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for International Development

AFR/ONI

EVALUATION OF THE AFRICA GROWTH FUND

Final Report

April 16, 1993

Office of Government Services
1801 K Street, N.W.
Washington, DC 20006
Telephone 202 296 0800

Price Waterhouse

April 16, 1992

Mr. Richard Ray Solem
AFR/MDI
Agency for International Development
U.S. Department of State
Washington, D.C. 20523

RE: AID/PRE Financial Sector Development Project
Contract No. PDC-2206-Z-00-8191-00
Evaluation of Africa Growth Fund

Dear Mr. Solem:

Enclosed please find a copy of the final report, Evaluation of the Africa Growth Fund, prepared by Price Waterhouse.

It has been a pleasure working with the Africa Bureau on this important assignment. We look forward to further collaboration in the future.

Sincerely,

J. Richard Breen
Director, FSDP

Enclosures

cc: Rebecca Maestri, PRE/EM

EVALUATION OF THE AFRICA GROWTH FUND

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The Africa Growth Fund (AGF) is a twenty-year closed-end U.S. limited partnership with an expected operating life of fifteen years. Its mission is to take equity and debt positions in African business enterprises and earn profits for its investors in a small number of higher quality, higher risk, long term investments.

AGF's private sector sponsor and General Partner, Equator Holdings Limited (Equator), is a Bahamian corporation specializing in commercial trading, merchant banking and advisory services in sub-Saharan Africa. The Overseas Private Investment Corporation (OPIC) acted as the prime US government sponsor both in AGF's development and making debt capital available to the AGF at a preferred government rate.[1] As a "blind-pool" investment fund, the AGF General Partner has full responsibility to invest and manage the pool of capital with the Limited Partner investors remaining insulated from all decisions and responsibility other than putting their own investment capital at risk in the hands of the General Partner.

The AGF's goal was to begin operations with $150 thousand in General Partner funds, $10 million to be raised from passive Limited Partners, $20 million of capital in the form of an interest-bearing US government guaranteed credit line, arranged by OPIC through a commercial lender, and a 3 year start-up grant from A.I.D. acting as a government co-sponsor. By December 1992, AGF had raised only $5 million of the $10 million equity planned, had closed out its fundraising with five Limited Partners each at $1 million, and received the full A.I.D. equity-shortfall grant/subsidy of $1.4 million (to make up the difference over the three years between the interest income generated on the $5 million actual equity versus the $10 million target).

AGF was conceived in 1985-86, officially launched in 1989 and made its first investment in 1991. As of December 1992, AGF had committed approximately $14 million[2] in 7 businesses in Ghana, Cote d'Ivoire, Kenya, and Botswana. The General Partner intends to be fully invested by the end of 1993 or the first half of 1994, with a total portfolio of 11 or 12 companies. Over 40% of AGF invested capital is in debt instruments versus equity positions, in part to generate operating income for the Fund in the years prior to equity positions maturing.

The purpose of this evaluation was to:

A. <u>Assess the Africa Growth Fund (AGF) experience to date</u>, with a focus on
(1) appropriateness of its structure and practices,
(2) effectiveness of implementation,

[1]Current rate equals 45 basis points over the 90 day T-bill rate.

[2]$14 million committed composed of $5 million AGF equity, $6 million drawn from the credit line, and $3 million obligated but not yet drawn.

(3) cost effectiveness of operations, and
(4) development impact.

B. **Relate this assessment of the AGF to the missions of its various sponsors** (OPIC, A.I.D., the General Partner and the Limited Partners).

C. **Indicate lessons learned**

In addition to the stated objectives of the Scope of Work, Price Waterhouse was asked (i) to outline a framework for discussing approaches to equity investment and financing for small and medium-sized businesses in emerging and transitional economies, and (ii) to provide the results of this evaluation in the format of a working retreat involving the participants from A.I.D., OPIC, AGF and selected guests with business and investing experience in field of international development. Accordingly, the Executive Summary concludes with:

D. **Equity investing in the larger context - providing capital to small and medium-sized businesses**

E. **The AGF Retreat**

The body of this evaluation report is presented in the form of a series of "overhead slides" for presentation and discussion in the working retreat. Also included are a financial model for AGF and detailed summaries of AGF's investments.

A summary of the AGF evaluation follows.

A. ASSESS THE AFRICA GROWTH FUND EXPERIENCE

1. Appropriateness of Structure and Practices

Fundraising Problems

Equity fundraising fell short of the target by 50% due to:

- the very narrow appeal of AGF's specialized mission;
- an unsupported/undocumented case for investing in Africa -- and questions in the minds of some about the high cost of investing in a variety of countries with differing languages, legal systems and generally depressed economies 5,000+ miles from company headquarters in Connecticut; the efficacy of long-distance management; and the uncertainties as to currency convertability and ability to resell equities and redeem investment capital.
- several structural deterrents in the Fund's prospectus, particularly:

a) a highly leveraged capital structure (planned 2 x 1, actual 4 x 1) -- while attractive to some investors, the cumulative carrying cost of debt was likely a disincentive for conventional investors who believe that too much debt service would run counter to the aims of long term investing for higher returns.

b) a distribution formula which put equity investors last after all accrued debt service -- i.e. in any given year the full cumulative debt burden must be paid before any returns to equity investors.

- the General Partner's lack of an applicable track record in venture capital (Equator's very impressive track record was largely in trade financing and merchant banking in Africa);

- the generally ineffective conduct of fund raising which involved three different investment banking houses, only one of which was successful - Citicorp - which withdrew prematurely for internal corporate reasons having nothing to do with AGF.

Ultimately, five limited partners did invest $1 million each, primarily for strategic business or social reasons relating to Africa. They were also attracted by the reassurance of U.S. Government participation and the possibility of leveraged returns, although the expectation of a significant financial return on investment was not the principal motivation for any investor.

Debt/Equity Structure and Cash Flow Challenges

The four to one (4X) debt/equity structure which resulted from the 50% equity shortfall ($5 M vs. $10 M equity raised), imposes serious cash flow constraints on fund management, and profoundly influences strategies for operations, deal selection and structure, portfolio income generation, cash-out strategies, and distribution of income to partners. The combination of interest on the credit line, General Partner management fee $625,000 *(2.5%* of total capital under management), and debt sinking fund payments[3] will create a serious "cash crunch" throughout the mid-1990s, when projected cash requirements of $3 to $4 million per year must be addressed by some combination of:

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[3] e.g. At the current rate of 3.5% the interest on the full $20 million credit line would equal $700,000 per year.

Debt reserve sinking fund schedule for repayment of the credit line principal begins in 1993 at $1 million, building up to $2.5 million in 1996, declining thereafter to $1.5 million in 1999 (detailed in financial model, following p.29 in this report).

- generating current income from portfolio debt positions or business operations in the form of dividends;
- selling some portfolio equity positions, perhaps prior to optimum longer term maturity/appreciation;
- deferring sinking fund (principal) payments on OPIC debt (the debt reserve);
- borrowing against the debt reserve fund in accordance with the Fund agreement with OPIC;
- selling a $2.0 million portfolio debt position in the Botswana Sheraton, which the G.P. intentionally "warehoused" to meet future cash demands;
- holding back investment capital (several million of the $20 million OPIC credit line) and using it to meet cash flow needs instead of investing; and/or,
- renegotiating the debt schedule and terms with OPIC which, depending on the terms, may serve as a form of indirect financial subsidy.

Currently, the General Partner is managing the Fund and the investment portfolio with all of these considerations in mind, planning to chose the appropriate mix of strategies in each upcoming year to match the circumstances prevailing during that particular year.

