is regularly approached by other African countries to take lessons from them," he adds.

E&Y's Muthusi agrees, saying: "I do not think that security is an issue in Rwanda. I would argue that it is a fairly secure country; corruption is significantly lower compared to some of the other countries."

Rwanda will continue benefiting from the fact that East Africa is becoming an important destination for PE funds and industry professionals believe that the PE industry will grow strongly in the country. Kotecha says: "You will not see massive deals and secondary buyouts yet but, given the speed at which Rwanda is moving, I think you will see them in a much shorter time frame than in some other East African countries. Rwanda has had it troubles, but we are here to take it and make it a model of what Africa could look like in a sense of its opportunities." ■