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Polishing the hidden gems

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Private equity has extended to the far corners of the world, cropping up in some unexpected locales. Judy Kuan speaks with Robert Fogler, co-founder of the Rwanda-focused Thousand Hills Venture Fund, about the role for private equity in a smaller market – but one that might well be on a fast-track for growth.

All around the world, private equity funds – albeit on the smaller end of the spectrum – are sprouting up in locales where, just five years ago, it would have rarely occurred to investors to even look to those markets, much less invest. Examples of “newly discovered” markets can be found in many regions, including Honduras, Northern Iraq, Romania and more recently, Rwanda – which was cited by a [World Bank](#) study released last September as being among the “biggest reformers” of key business regulations out of the 155 nations in the study.



Fogler: honing in on Rwandan SMEs

For Denver, Colorado-based lawyer [Robert Fogler](#) and American-Rwandan technology entrepreneur [Antoine Bigirimana](#) – founders of the newly established Rwanda-focused [Thousand Hills Venture Fund](#) (THVF) set up in 2004, the concept of making equity investments in small- and medium-sized enterprises (SMEs) in Rwanda is appealing for many reasons.

According to Fogler, of the private equity funds that purport to invest in SMEs in Africa, many have minimum size requirements – typically at about \$500,000 (€400,000) – that cause them to pass over many of the region's investment opportunities.

However, much of the “pent up demand” for investments in sub-Saharan Africa exists at the strata of the market that lies underneath the \$500,000-mark and above the micro-cap level, asserts Fogler, attributing this factor to THVF's targeting of equity investments within the range of \$50,000 to \$500,000. Fogler also anticipates that shooting for the smaller end of the spectrum will facilitate the realisation of investments, as well as provide a larger talent pool given that many times, the experience and talent required to run a SME is already existing within local communities.

“We believe that, for a variety of reasons, people are missing out on what we think is one of the most exciting industry sectors: SME equity, which many view as the most challenging [type of investing],” says Fogler. “And we think there is a lot of interest from investors – more so from individuals than institutions.”

And while many sub-Saharan Africa-focused SME funds are backed to some extent by development finance institutions – such as the [International Finance Corporation](#), the [Netherlands Development Company](#), [Deutsche Investitions- und Entwicklungsgesellschaft mbH](#) – all of THVF's investors are private individuals.

“We're purely private, which allows us to be much more flexible and much more innovative in structuring the fund and managing investments,” says Fogler. He says that THVF has been working on raising the fund and developing its network of contacts in Rwanda for over two years. The fund has now been closed, with 25 investors – most of whom are from the US, and all of whom are high net worth individuals – holding equal stakes in the fund.

While the fund is structured as a traditional limited partnership with Fogler – who travels to Rwanda every six to eight weeks – and Kigali-based Bigirimana as the fund managers, there are some differentiators from typical private equity limited partnerships. For instance, the cost structure is different in that the fund operates without overhead, says Fogler. In addition, it relies on local expertise – perhaps more heavily so than other private equity funds active in Africa – when building boards of directors and management teams. THVF's investors also represent a resource base for the fund and its portfolio companies.

As far as the extent of the investing, THVF's inaugural fund has a stated goal to make four to six investments, but the actual number of investments is limited only by the number of quality opportunities that the fund managers can find, says Fogler. So far, THVF has closed its first investment – of roughly \$300,000 – to be formally announced next month.

Areas of interest include technology; agricultural and agricultural-support companies; export industries, like coffee and arts and crafts; services such as sanitation; and value-added production with food or equipment. “We're pretty open to any sector,” says Fogler. “The key is that it has to fit our narrow focus of being an early stage, high-growth company with a great management team.”

Challenges do exist, such as having to explain the nature of venture capital to potential portfolio companies and dealing with a different business culture. “It's always very important for a foreign fund like ours to go into a business community like Rwanda and pay attention to the differences in the business culture, so we work hard to cultivate good relationships,” says Fogler. “One of the ways we demonstrate this is that we always respond to any business plan we receive. We also started a non-profit organisation that does nothing else but help Rwandans develop business plans.”

"Ultimately, like any venture capital fund, we're betting on the quality of management teams and the quality of entrepreneurs," says Fogler. With Rwanda's strengthening entrepreneurial community, dense population, low corruption levels, investment-friendly laws, increasingly secure environment, rapid infrastructure development and stable economic growth, Fogler anticipates that entrepreneurs in the surrounding region will increasingly identify Rwanda as the best place for growing a business.

As entrepreneurs hone in on Rwanda, whether more investors like THVF decide to follow is a story that has yet to unfold. However, if the World Bank report is any indication, the building blocks for entrepreneurial success are already there.