



Norfund

DEVELOPMENT IMPACT  
**CASE STUDY**



**ESTABLISHING FIPA  
THE FIRST PRIVATE EQUITY  
FUND IN ANGOLA**

## CASE STUDY

### ANGOLA CAPITAL PARTNERS (ACP) AND FUNDO DE INVESTIMENTO PRIVADO - ANGOLA (FIPA)

**Investment years:** 2010 and 2016

**Instrument:** Investment funds

**Sectors:** fisheries, agriculture, media, building materials and oil services

**Amount committed:** USD 28.25 million



# ESTABLISHING THE FIRST PRIVATE EQUITY FUND IN ANGOLA

In Angola's post-civil war capital market, risk capital was unavailable to small and medium sized companies. Norfund therefore decided to establish Fundo de Investimento Privado - Angola (FIPA), Angola's first private equity fund. Since the first closing in 2010, FIPA I and II have invested in six companies, including the integrated fishing operation, African Selection Trust.

**A**ngola's civil war, which lasted from 1975 to 2002, severely damaged the country's infrastructure and productive capacity. When the war ended, GDP per capita was only USD 710<sup>1</sup> and Angola was ranked 161 out of 173 countries in the UNDP's Human Development Report. According to a 2001 household survey conducted by Angola's National Statistics Office, 40 percent of household heads were without a job.<sup>2</sup>

#### INVESTMENT CONTEXT

Angola's immediate post-war years were characterised by double-digit growth rates and substantial increases in oil production. However, the oil-sector driven growth was capital-intensive and import-dependent, and lacking in linkages to other sectors of the economy.<sup>3</sup> The high levels of growth had little impact on unemployment, and performance in Angola's industrial,

manufacturing and agricultural sectors was far below potential. Angola needed to diversify its economy and revive the formal economy as the main arena for employment and economic activity.<sup>4</sup>

Efforts to rebuild the Angolan economy have been hampered by the high levels of investment risk. A Norad study on *Private Sector Development in Angola* notes: "Angola can be characterised as a high-risk market with high entry costs and a number of constraints to business such as corruption, inefficient public institutions, lack of finance and reliable business information, and lack of basic infrastructure and trained personnel".<sup>5</sup>

#### THE FIRST PRIVATE EQUITY FUND IN ANGOLA

Norfund's fact-finding mission in 1998 was our first engagement in Angola. It took place against a backdrop of serious macroeconomic instability, high inflation,

In 2014, FIPA invested in Angola Environmental Serviços (AES), a company that provides waste management services to oil and gas companies in Angola. Since the investment, AES has processed more than 320,000 tons of industrial waste.

and an overvalued exchange rate. Norfund explored the country's investment needs and found that the country offered significant opportunities for private sector development. In the past, the nation had been self-sufficient in major staple crops. Its abundant natural resources are still attractive, and include forests and agricultural land, substantial oil and gas reservoirs, marine resources, and hydropower potential.

However, risk capital for small and medium sized companies in the local market was unavailable. Our mission concluded that an equity facility would be an important way to provide the risk capital that the market needed, boost economic activity, and support job creation.

#### Assessing additionality

In 2001, Norfund initiated a feasibility study for establishing a risk capital fund in Angola. This included an assessment of the availability of financing for local enterprises. Financial additionality is central to Norfund's mandate. By this, we mean that we invest in markets that would not otherwise get access to capital due to high risk.

Norfund's study concluded that the lack of long-term risk capital in Angola was a major constraint for private sector development. No risk capital fund of any sort was identified; Angola's banks offered little more than trade finance and currency transactions. Personal savings and retained earnings were the main sources of capital for local enterprises. Our research found that private enterprises were "[...]chronically short of both working capital as well as sources of funds for investment in physical and productive assets".<sup>6</sup>

#### Identifying partners

The participation of a local investor was defined as a key success criterion for the establishment of the fund. After considering various alternatives, Norfund identified Banco Angolano de Investimentos (BAI) as the preferred partner for this project. BAI, established in 1996, is Angola's first private bank and has experienced rapid growth in both retail and corporate banking. Norfund and BAI signed a letter of intent in 2002 committing to working together to establish a fund management company and raise a private equity fund.