The AGF Venture Capital Structure - Key Issues

The over-arching structural issue for the AGF is whether the high annual debt burden, on top of the annual %2.5, management fee ($625,000 until some assets are liquidated) will undermine, or in the most severe case, sabotage, the Fund's objective to create higher long term equity returns -- e.g. a compounded return to investors of 12-15% or more. Also, can the AGF remain economically viable in the middle years without further subsidy capital, or prematurely selling-off equity positions to meet cash requirements?

Unlike most Venture Capital funds, the AGF is highly leveraged. Formalized western Venture Capital is structured to provide long term equity investments along with high-value management and technical assistance in order to produce higher returns concurrent with the higher risks involved. To minimize annual cash requirements during the period when these investments are maturing, most funds have all equity in their capital structure, or a significantly lower debt/equity ratio than AGF's 80% debt.

It should be noted that the AGF General Partner and OPIC have at least partially anticipated this problem by designing some compensating aspects into the structure which enable the General Partner to defer the need to prematurely liquidate equity positions. For example:

- the choice to defer annual debt reserve payments;
- the ability to borrow against the reserve fund.

The General Partner has made 40% of its investments in debt positions and crafted various understandings with its portfolio companies to provide a variety of income sources to the Fund during the intervening years prior to asset liquidation.

The AGF is modeled after specialty venture capital "boutiques" which originated in the U.S. and are which are able to support high operating costs in part by efficiently screening many possible transactions with a view toward selecting a small number with expected returns of 20 to 30 percent per annum.

As a consequence of their special requirements and modus operandi, conventional Venture Capital funds provide far less than 1% of the total financing needs of small and medium sized companies in advanced economies.

At issue is whether this western-style, higher cost, "boutique" venture capital model will succeed in the far more difficult African business environment, even with its capable management, U.S. government sponsorship, and socially motivated investors. At this stage the General Partner believes that success is probable, though it will take several more years before the outcome can be demonstrated.

Over and above the specific assessment of AGF, there are two larger questions for discussion:

- What are the applications and limitations of the highly specialized AGF-type mechanism within the much more broad spectrum of business financing and private sector development needs in Africa?
- What other kinds of investment mechanisms, strategies and systems might be appropriate for the vast group of small and medium sized business needing financing in emerging economies?

These and related issues and questions are framed for discussion in Section III of this report.

2. Effectiveness of Implementation

Current Investments

AGF's current investments are developing according to or better than planned and some are showing indications of positive economic performance. They reflect a conscious "cherry picking" strategy and demonstrate an emphasis on quality local partners. The AGF management is creating productive synergies among the ventures, markets and business relationships represented in the AGF portfolio.

Quality and Commitment of Personnel

Given AGF's structure, terms and resources, the General and Managing Partner are proceeding with high levels of competence, skill and an exceptional sense of responsibility in managing Fund business. Specifically:

- sound and thoughtful judgement is being exercised in all key management areas;
- there is good "chemistry" in relationships with principals and partners at all levels;
- there is high sensitivity and integrity regarding the unique challenges of investing in the African environment -- with its differing cultures, languages, economic, political, and legal systems; and
- under the complex circumstances in which it operates, AGF management has exhibited unusual skill, creativity and shrewdness in deal structuring, risk assessment and management, business operations and financial strategy.

The AGF General and Managing Partners are highly committed to a successful outcome and have much at stake. They appear to be cognizant of the key factors and challenges involved in achieving success and managing the onerous cash flow demands which lie ahead. For example, the various partnership "understandings" and portfolio investment structures have been crafted to provide a range of possibilities for generating current income and for getting money out in the future - even without the presence of formal, mature capital markets or public stock offerings.

3. Cost Effectiveness of Operations

Economic Viability -- Ability to Sustain Operations without Additional Subsidy

The expected financial performance of AGF cannot be assessed at this early stage in its life cycle (4 years into a 15 year cycle). However, the degree of success and the capacity to operate without further financial subsidy or fund equity is dependent upon numerous factors identified in this assessment, including:

- how effectively the competing demands of cash flow and long-term equity growth are straddled and managed;
- the quality and performance of the individual portfolio companies over the long term;
- the management of investments and the ability to "cash-out" and repatriate funds in hard currency;

- the continuity of Fund management - the present Managing Partner, team at his disposal, and Equator's continuing support; and,

- the flexibility of OPIC should the terms of debt require renegotiation in order to avoid premature portfolio liquidation to meet Fund cash and operating requirements.

At this stage AGF's ability to meet the twin requirements of cash flow and attractive long term equity returns remains open to question. The next three to five years of Fund operations will show whether, and to what degree, long term equity returns may need to be sacrificed in order to meet short term cash demands.

Prospects for Financial Return

Although it is premature to judge the probability or extent to which AGF will achieve its mission, it is timely to consider the upcoming financial challenges built into the Fund's structure. In conjunction with AGF management, a financial model has been created to demonstrate one of many possible scenarios based on a wide range of critical assumptions and variables. This model shows that financial returns to Limited Partners may range from zero to well over 30% and returns to the General Partner and OPIC ranging from nothing to several million dollars depending upon many factors and management decisions over the coming 10 years.

As with "closed-end blind-pool" investment funds generally, the results are determined incrementally, over the life of the Partnership, and are also highly influenced by the economic circumstances extant during the period of time that liquidation is accomplished.

The financial challenges facing AGF would test the most competent Venture Capital managers. The "bottom-line" is that the AGF has been dealt a very difficult set of circumstances to manage without further subsidy. There is a real possibility it may succeed due to exceptionally capable management. On the other hand, management may still need or choose to seek some additional renegotiation of loan terms or an additional subsidy. Alternatively, a "call" upon limited partners for additional cash may need to be considered.

AGF Relative to the Venture Capital Industry

Several observations regarding the Africa Growth Fund and the Venture Capital Industry can be made:

- legal and placement costs were high primarily because three sets of intermediaries and lawyers were utilized and a significant portion of these costs were capitalized after start up;

- a 2.5% management fee is average for a fund without international travel and communications. There is no additional financial exposure to Limited Partner investors resulting from the remote distance between Africa and General Partner headquarters in the U.S., since any additional needs must be met by the General Partner out of its own capital resources;

- AGF is a relatively small fund, and accordingly must carry a high fixed cost burden over a small number of investments;

- long term cost effectiveness cannot be projected yet and will be contingent upon numerous long term performance variables noted later in this assessment.

4. **Development Impact**

Micro-Economic Impact - Individual Investments

At the level of the individual transaction, the AGF has had a small but positive impact on economic development in the following ways:

- in each portfolio investment there are some early stage development indications (economic, private sector, social) which are small in scale but important in character. There appears to be potential for significant development outcomes over the long term as portfolio companies grow and perform over the next 10 years;

- AGF continues to make significant value-added contributions in most of its investments, half of which probably would not have happened without AGF;

- AGF management, while focusing primarily on commercial goals, is clearly sensitive to the range of development issues and the possibilities for addressing them responsibly. This is consistent with the Fund's mission as well the private sector development objectives of OPIC and A.I.D.

Macro Level Potential - Over and Above Particular Transactions

At a macro-level, it is far more difficult to judge AGF's larger, longer term impacts. AGF's transactions have been selected primarily for their financial prospects and secondly for development impact. The small number of companies, and their relatively early stage of growth (number of jobs, etc.) make their collective macro-economic impact too small and fragmented to project at this time.