#### Establishing the fund

The investment risks of establishing the first private equity fund in Angola were considered to be significant. This was because of the high country and integrity

risks, the absence of legal frameworks, and the lack of an existing private equity fund track record in Angola. The challenges took considerable time to overcome, and Norfund spent several years building a pipeline, working on the legal structuring, identifying the right team members, and raising funds from other investors.

When the concept of the fund was presented to bilateral and multilateral development finance institutions, many expressed concerns about Angola's investment potential and the risks involved. Fundraising was complicated further by the 2008 downturn in the international financial system, and the crisis that followed. Nevertheless, the European Investment Bank's decision in 2008 to participate in the fund was a milestone. The first closing of the fund was in March 2010, achieving USD 28 million in total commitments from five investors, including Norfund, BAI, EIB, Banco Privado Atlantico, and IFU, the Danish development finance institution. MAEC, the Spanish development agency, came on board in 2011, and the fund reached total commitments of USD 39 million.

#### NORFUND'S ROLE IN THE INVESTMENT

Norfund's objective was to establish a private equity market in Angola to support the growth of small and medium sized enterprises. We have been an anchor investor in both the fund manager and the fund and we continue to play an active role in the governance of these entities.

#### Capital for small and medium sized enterprises

Norfund has invested USD 250,000 in the fund manager, Angola Capital Partners (ACP), and USD 10 million in FIPA, which is the fund that holds the investments. We have played a key role in mobilising the other investors: BAI, EIB, IFU, Banco Privado Atlantico, and MAEC.

#### FIPA's investment strategy

- Investment type: Expansion, management buy-outs and buy-ins, and privatisation
- Industry target: Diversified
- Investment size: < USD 8 million
- Instruments: Equity, mezzanine and debt
- Shareholder involvement: 10-49% and Board of Directors' role
- Exit: Maturity 3-5 years



In 2015, FIPA invested in Fazenda Girassol, a producer and distributor of fresh vegetables, fruit and herbs. Veronica Aurora is one of the company's 1,200 employees. Her first job was to pack produce. She has since been trained and promoted to machinist.

Our financing has contributed to the realisation of FIPA's investment strategy. FIPA has invested in six portfolio companies in five industries:

- African Selection Trust (fisheries)
- Big Media and Special Edition Holding Group (media/advertising/printing)
- Angola Environmental Serviços (support services to the oil and gas industry)
- Betablocos (building materials)
- Fazenda Girassol (agriculture)

FIPA's investments have enabled companies in Angola to realise their expansion strategies. In the case of Angola Environmental Services, for example, the investment by FIPA allowed the company to expand its operations

to Kwanda Base, in the city of Soyo. FIPA's investment in Fazenda Girassol resulted in the company scaling-up its agricultural crop production.

**Active ownership**

Early in the process of establishing Angola's first private equity fund, Norfund recognised that long-term commitment was needed. We developed a detailed strategy of active ownership in the fund and the fund manager. Norfund has representatives on the Board of Directors of Angola Capital Partners, on the fund's Investment Committee, and on the fund's Advisory Committee.

The six members of FIPA's Investment Committee – including a Norfund-nominated senior staff member – ensure the quality of the transactions carried out by

### Value addition to Investee Companies

ACP's value addition to its investee companies goes beyond the capital it invests. ACP's team works closely with the management of portfolio companies, and provides support in areas such as:

- Corporate finance
- Management reporting and financial control
- Corporate strategy
- Marketing
- Human capital management and development
- Corporate governance, reporting and transparency, and
- Long-term equity partnerships

the fund. The Committee is responsible for deciding on the fund's investments and exits, and it meets quarterly to review the performance of the portfolio companies, FIPA's investment process, and the suitability of prospective portfolio companies.

Members of FIPA's Advisory Committee meet annually. Their role is to ensure that the fund operates according to the agreed investment strategy, review asset valuations and annual accounts, and to assess and resolve any conflicts of interest.

In addition to a senior Norfund project team, Norfund has nominated external private equity professionals to ACP's Board and FIPA's Investment Committee. We have also provided training to the management team of ACP and supported initiatives in the fund and fund manager through grant facility funding.

### Promoting environmental and social standards

Supporting investees in following the best environmental and social standards is an integral part of Norfund's work. The Shareholders' Agreement between FIPA and the investors requires FIPA to develop a social and environmental management system (SEMS) for the identification, assessment and management of social and environmental risks and impacts associated with the operations of each portfolio company. A Norfund expert in environmental and social risk (E&S) helped FIPA to develop the SEMS, which describes the fund's policies, organisational structure, procedures and reporting requirements.

FIPA's Environmental, Social and Occupational Health and Safety Policies are central components of its SEMS, and incorporate local legislation, the IFC's Performance Standards on Environmental and Social Sustainability, and the World Bank Groups' Environmental, Health and Safety Guidelines. The aim of FIPA's Environmental Policy is to minimise the adverse impacts on the environment from the operations of the fund and its portfolio companies. Its Social Policy seeks to promote good labour practices and to minimise the potentially negative social impacts on society, while the Occupational Health and Safety policy focuses on the promotion of safe working conditions and compliance with relevant health and safety laws.

Environmental and Social risk training for ACP's key staff has been undertaken by Norfund's E&S specialist. ACP's staff members have also participated in E&S training for fund managers, that was developed by CDC, the UK DFI, and co-financed by Norfund. An independent E&S specialist performs E&S audits/assessments and monitoring, when needed.

### Capturing lessons learned

FIPA was one of the first funds that Norfund created as a pure greenfield establishment. The costs of realising this project were considerable and it was important to capture lessons learned. Subsequent to the establishment, Norfund found the following lessons learnt to be critical:

- Norfund's decision to team up with BAI showed that having a strong local partner is crucial to the success of establishing new funds with local presence.
- Fundraising efforts take substantial amounts of time, and often far more than expected.
- The ACP team's credentials and seniority were key factors in the successful closing of the fund.
- Grant Facility support for personnel in key functions for a limited time period can be valuable for first time fund managers.



ACP seeks to stimulate the growth of non-oil sectors in the Angolan economy. In 2012, FIPA invested in the Special Edition Holding Group. This group provides integrated media products and services, including outdoor media (the group owns 49 percent of Big Media), large format digital printing, advertising and promotions, and event management.

FIPA's portfolio companies are required to demonstrate a commitment to managing E&S risks and impacts. Action plans on E&S improvements therefore form part of FIPA's investment agreements with its portfolio companies. As a part of Norfund's monitoring, FIPA is also required to report regularly on the environmental and social risk management of the companies and of their performance. Norfund's E&S expert provides feedback on FIPA's reporting, and visits portfolio companies to advise them on how environmental and social issues could be strengthened.

#### Supporting improvements

Norfund has also used funding from our Grant Facility scheme to support ACP and FIPA's portfolio companies. The scheme allows us to co-finance improvement initiatives such as management systems, governance policies and routines, energy efficiency, accounting, occupational health and safety, and capacity building. It is an important tool which helps us to further enhance the development effects of our investments.

We have issued seven grants to ACP and its investees so far, covering project development, enterprise improvements, and community development. The first grant supported the establishment of FIPA and covered legal costs and the recruitment of a local team in Angola. A second grant, provided in 2009, supported the engagement of a Chief Financial Officer (CFO) responsible for establishing robust accounting, control and reporting procedures for ACP and FIPA. These grants enabled the successful final closure of the fund in July 2011, after which ACP was able to self-finance the CFO function.

Grant funding was also made to support ACP's management training and the development of supporting material. This included training in how to manage private equity, in environmental and social risk analysis, and in governance and board representation.

Additional grants were provided to FIPA's portfolio companies to support enterprise improvements. Big Media, for instance, received grant support to upgrade its asset management system. This helped the company to improve its data quality, transparency, and its internal communications across its different business areas, and enabled better management and control.

Finally, Norfund used grant funding to co-finance the development of an Impact Study to showcase the performance of FIPA, and to identify lessons that could be applied in subsequent funds.

### DEVELOPMENT EFFECTS

In 2018, ACP contracted EBS Advisory, an independent ESG consultancy, to analyse the development effects of FIPA's investments. EBS collated quantitative performance metrics from FIPA's portfolio companies, reviewed key company documentation (such as ESG policies and management systems) and conducted site visits and interviews, with both investee companies and the stakeholders of investee companies.