The most powerful impact would be to demonstrate success without disproportionate external subsidies, thereby setting an example which would attract other private sector investors and expand the pool of capital available to a wider segment of growth enterprises needing funds.

There is some evidence of a development dimension over and above the sum of individual investments. The AGF Managing Partner and Equator Staff are becoming "lightning rods," points of referral, and catalysts for investment and business development opportunities. Their counsel is being sought by investors and businesses as a value-adding resource to facilitate and structure business transactions, and for the responsible development of businesses in Africa.

Over the longer term, there would appear to be a serious potential to explore ways for synthesizing and expanding upon AGF's financial, technical, management, investment and venture development experience.

Objective measures of long term macro-economic impact must wait until AGF demonstrates its capability to prosper without further external support. The Managing Partner has confidence that this will be demonstrated over the course of AGF's life cycle.

B. RELATE THIS ASSESSMENT TO THE MISSIONS OF AGF'S SPONSORS

The AGF has three distinct sponsors in the enterprise, each with its own objectives to be achieved through the Africa Growth Fund. It is useful to define the objectives of each party and assess the extent to which AGF has fulfilled each at this point in time.

Sponsor	Stated Objective
AGF -- G.P. and L.P.s	To earn substantial returns from investment in African businesses, so that (a) the General Partner can realize management fees and significant profit participation and (b) Limited Partners can achieve social, political and business goals for Africa while gaining reasonable and/or attractive returns on cash invested.
OPIC	To provide equity capital to African businesses, stimulate their growth, and promote U.S. business involvement in sub-Saharan Africa, enhancing OPIC's role as a catalyst for further U.S. investment in the region.
A.I.D.	To demonstrate profitable private sector investing, development and economic growth by supporting an innovative investment model which, if successful, could encourage other investors and models to follow.

The following are observations regarding the extent to which AGF has fulfilled each of these objectives. These observations are limited by what can be assessed at this stage of AGF's life cycle.

As to AGF's Objectives (General Partners and Limited Partners)

As explained, it is too soon to predict what levels of long term profit participation will be realized by the G.P. and L.P.s from AGF investments -- over and above the annual management fee to the General Partner. For AGF's Limited Partners, it seems likely that social, political and business interests in Africa are being enhanced. With the major exceptions previously highlighted, the AGF's structure, practices and management appear appropriate to the Fund's stated mission.

As to OPIC's Objectives

Clearly OPIC has been well served to date by this project in that its objective is stated largely in "output" terms (using logical framework methodology). It seeks to provide equity capital to businesses, and this has been accomplished. It seeks to stimulate growth and any productive business activity generated will achieve this. Finally, it seeks to promote U.S. business in Africa, and this too has been accomplished at the individual investment level with indications of a growing potential over the long term. Based upon OPIC's stated project objectives, it would seem that the AGF can be considered a success at this stage.

There are several implicit OPIC objectives, including their desire to (1) collect earnings from profit participation, and (2) avoid payment on U.S. government insurance guaranties for the $20 million credit line to the AGF. It is too early to know the extent to which these implied OPIC objectives will be met. Until the process of investment liquidation begins there may not be a "good reading" on this.

As to A.I.D.'s Objectives

It is too early to know whether the AGF enterprise will demonstrate "profitable investing" and, in the process, a model which would encourage emulators as well as alternative investment mechanisms.

At this early stage we recommend that A.I.D. withhold judgement as to the replicability of this model of a Venture Fund until a track record of profitable operations has been demonstrated. It remains to be seen how well AGF will survive through the upcoming period of high annual cash demands without subsidy while still working to achieve its long run objectives. As with the AGF and OPIC objectives, more time and experience will be needed to determine the degree to which A.I.D.'s mission will be achieved over the long term.

However, AGF is shedding some useful light on the opportunities and methods for venture investing. There is evidence that other investors and business enterprises are becoming increasingly aware of, and interested in, AGF's activities and approaches. The AGF model is limited in terms of broad replicability and is very specialized in its application for mobilizing and investing capital. Nonetheless, the AGF is confronting and learning about issues, challenges and approaches which, if thoughtfully researched, could contribute to new "technologies" of investment and development in emerging countries.

C. INDICATE LESSONS LEARNED

1. Choices of structure have a significant impact throughout the life of a Fund on the successful mobilization of investors and capital at the outset on the ongoing management of investments, and on the eventual realization of financial returns. The structure must be formulated with these considerations and ramifications in mind from the beginning.

   In AGF's case, the dominant structural issue is the extent to which the heavy carrying cost of debt in its capital structure will compromise the Fund's mission to achieve attractive equity returns over the long run. Unless the Fund management's skill overcomes the associated challenge, this choice of structure could prove to be inappropriate to the mission.

2. More specifically, 'leverage', while attractive in some ways to certain investors, needs to be balanced with other considerations of mission, partner objectives, investment management, and cash flow factors. It adds a cash flow dimension to every investment decision, and with it a strong sense of immediacy as to the liquidity of investments made.

   With the AGF, the 80% actual leverage (versus the 67% planned leverage) is dangerously high and creates ramifications which affect every aspect of the Fund's operations. Analysis of the AGF experience and discussion with venture industry experts suggests several areas of modification which would make this particular type of leveraged fund more attractive to both prospective managers and investors. Illustrative examples include:

   - no more than the 2 x 1 leverage originally intended;
   - possible participation by L.P. investors in the debt as well as the equity portion of the capital structure;
   - a formula for distribution of returns which provides L.P. investors with a share of returns earlier in time than the AGF formula.
   - a distribution formula enabling the G.P. to begin earlier in time profit participation -- thus fostering greater incentive to produce returns for the investors.
   - less than 15 year investment term - perhaps 10 or 12 years.

3. Fundraising is difficult under the best of circumstances. It requires a specifically defined management team with a relevant track record, a clear and supportable

focus, and a documentable investment case -- along with a highly professional, rigorous, credible approach to pre-defined targets in the investor marketplace.

As noted on page 2 of this summary, AGF fundraising suffered on virtually all counts, including the fundamental implications of a debt-loaded capital structure. However, it still might have succeeded by virtue of the General Partner's missionary conviction and perseverance, pioneering objectives, government sponsorship, and the one effective fundraising intermediary who, unfortunately, pulled-out in midstream due to institutional reasons having nothing to do with AGF. **It is clear that AGF fundraising would not have succeeded without US government sponsorship and financial support.**

4. The quality, capability, and commitment of fund management is crucial to every aspect of the Venture Capital model and is likewise a critical limiting factor in the replication of this type of investment vehicle.

   Until there is an AGF track record of successful investment, attracting more private investors and seasoned fund management will be difficult. At this stage Fund management is performing its tasks exceptionally well under the circumstances in which it must operate. This demonstrates the axiom that the quality of management is the single most important ingredient for investment success - and can potentially overcome numerous impediments and structural handicaps.

   The notion that a Hartford, Connecticut based management team can successfully locate investments 5,000 miles from home, perform "due diligence" that is effective, and manage them, is daunting to consider. Nevertheless, based upon the assessment of the portfolio of investments, it seems that the AGF's General partner team has done just that.

   It is a basic rule in venture capital that **people** make the difference. The Equator people assigned to the AGF are exceptionally knowledgeable and dedicated. Should this be lost to the AGF the prospects for success would be diminished substantially.