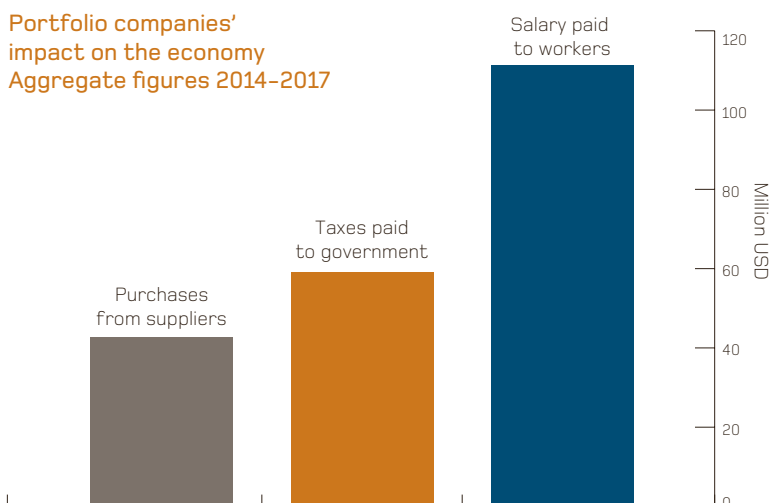
EBS' report, published in November 2018, showed that FIPA contributes to key objectives of the government of Angola's 2025 Strategy, enabling:

- Food security and import substitution through investment in agriculture and the fishing industry
- Environmental protection and sustainability through investment in waste management for the oil and gas sector
- Post war reconstruction through investment in building materials
- Economic diversification through investment in the non-oil sectors of the economy
- Dignity in the workplace through increased employment and remuneration
- Growing the economy through tax contributions, local procurement and creating indirect jobs.<sup>7</sup>

### LOOKING AHEAD

The Angolan economy is expected to recover after the recent prolonged recession. This is due to a positive outlook in oil prices and better performance in the agricultural, fisheries, and energy sectors. The strong momentum for

### Portfolio companies' impact on the economy Aggregate figures 2014–2017



reform created by Angola's general election in 2017 is expected to stimulate the economy further.<sup>8</sup>

FIPA is now fully invested and has reached the end of its investment period. However, the need for risk capital for small and medium sized companies in Angola remains largely unmet.

To respond to this ongoing challenge, ACP has successfully raised capital for a second fund. FIPA II reached first closing in mid-2016 with five investors committing a total of USD 47.5 million in capital, including USD 18 million from Norfund. The fund will construct a diversified portfolio of growth-orientated SMEs in Angola, and will continue to support growth, economic diversification, and job creation in the country.

Furthermore, one of the main objectives of establishing FIPA was to demonstrate that private equity investment in Angola under best international practices is feasible. Looking ahead, ACP aspires to attract additional investors to support an optimal scale investment fund for Angola. ■

### REFERENCES

- 1 Current USD
- 2 AfDB/OECD (2005). Angola. African Economic Outlook
- 3 EIU (2004). Angola. Country Report 2004
- 4 NMFA (2003). Strategic Framework for Angola 2003–2005
- 5 Bjerke (2004). Private Sector Development Study Angola. Oslo: Norrad
- 6 DNV (2001). Feasibility Study Venture Fund in Angola. Høvik: DNV
- 7 ACP (2018). Angola Capital Partners. Impact Report, Inception–2018. Luanda
- 8 Muzima, J. (2018). Angola. African Economic Outlook 2018. African Development Bank

## CASE STUDY

This section is an excerpt of *Angola Capital Partner's Impact Report*, written by EBS Advisory. The full report is available at [issuu.com/norfund](http://issuu.com/norfund).



FIPA invested in African Selection Trust in 2013. The investment supported AST's expansion strategy, contributing to reviving the fishing industry, creating jobs and generating income opportunities.

# REVIVING THE FISHING INDUSTRY

The government of Angola has identified fisheries development as a key priority to advance the country's economic diversification, generate employment opportunities, and to expand food production.

Angola's population of more than 26 million in 2017 is projected to increase to more than 65 million by 2050. Local demand for food will increase, impacting both pricing and purchasing trends.

### AFRICAN SELECTION TRUST

African Selection Trust (AST) was founded in 2004 to construct new fish factories and refurbish existing sites. The company sells fishmeal, fish oil, and fresh, frozen and canned fish, and is a leading fishing and fish

processing company. Its objective is to maximise production from the under-exploited fishing stocks off the west coast of southern Africa. AST operates factories in the Angolan Provinces of Namibe and Benguela, sells locally in Angola, and exports to Namibia, South Africa, and Asia.

AST's operations started with one factory in Angola's Benguela Province. In 2011, the company sought funds to acquire two underexploited factories, in the city of Tombwa, in the Namibe Province.

### SUPPORTING AST'S EXPANSION STRATEGY

ACP has supported AST's expansion strategy by providing finance and advisory support. In 2013, FIPA



invested USD 1.25 million to enable the acquisition of RJ Industrial e Comercial, a freezing factory in Tombwa. AST upgraded the two factories, building freezing units and fish meal plants. Upgrades were also made to the packing lines, together with renovations to jetties and buildings.

AST has continued its programme of expansion, acquiring three more companies in Tombwa, and building additional freezing and storage facilities, and a canning plant. The company now owns six operating plants in Angola and several purse seine fishing vessels, two fibreglass vessels, and a larger steel fishing vessel with a 350-ton capacity.

In 2017, FIPA II lent an additional USD 7 million to support the further expansion of AST. This funding enabled AST to acquire a new large pelagic vessel to supply its Angolan factories and the development of a new factory to support the geographic expansion of its fishing operations to Namibian waters.

In addition to providing capital to AST, ACP has given advisory support during AST's mergers and acquisitions and championed the auditing of the company by an international firm. ACP also supported AST to implement additional management systems for environmental and social risks and impacts.

#### DEVELOPMENT EFFECTS

During ACP's investment period, AST reinvigorated the neglected and underperforming local fishing industry. Doing so helped to establish sustainable fishing practices and increase the availability of fish products in local markets. It also created jobs and strengthened income generation opportunities for fish marketers.

#### Building a sustainable fish industry

AST's companies hold valid fishing rights and adhere to the fishing quotas set by Angola's Ministry of Fisheries. AST's main fishing target is sardinella, a pelagic fish found in Angolan waters. All the company's operations are designed to ensure the sustainability of the local fish stocks.

AST operates only licensed purse seine vessels to fish in Angolan waters (bottom-trawl fishing methods are never used). The small pelagic species targeted by AST's operations tend to shoal tightly together and rarely shoal with other species. The purse seining method is therefore relatively sustainable as, typically, it does not involve large amounts of bycatch species.



## TRANSFORMING MY COMMUNITY

Established in 1854, Tombwa relied on fishing as a means of income and food security. The fishing sector began to collapse during the 1990s and this had a great impact on the Tombwa city area. The entire community suffered due to the collapse of the fishing sector and faced very harsh conditions and serious difficulties. Many companies closed and left the area. Our community members lost their formal employment and had no means of earning an income. It was a time of great difficulty and hopelessness.

Since AST bought the failed fishing factories and refurbished them, life in Tombwa has changed significantly. Fishing is inherent to our community's way of life. Companies like AST are giving back hope to the youth. When they found employment and could produce fish products and earn a living, they were once again able to take care of their families. Most importantly, young people regained their dignity.

Alexandre Niyuka  
Mayor of Tombwa



Ernestina Chipits,  
Elected Fish Market  
President, Tombwa

All vessels are subject to random inspections by the Ministry of Fisheries: observers are placed on board fishing vessels to observe fishing practices, the catch volumes, and adherence to fishing license conditions and quotas.

Fish catches are killed using a cold shock as they are pumped from the purse seine net into the ship's hull, in which refrigerated sea water has been chilled to  $-1^{\circ}\text{C}$ . This marine chilling system prevents the bleeding and trauma normally associated with fish catching and results in better quality produce. The water remains chilled during the journey back to shore, and the catch is then pumped from the boat to the receiving tanks for processing.

AST tests its products for quality and adheres to stringent environmental standards.

#### Expanding food production

AST caught 164,000 tons of fish during the investment period. This was 9 percent of the total quantity of fish

caught in Angolan waters during this time. The product range included fresh, frozen and canned fish, as well as fish oil and fishmeal. Over the five-year investment period, AST has reached an estimated 9 million consumers.