5. Built-in management costs and overhead: Venture capital investment requires that overhead charges need to be matched by the ability of the investment company to generate cash flow. Returns from venture capital investing are, by nature, "lumpy". They might appear meager for a time, and suddenly they might be generous. General Partners typically set a management fee that is a percentage of funds under management, which the L.P. agree to as "appropriate and reasonable to do the job desired". Occasionally when available cash (from capital or current income) does not cover current obligations, the GP must be willing, and able, to meet costs from personal capital -- or by deferring, or accruing the management fee.

In the case of the AGF, Equator - the G.P. - carries all of the commercial corporate responsibilities of a General Partner. This includes the financial risks and obligations to the investors of the Fund which may arise if revenues and capital are not sufficient to meet various cash requirements and the management fee. Equator is cognizant of these responsibilities and recognizes that -- in the event of a cash shortfall (or technical bankruptcy) -- it will need to consider not only the seven strategies outlined on page iii, but also the deferring (accrual) of its own management fee. In this event, there is no liability or responsibility on the part of A.I.D. (which is a grantor but not an "investor" in the AGF) to provide further financial support. Preliminary indications are that OPIC has not ruled out the possibilities of renegotiation of credit line terms should this issue arise in the future.

6. Divesting "exiting" and getting money back: It is worth noting that only a very small fraction (less than 5% of hundreds of U.S. Venture Capital funds) have legally fully divested over the last 15 years.

   The biggest challenge for AGF is yet to come. "Cashing-out" of all positions and repatriating funds will be the ultimate challenge for AGF's General Partner. As mentioned, the General Partner has selected and structured investments to provide a range of possible cash-out options and strategies in environments where formal capital markets are quite limited

7. There appears to be a very limited but growing number and quality of investment opportunities that fit AGF's specialized "cherry-picking strategy.

   AGF is showing that higher rewards along with the higher risks involved do appear possible in a developing, transitional economy -- and also that the difficulties and challenges of succeeding (realizing these rewards) are formidable and should not be underestimated.

   The need for safety, real "partnership", high returns, eventual liquidity of the investment, and the ability to repatriate dividends and proceeds of sale add-up to a fine "screen" that only a small number of investment possibilities can pass through.

8. Focusing primarily on commercial goals rather than development goals brings financial and market-driven discipline to the investment process and increases the probability of favorable financial results.

   AGF is guided by the hypothesis that many development objectives need not be inconsistent with profitable enterprise, and can be pursued as legitimate and achievable by-products to the commercial mission.

9. The AGF experience offers significant opportunities as an on-going research and development "case" that could yield very valuable strategic learning and

intelligence about investment issues and approaches and their impact on private sector development in emerging/transitional business environments.

AGF is very specialized toward "high-end" investments and is too early in its life cycle to reach conclusions about its broader applicability or replicability. However, very useful lessons and insights could well be gained by following and synthesizing AGF's investment experience over the next several years. An investment in continued research and evaluation during the critical stages that lie ahead should be considered. A comparative analysis of AGF and other cutting edge investment vehicles in emerging and transitional economies would be a strategically valuable complement to this initial assessment of AGF.

D. EQUITY INVESTMENT IN A LARGER CONTEXT - PROVIDING CAPITAL TO SMALL AND MEDIUM-SIZED BUSINESSES

In addition to the above lessons learned from this evaluation, there is a broader lesson derived from looking at the business of providing capital to small and medium-sized businesses in general.

Venture capital as expressed in the AGF model (high returns/high overhead/professional investors) is, in fact, a relatively small contributor to the process of providing equity capital to small and medium-sized businesses. Even in the U.S., where venture capital via the AGF model is most developed, formal venture capital institutions provide only $2.0 to $3.0 billion per year of an estimated $80 billion of business financing, not including over $200 billion of personal assets and trade credit.

Likewise, formal venture capital institutions reach only a small percentage of the number of companies starting-up each year; a fraction of 1 percent. Informal investors (investors acting without any organized intermediary) invest in 10 to 15 times as many companies.

It is likely that in African business environment, with its less developed legal and financial systems, there is an even smaller market for formal venture capital institutions such as the AGF. Probably only a small fraction of 1 percent of African business have the size, market potential, sophistication, growth prospects, management, capitalization and risk/reward trade-offs to attract a formal venture capital company.

Add to the "screen" the size of transaction necessary to attract an international venture capital organization such as AGF ($1.0 million+), and you find participants that are mostly elite, foreigners, development institutions and the like.

To reach the "heart" of African business development needs, a mechanism is needed that can, on a self-sustaining private sector basis, deal with firms that are smaller in size, less sophisticated, need management and technological assistance, and have little access to formal commercial infrastructure -- compared to AGF's clientele.

The AGF, while it is performing well thus far in its appropriate marketplace, is not reaching (and is not structured to reach) the bulk of the African small and medium business market. As such, it's macro-economic impact is likely to be small relative to the larger business economy. Even if AGF achieves its goals, and attracts imitators, it is unlikely to penetrate more than one percent of the equity financing needs of the continent.

E. THE AGF RETREAT

The key points raised at the Africa Growth Fund Retreat, held December 14, 1992, are outlined in "bullet" fashion in Section IV. These contain the substance of the discussions held by participants representing OPIC, A.I.D., AGF, selected professionals in the field of international development, and Price Waterhouse.

I. INTRODUCTION

A. PROJECT BACKGROUND

The Africa Growth Fund, L.P. (AGF) is a twenty-year closed-end, U.S. limited partnership with an operating life of fifteen years which commenced operations in March 1989.

The Fund Manager and the General Partner are subsidiaries of Equator Holdings Limited (Equator), a corporation existing under the laws of the Commonwealth of the Bahamas. Equator specializes in commercial trading, merchant banking, and advisory services, exclusively in sub-Saharan Africa. The responsibilities of the Fund Manager are provided under an annual management fee and include, but are not limited to, identifying, structuring, and recommending investment opportunities, obtaining political risk insurance, and providing general administrative and financial reporting for the Fund.

Total planned investment capital of $30 million was to be provided by $20 million in OPIC guaranteed notes and $10 million in equity subscription for U.S. investors (limited partners). $5 million have been purchased by Coca-Cola, Kellogg, Lommus, Citicorp, and Rockefeller and Company.

The capital structure of the Fund is composed of five equal limited liability partnership units with a paid in capital contribution of $1 million per unit. Limited Partnership units share equally in ninety-nine percent of the Fund's profits and losses with the remaining one percent shared by the General Partner. Capital contributed by the general partner was $150,000. Profits earned and distributed to the Limited Partners in excess of a predetermined minimum return on their investment are shared, with the general partner and the Overseas Private Investment Corporation (OPIC) under an incentive fee formula.

The U.S. Agency for International Development contributed $1.4 million in grants over three years to support some of Equator's start-up expenses until the subscription of $10 million from U.S. private corporate and institutional investors is completed. The first A.I.D. tranche of $800,000 was provided in FY 1988 as firm equity commitments reached $3 million as was a condition on the release of the funds. The second tranche of $354,000 was released in FY 1990 after the condition that $7 million in equity commitments be reached was waived. A similar waiver was needed for the release of the third and final tranche of $246,000 in 1991.

Operating results for 1991 reflect a $181,548 or 29% improvement over anticipated results, primarily from improvements in the Fund's net interest income margin. Operating expenses were within budget, with the exception of capitalized legal feel incurred in connection with the revised private placement exercise.