#### Creating decent jobs

AST employed 280 people at the time of FIPA's first investment in 2013. Since then, AST has hired 921 new permanent staff members, increasing the number of employees by 329 percent. Two-thirds of AST's staff members are first-time employees. At the end of 2017, AST employed 1,201 people of which 39 percent are women. The company supports maternity and family leave rights, protecting women's employment during their maternity leave and when they return to work.

Training is offered to employees to improve their job skills and to help them adapt to new technologies and processes. This usually takes the form of on-the-job training, and additional training, when needed. All the respondents in a recent employee engagement survey

reported that their technical skills had improved, and 84 percent reported that their leadership and management skills had been strengthened.

Health, safety and security are important, and AST's staff have been given training on these topics. As a result, 74 percent have reported improved health and safety awareness.

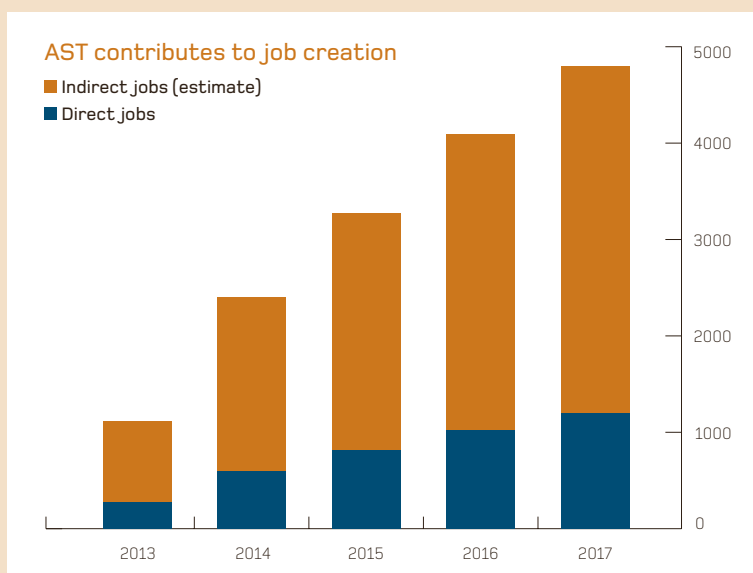
This commitment to skills development equips employees to take on more responsibility. Forty percent of employees received promotions during the investment period, and 75 percent are now receiving higher remuneration.

AST endeavours to improve the quality of life of its employees, and provides staff members with free meals, transport, financial assistance and medical care. In February 2017, the company established a clinic, costing USD 100,000 annually, to provide healthcare facilities and health programmes for AST's employees and their families. The clinic services include malaria prevention, pneumonia prevention, HIV/AIDS awareness, and vaccinations. AST employees undergo regular medical checks to monitor health and reduce worker absenteeism.

**Generating income opportunities**

Every job created in capture fisheries and aquaculture production creates approximately three jobs in secondary activities, including post-harvest employment. This compounding effect in AST's operations is illustrated in the graph.

AST's impact on the fish market in Tombwa is an example of the benefits of indirect effects. AST supplies quality fish to the local fish market, where fish marketers pickle (salt) the fish by leaving it to soak in tubs of brine.



The fish is then dried, packed and sold at the local market, and this creates new income opportunities for local traders.

**THE WAY FORWARD**

After several years of expanding its operations within Angola, AST is seeking access to fish resources and quotas in the adjacent waters of Namibia. FIPA II has provided a loan to AST to support the company's continued expansion. ■

**NORFUND  
CASE STUDY  
ACP AND FIPA  
IN ANGOLA**

**Published**  
November 2018

**Address**  
Nordfund Head office  
Fridtjof Nansens plass 4,  
0160 Oslo, Norway

**Phone**  
+47 22 01 93 93

**Website**  
www.norfund.no

**E-mail**  
post@norfund.no

**Photography**  
Daniël J. Albertse

**Editing**  
Kristin Imafidon

**Language editing**  
Simon Goudie

**Original design**  
Dinamo

**Layout and design**  
Von Kommunikasjon

**Print**  
Konsis

# NORFUND'S INVESTMENTS IN ACP AND FIPA