B. SCOPE OF WORK

The Market Development Initiatives Division of the Africa Bureau of the U.S. Agency for International Development requested that Price Waterhouse perform an evaluation of the Africa Growth Fund, specifically analyzing the following aspects:

- AGF's experience, including aspects such as planning through organizations, fund raising, investment analysis, investment (whether equity taker or lender) investment management, and partnership management.
- Appropriateness of practices and structures established vis a vis the overall mission
- Technical effectiveness with which such practices and structures were implemented by management
- Cost effectiveness
- Development Impact
- Overall lessons from experience

The project team was composed of the following experts:

- David Brunell, Senior Venture Capital Specialist, Team Leader
- Jack Morgan, Senior Investment and Financial Institutions Specialist
- Joya Khubchandani, Financial Consultant.

C. PROJECT METHODOLOGY AND INFORMATION SOURCES

1. Data Sources

The Price Waterhouse team has reviewed all documentation regarding the establishment and operation of the Africa Growth Fund. In addition the team has conducted numerous interviews with A.I.D., OPIC, and Equator representatives, as well as co-investors and non-investors in the AGF. The team consulted previous managers of the Fund and current AGF management. Surrogate interviews were held with limited partners (via Bill Benedetto) and interviews were held with the various fundraising organizations. The team has also surveyed industry information sources in order to draw evaluate the Africa Growth Fund in the larger venture capital investing context. Please see Appendix A for a list of industry participants/information surveyed.

In addition to the above, the Price Waterhouse team conducted a financial analysis of the AGF, cooperatively formulating projections for cash flow and rate of return scenarios with the Fund.

2. On-site Africa Visit

The team conducted a 10 day on-site visit to investments in the Cote d'Ivoire and Ghana in order to gain insight into the effectiveness of the overall management of the AGF and the individual investments. The team travelled with AGF Managing Partner, Mr. Jeff Dunshee to four project sights to assess the AGF/field operation and investment program.

II. AFRICA GROWTH FUND: PRESENTATION SLIDES

A. BACKGROUND AND CURRENT STATUS

AGF HISTORICAL TIMELINE

External Events (OPIC,AID,fundraisers)	Date	Internal Events (General Partner/Equator/Limited Partners)
	Fall 1985	Equator idea paper - not pursued
OPIC/First Boston discussion	**Fall 1985**	
First Boston "not right GP"	**Spring 1986**	Same day Equator approached OPIC
	May 1986	Equator proposal to OPIC -- terms for fund
	Summer/ Fall 1986	Development of AGF prospectus
Marketing of Fund w/ First Boston (unsuccessful)	**Oct. 1986 - mid '87**	AGF fundraising period • prospectus • contacts • qualification meetings
OPIC investment guarantee proposal	**Jan. 1987**	
Citicorp marketing/ fundraising (5 investors @ $1M)	**Fall 1987 - March 1989**	
OPIC request for AID support	**Oct. 1987**	
AID rejection of OPIC's request	**Dec. 1987**	

External	Date	Internal
Reconsideration - AID discussion of revised AGF proposal	**Dec. 1987-March 1988**	5 L.P. investors secured ($5M)
AID/OPIC Memo of Understanding - allocation of AID appropriation	**August 88**	
OPIC transfers funding to launch fund w/$5M equity instead of $10M	**Dec. 1988-Jan. 1989**	
	March 1989	AGF officially in business w/$5.15 equity funds in the bank
Citicorp marketing continues until investment group disband	**March - June 1989**	
	Sept. 1989	Drafting investment criteria & initial marketing documents
Pryor McClendon engaged as placement fundraising agent (no funds raised)	**1990 - 1992**	
	Sept. 1989	AGF "goes public" w/ international business investor, donor community.
	Jan. 1990	Jeff Dunshee joins as Managing Partner
AID/OPIC Amendment to Memo of Understanding modifying conditions for funds transfer to AGF	**Sept. 1990**	

External	Date	Internal
	Early - mid 1991	First 3 investment commitments 1. Botswana Sheraton Hotel 2. Eden Roc, gold mining in Cote d'Ivoire 3. CAL, merchant bank in Ghana
	by End 1992	Seven investments made, one more likely
	by End 1993	Project 11-12 investments and full $20M debt drawn

AGF Current Status

Capitalization	Amount
Equity	$5m + 150 K (5 LPs + GP)
Debt	$20m (BNY/OPIC)
TOTAL	$25m

Country Distribution	Deals	Amount
Ghana	5	$7+ m
Cote d'Ivoire	2	$4+ m
Cameroon	1	$2 m
Botswana	1	$4 m
Kenya	1	$3 m
Possibles	1-2	$3+ m

- **Deal Size:** $350, 000 to $4.3 million
- **Status:** All deals currently prospering at expected level

AGF Current Status

Deal	No. of Investments	Dollars
Funded/Committed	7	14+ m
Highly Probable	1+	2+ m
Probable - mid '93	1	4 m
Possibles	1-2	3+ m
TOTAL - end '93	11-12	23+ m

DEAL COMMITMENTS				
YEAR	1990	1991	1992	1993
Number	0	4	4	3
Dollars (in millions)	0	7	7	9

B. APPROPRIATENESS OF STRUCTURE AND PRACTICES

AGF Mission

- *AGF's Mission:*

  To earn a substantial return for its partners from investments in highly profitable new and expanding business enterprises in sub-Saharan Africa and, as an incidental by-product, make a development impact in the private sector through equity and equity related investment in privately owned companies operating in Sub-Saharan Africa.

- *OPIC's Mission:*

  To supply badly-needed equity capital, essential to soundly-financed enterprises, thus stimulating growth in African economies by fostering American private investments in the region and provide OPIC with added presence in Sub-Saharan Africa, greatly enhancing its ability to promote further U.S. investment.

- *A.I.D.'s Mission:*

  To support an innovative private enterprise investment vehicle which could demonstrate the opportunities for profitable investing as an engine of private sector development in Africa and thereby encourage other venture financing mechanisms and investors to follow.

  To foster multiple modes and increasing amounts of private sector investment in African LDCs, with positive consequences for development:

  - economic
  - private sector
  - social

AGF Similarities with Conventional Venture Capital Structures

Key Elements of AGF Structure	Significance
1. Clear commercial/financial goals	No ambiguity about priority of focus of development objectives - while important, are incidental by-products of financial objectives.
2. Goal: to earn higher returns for taking higher equity-like" risks.	Funds will be utilized in the developmental, transaction, and expansion stages of business and thereby exposed to the manifold risks of growing companies.
3. A small number (12+ - 15) of long-term investments (3 -15 years).	Funds will be left in company a long time to optimize return/risk and cannot be re-invested once liquidated.
4. "Human capital" will be invested in the form of management, strategic, technical and financial expertise by the general partner.	The growth and profitability of investments can be greatly enhanced, and the risks mitigated, by active, ongoing "value added" participation in the investee companies.
5. Funds are contributed to a "blind pool" by large institutional or corporate investors who wish to remain passive, but who subscribe to the investment agenda and capability of the Fund's Managing Partner.	All investors share proportionally in the "pooled" results of all investments, and have no influence (are "blind") on deal-by-deal investment decisions. Only the overall terms by which the fund will conduct its business are negotiable.
6. The legal and operational organization is a Limited Partnership, with investors as L.P.s and a General Partner who is responsible for management in return for an annual management fee and a "carried interest in the "back end" results.	L.P.s are legally and financially insulated from all investment decisions and they risk amount of their own investment.

Structural Differences between AGF and Conventional Venture Capital

AGF	CONVENTIONAL VC
$5 M equity leveraged with $20M U.S. Government guaranteed debt (significant implications for cash flow management & investment decisions, and deferred distributions to partners)	Less or no leverage - all distributions to partners
45% debt instruments 55% equity	Up to 100% equity-like investments
More investments that can support debt, dividends, or profit participation (possibly lower risk/reward deals)	More high risk/reward, high multiple deals - can give up income in early years for high gain later
A lead government/public sponsor (perception of a quasi- or co-G.P).	G.P. Is king & sole benevolent dictator
Financial grant from A.I.D. (Support to make up interest-income gap from $5m equity shortfall)	No external support
Fund-raising dependent on: 1) OPIC 2) an intermediary 3) G.P. - not the leader	G.P. usually undertakes sole fund raising leadership
Perceived implication of financial and developmental objectives	No implication of secondary objective* (but note new trend)

Fund Raising History - Equator

5 Phases, 3 intermediaries and "campaigns," 4 years

1. Organizational Period

	Amount Raised
2. First Boston	0
3. Citibank	$5M
4. Pryor McClendon	0

5. Present (exploration of AGF II or supplement to AGF I)

- o **Results:** $5 million equity from

  Citibank
  Lommus
  Kellogg
  Coca Cola
  Rockefeller

- o **Costs:** Cash - Placement - $175,000

  Legal - $300,000

  Non-cash - Management time
  Deferred Investment
  Credibility

- o **Role of OPIC:** Prime sponsor and guarantor

- o **Role of A.I.D.:** Interim/start-up financial support - $1.4 M grant to make up shortfall of interest income on planned $10 M of equity. Enabled AGF to secure agreement of L.P. investors to launch fund with only $5M of equity. Would not have happened otherwise

Fund Raising Issues and Problems - Observations

Fundraising was severely limited by the overwhelming number of deterrents for conventional investors -- both in the AGF proposal and in the process/execution of fundraising.

- Extremely narrow and limited appeal (only a few small subgroups)
    - Commercial, strategic
    - Africa, special interest
    - International/emerging markets
    - "Wild West/Frontier" investor
    - Conventional mavericks with experimental $ pot

- Like most country funds the investment agenda and market niche/targeting was intentionally broad and diffuse ("cherry-picking" strategy in early stage) - against grain for majority of investors

- Unsupported/undocumented case for investing in Africa

- No applicable trade record

- Structural deterrents and red flags
    - High leverage (downside and upside) - major cash flow implications
    - No distributions to investors until after all debt interest and scheduled principal payments are made.
    - Small size
    - Experimental
    - Unspecified management team and Managing Partner compensation (participation in carried interest)
    - High start-up costs - legal and fundraising costs coming out of fund
    - 15+ year investment cycle

Fund Raising Issues and Problems - Observations (continued)

- Equator as GP - cut both ways - plus and minus to some

- OPIC/U.S. Government - cut both ways - plus and minus to some

- Ineffective conduct and process of fundraising (with the exception of Citibank)

    - Inadequate market understanding, scattershot testing and targeting
    - Lacked a high level, well-conceived, credible, systematic, focussed, professional effort
    - Discontinuity

- Bad timing and Murphy's Law
    - VC market, performance, abuses
    - investor preferences
    - competition

Why 5 investors said "yes"

- Strategic business and/or social/economic interest in Africa
- Interest in the OPIC/U.S. Government involvement and endorsement
- Considered a small investment whose loss would be inconsequential
- Confidence in the value and transferability of Equator's Africa experience
- Possibility of a leveraged returns with additional kicker of below market interest rates
- Belief that this was a worthwhile experiment
- No expectation of competitive financial return

AGF VC Model is Appropriate for Investors *IF. . .*

- Long-term equity returns, with the attendant risks, are desired, without having the internal capability or interest to be an active investor.

- The investor is interested in Africa and the potential strategic intelligence, involvement, or benefits to be gained;

- The investor wishes to spread risks over multiple investments;

- The U.S. Government imprimatur, financial support, risk mitigation, and public/private association is attractive and reassuring;

- The investor is willing to accept the downside leveraging risks of poor performance to gain the upside multiplier if the fund performs very well;

- The investor has confidence in the agenda and abilities of the GP, and is willing to pay a significant fee and share of success;

- Prospects and risks compete with available investment alternatives.

AGF Investment is Desirable and Appropriate for Business *IF. . .*

- The company is, or will soon be, relatively large and sophisticated compared to the broad African business spectrum ($1m-10m capitalization at time of investment) but is not a typical development financing deal.

- Equity capital is necessary and/or desirable in lieu of supporting too much debt;

- Paying some current returns to AGF is feasible - through dividends, profit participation, sub-debt.

- The long-term cost of giving up equity is offset by the value-added that comes with it;

- A compatible, active private "partner" is desired who will participate in the company's affairs and growth on an equal basis with local partners rather than purely a portfolio investor;

- The relationships and possible business synergies associated with AGF are attractive;

- Equity is not available from other sources on competitive terms or with equally attractive value-added potential for the company's future.

- The company meets AGF's criteria - including risk/reward, potential for foreign exchange, various aspects of risk mitigation, potential appreciation and liquidation of position, collaboration in exit strategies, etc.

o Bottom Line: This model, or mechanism of investment is highly specialized, potentially powerful in its approach (depending on capabilities and execution of General Partner), and very narrow in its application for both investors and companies needing investment.

AGF Debt Capital

- OPIC sponsorship and guarantee in return for commitment guarantee fee, and 1/4 of G.P.'s carried interest

- $20 million debt line issued through Bank of New York - to be paid back in 2003
  - Interest terms: 1/2-3/4% over U.S. treasury rate (3 mos.)
  - Agency fees: approximately 3/4%

- AGF can "take down" as needed and invest as equity or debt

- Repayment terms:

  - Interest on outstanding amount annually
  - Principal - sinking fund payments from 1993 to 2003 (at $1 M to $2.5 Million per year)
  - Flexibility
    - must pay interest each year, however
    - can borrow against sinking fund <u>or</u> defer principal <u>but</u> must pay <u>before any</u> distributions
    - renegotiation of terms is possible
    - default - if interest not paid, OPIC pays

- No distribution to partners until cash income exceeds all expenses and scheduled debt repayment (year to year <u>and cumulative</u>) Income above schedule <u>must</u> be distributed

- Distributions and carried interest formula: Excess income over expenses: scheduled debt interest and principal repayments distributed in following sequence:

  1. 100% distribution to L.P.s until they receive 100% of investment

  2. 90% distribution until L.P.s receive 15% return on investment

  3. 80% to L.P.s and 20% to G.P. (3/4 to Equator, 1/4 to OPIC)

Effects of High Debt/Equity Ratio (actual 4 x 1 v. planned 2 x 1)

- Increases downside exposure of equity investor as well as the upside potential (like a large and lower rate home mortgage - in bad times you can lose it all - in good times make a handsome multiplier on equity)

- Creates major cash flow management constraints and very sizable yearly and cumulative cash targets for GP (interest and sinking fund payments on $20M, over and above expenses)

- Need for current income and deals supporting debt

- >40% of portfolio in income producing debt v. equity positions

- Pressure to sell some equity positions early

- Tends to reduce (pressure) prospects for long term equity appreciation (picking some fruit before really ripe)

- Brings on potential mid-90s interest/sinking fund cash crunch (94-98)

- Takes great deal of MP/GP time, attention and judgement to manage - becomes a "driver", i.e. a driving force, in all aspect of fund management.

Alternative Strategies to Address Upcoming Cash Flow Demands

- Sell some equity positions
- Defer principal payments on debt -- AGF design includes flexibility to let investments mature
- Borrow against sinking fund
- Renegotiate/reschedule terms with OPIC
- Sell off $2m GIHC debt (marketable with OPIC guarantee)
- Hold back investment capital ($2-4m) and use as cash cushion
- Combination

* The G.P. is keenly aware of these cash flow considerations and is factoring them in to fund planning and management

Observations about Structure and Practices versus Mission

- AGF is a highly specialized investment vehicle

  Metaphor: Brooks Bros. or custom tailor versus Sears Roebuck or K Mart

  - is highly personalized relationship custom crafted, higher quality, more costly, but lasts longer, has a better fit, adds value

  - is not for mass market whose needs are easily replicable, off-the-shelf, lower cost, less personalized, "do-it-yourself", easier and quicker shopping transaction

- OPIC and A.I.D's involvement literally made the AGF demonstration project possible. Would not have happened otherwise.

- With the exceptions noted, the AGF structure and practices are relatively appropriate to AGF's mission. However, excessive leverage creates significant cash flow management challenges and narrows fundraising potential.

- With the exceptions noted, AGF structure and practices are addressing OPIC's stated mission and part of A.I.D.'s stated mission (innovative pilot investment vehicle) - albeit in a narrow market niche.

- The larger issue for consideration is the appropriateness of the AGF structure to the broader business financing and private sector development needs in Africa or in other developing/transitional economies.

Observations about Structure and Practice

- AGF structure was intentionally designed to provide L.P. investors and the G.P. with some flexibility to manage the requirements, risks, and benefits of leverage, and the distribution of returns to address the objectives of each party (at the intended 2 x 1 ratio)

- OPIC's proposed role in GP decision-making was scaled back from serious potential involvement to constructive support and "negative screen" for U.S. policy -- instead of approval of all major decisions - like a co-G.P.

- AGF's internal and operational investment criteria/guidelines provide far more strategic focus for fund management than the prospectus or "public" plans

- Venture capital industry perspectives:

  - Beyond the differences already noted, other aspects of AGF structure and practices are standard versions of prevailing VC industry model.

  - AGF, like all conventional blind pool VC funds, is not subject to any of the regulatory frameworks or agencies - exempt, because: 1.) small # of investors, 2.) "sophisticated", 3.) private v. public

  - All VC terms and conditions are private, market-negotiated conventions and norms which change over time and vary somewhat with the individual character of each fund.

  - Fund management fee of 2.5% of assets under management is one of these prevailing norms which is based on what investors and managers consider the "acceptable cost of running the investment program effectively to produce the desired results".

  - Period where management fee was 2.5% on "hoped for" $30 M instead of actual $25 M - was inappropriate.

- The G.P. and Managing Partner have developed a set of strategies and practices outlined below to compensate for the issues identified. These become more evident in the assessment of technical effectiveness.

  - Investment focus, priorities, criteria and process.
  - Partner selection and relationship management.
  - Investment strategies and deal structures.
  - Risk mitigation and management.
  - Company building, equity development, and exit strategies.
  - Cash management strategies.

C. TECHNICAL EFFECTIVENESS

Price Waterhouse has reviewed each investment and the AGF management approach vis a vis the following factors:

- Deal origin and referral
- Business strategy and financial opportunity
- Due diligence process
- Rationale for selection
- Quality of local partner, relationships, management and their stake in success
- Economic/political outlook of country and region
- Risk assessment and management
- Exit possibilities and strategies
- Capital structure and co-investors (local, external)
- Overall deal structure and investment strategy
- Perspectives on holding period and potential for growth, profitability, and financial return
- Current indicators of value
- Value-added by AGF
- Ongoing management and oversight by AGF
- Synergies with other investments, equator, internal & external partners
- Development values for country and private sector

SUMMARY TABLE OF CURRENT INVESTMENTS

INVESTMENT	COUNTRY	ORIGIN	SECTOR	AFG INVESTMENT	DUE DILIGENCE PERIOD	LOCAL PARTNERS
Continental Acceptances Limited	Ghana	IFC	Merchant Banking	$350,0000 for 10% equity interest	217 days	Vanguard Group
Gaberone International Hotel	Botswana	OPIC	Hotel	$750,000 in common equity & $3.5 million in subordinated income participation notes.	696 days	Botswana Development Corp. Botswana Insurance Corp. Botswana Pension Fund
Eden Roc Somiaf	Cote d'Ivoire	IFC	Gold Mining	$2.5 million equity	302 days	Government Public
Fidelity Resources Limited	Ghana	Equator	Leasing/ Transportation	$500,000 equity expansion investment	197 days	Sabah Bedwi Majdoub Prosper Asamesh Gold Coast Motors Bugudon Mining Co.
Africa Air Products Limited	Cameroon	OPIC	Oxygen Cylinder Refilling plants Acetylene/Nitrogen production	$700,000	268 days	AAPL (Cameroon Group)
Société Ivorienne de Torréfaction de Café	Cote d'Ivoire	Equator	Coffee roasting, grinding and export	$575,000 equity investment	Approx. 8 1/2 mos.	Ivorian Investors
Ghana Prawn Farms	Ghana	Equator	Aquaculture/ farming	$2.4 million	Approx. 2 1/2 years	Local Tribe
Central Glass Industries	Kenya	Coca Cola	Glass Manufacturing (including bottles)	$3 million for 23% shareholding	pending	Kenya Breweries
Cluff Resources	Ghana	Gold Coast	Gold Mining	tbd	Approx. 18 mos.	Commonwealth Dev't Co.

Risk Areas

- Marginal and changing economic and social conditions
- Changing political conditions
- Foreign exchange convertibility
- Country stability
- Inflation
- Devaluation risk
- Exit/liquidation risk
- Legal/contractual risk
- Lack of information access
- Cultural attitudes toward capitalism and success
- Business risks

  -market
  -production/technology
  -financial
  -people
- Short planning horizons

Some Considerations Relating to Structure of Deal

- Characteristics of business, its market, and economics
- Ways of getting money back and out
- Foreign exchange/local currency generation
- Possibilities of devaluation
- Mechanisms for sharing risks
- Approach to "real partnership", based on adding value
- Mix of equity and debt and terms for both
- Profit participation and dividends
- Structure of the investment, e.g. the entity receiving the money, the entity using the money
- Co-investors
- Relationships to management, co-investors, and other business partners
- Commitments and requirements
    - participation in a corporate governance
    - information access
    - approvals
    - covenants and stipulations
    - performance related (downside problems)
- Exit or "buy-sell" understandings/agreements

o Every deal is different and unique. AGF and Managing Partners approach is to custom-craft each structure.

AGF Structural Approaches

- Quality of local partner
- Partner/Investor relationship
- Off-shore holding company
- Dividend-up
- Predefined exit alternatives and agreement
- Opportunistic business and "people" investment
- Strategic synergy among deals
- Board seat
- Long due diligence period
- Short/near term principle return
- Equator contact and networking
- Current income generation

Long Term AGF Financial Performance - Key Factors

For each investment:

Size, amount, structure and terms of investment

Growth and profitability

Debt repayment (interest, principle, profit participation, timing)

Dividend stream (amount and timing)

Inflation/devaluation

Getting out - Equity liquidation and exit alternatives (marketplace/timing)

Holding period

Getting money back - Repatriation/convertibility

For the overall fund

Number & size of investments

Equity/debt allocation

Cash flow management strategy

Management of OPIC guaranteed debt

Distributions of returns

Financial Performance

- The prospective financial performance of AGF can not be assessed at this early stage. However the degree of success or failure will depend on a myriad of factors, including:

    - How effectively the competing demands of cash flow and long-term equity growth are straddled and managed

    - The quality and performance of the individual portfolio companies over the long term

    - Management of investments <u>and</u> final equity cash-out of each position

    - The continuity of fund management - the present Managing Partner, team at his disposal, and Equator's continuing support.

- It is very premature to judge the probability of AGF achieving its mission, however it is timely to consider the upcoming financial challenges built into the fund's structure.

AGF Financial Model

A detailed financial model has been created by AGF management which makes possible an "If-then" sensitivity analysis of projected AGF performance based on a wide range of critical assumptions and variables. Depending on assumptions, financial returns to L.P.'s could vary from minimal to well over 30% - with financial returns to the GP and OPIC from zero to several millions.

AGF'S PROJECTED ANNUAL CASH NEEDS

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
TOTAL REVENUE	955,382	537,894	486,391	745,854	1,585,078	1,075,084	1,802,181	7,574,171	(310,784)	2,284,603	(625,773)	5,433,092	3,344,754	1,600,453	4,420,640
TOTAL OPERATING EXPENSES	814,628	938,258	921,843	972,884	877,178	833,296	806,013	746,233	696,087	603,768	543,069	418,888	332,583	251,245	178,735
NET INCOME	140,754	(400,364)	(435,452)	(227,030)	707,900	241,788	996,168	6,827,938	(1,006,871)	1,680,835	(1,168,842)	5,014,205	3,012,171	1,349,207	4,241,905
ANNUAL CASH NEEDS															
SINKING FUND PAYMENTS	0	0	0	0	1,000,000	1,500,000	2,000,000	2,500,000	2,000,000	1,500,000	1,500,000	250,000	250,000	250,000	250,000
TOTAL OPERATING EXPENSES	814,628	938,258	921,843	972,884	877,178	833,296	806,013	746,233	696,087	603,768	543,069	418,888	332,583	251,245	178,735
INTEREST ON DEBT	0	0	15,225	217,486	855,500	1,400,000	1,400,000	1,400,000	1,600,000	1,600,000	1,600,000	1,800,000	1,800,000	1,600,000	1,600,000
CASH REQUIREMENTS	814,628	938,258	937,068	1,190,369	2,732,678	3,733,296	4,206,013	4,646,233	4,296,087	3,703,768	3,643,069	2,468,888	2,382,583	2,101,245	2,028,735
CASH BALANCE AT END OF YEAR	2,338,882	4,425,066	1,149,888	1,130,818	1,283,284	506,771	(189,896)	5,457,796	3,201,877	5,821,031	4,211,804	12,559,550	17,164,661	19,999,665	23,466,5[illegible]
DISTRIBUTION TO PARTNERS	(2,576,000)	(2,575,000)	0	0	0	0	0	3,201,877	0	1,009,827	0	8,398,249	4,875,263	2,919,898	5,576,8[illegible]

7/96

SCENARIOS

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
AGF PLAN															
CASH BALANCE AT END OF YEAR	2,338,862	4,425,065	1,149,668	1,130,518	1,283,264	506,771	(169,966)	5,457,796	3,201,677	5,921,031	4,211,604	12,559,550	17,164,661	19,999,685	25,466,519
TOTAL PARTNERS' CAPITAL	2,715,754	4,890,490	4,454,958	4,227,908	4,935,808	5,177,607	6,173,775	13,001,713	11,992,843	13,673,678	12,504,837	17,519,041	20,531,212	21,880,419	26,122,325
50% CASH OUT															
CASH BALANCE AT END OF YEAR	2,338,862	4,425,065	1,149,668	1,130,518	1,283,264	(306,408)	(2,121,594)	(660,500)	(2,916,619)	(2,217,265)	(3,926,692)	(78,746)	1,776,365	4,511,389	6,565,743
TOTAL PARTNERS' CAPITAL	2,715,754	4,890,490	4,454,958	4,227,908	4,935,808	4,364,428	4,222,147	6,883,417	5,874,547	5,535,382	4,366,541	4,880,745	5,142,916	6,392,123	7,221,529
75% CASH OUT															
CASH BALANCE AT END OF YEAR	2,338,862	4,425,065	1,149,668	1,130,518	1,283,264	100,181	(1,145,780)	2,398,648	142,529	1,851,883	142,456	6,240,402	9,470,513	12,255,537	16,016,141
TOTAL PARTNERS' CAPITAL	2,715,754	4,890,490	4,454,958	4,227,908	4,935,808	4,771,017	5,197,961	9,942,565	8,933,695	9,604,530	8,435,689	11,199,893	12,837,064	14,136,271	16,671,927
125% CASH OUT															
CASH BALANCE AT END OF YEAR	2,338,862	4,425,065	1,149,668	1,130,518	1,283,264	913,360	805,849	8,516,944	6,260,825	9,990,179	8,280,752	18,878,698	24,858,809	27,743,833	34,916,937
TOTAL PARTNERS' CAPITAL	2,715,754	4,890,490	4,454,958	4,227,908	4,935,808	5,584,196	7,149,590	16,060,861	15,051,991	17,742,826	16,573,985	23,838,189	28,225,360	29,624,567	35,572,723
150% CASH OUT															
CASH BALANCE AT END OF YEAR	2,338,862	4,425,065	1,149,668	1,130,518	1,283,264	1,319,949	1,781,663	11,576,092	9,319,973	14,059,327	12,349,900	25,197,846	32,552,957	35,487,981	44,367,333
TOTAL PARTNERS' CAPITAL	2,715,754	4,890,490	4,454,958	4,227,908	4,935,808	5,990,785	8,125,404	19,120,009	18,111,139	21,811,974	20,643,133	30,157,337	35,919,508	37,368,715	45,023,121

AFRICA GROWTH FUND L.P.

PROJECTED OPERATING STATEMENT

(In United States Dollars)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
REVENUE															
Portfolio investments	0	0	12,398	298,403	845,013	1,050,747	1,030,976	962,044	837,989	854,450	635,834	422,174	248,169	108,395	29 138
Temporary investments	0	0	79,700	74,388	0	0	0	0	0	0	0	0	0	0	0
Interest earned on idle cash	156,382	163,894	110,886	20,000	64,785	28,685	0	308,932	181,227	335,153	238,393	710,918	971,585	1,132,058	1 441 502
Interest earned on sinking fund	0	0	0	0	0	60,000	153,600	282,818	524,749	701,482	855,585	1,166,259	1,279,559	1 226,683	1 330 051
Total Interest Income:	156,382	163,894	202,782	392,769	909,798	1,079,432	1,030,976	1,270,978	1,019,218	1,189,603	874 227	1.133 092	1,219,754	1 240,453	1 470 640
Interest expense	0	0	15,225	217,485	855,500	1,400,000	1,400,000	1,400,000	1,600,000	1,600,000	1,600,000	1 800,000	1,800,000	1,600,000	1 600 000
Net Interest Margin:	156,382	163,894	187,537	175,284	54,298	(320,568)	(369,024)	(129,024)	(580,784)	(410,397)	(725,773)	(666,908)	(580,246)	(359,547)	(129 360)
Gain on portfolio sale	0	0	0	390,000	1,214,280	1,275,662	1,926,205	7,433,195	0	2,400,000	0	6 000,000	3,825,000	1,960,000	4 550 000
Other income	800,000	374,000	298,854	180,570	318,500	120,000	245,000	270,000	270,000	295,000	100,000	100,000	100,000	0	0
TOTAL REVENUE	956,382	537,894	486,391	745,854	1,585,078	1,075,094	1,802,181	7 574,171	(310,784)	2,264,603	(625,773)	5 433 092	3,344,754	1,600,453	4 420 640
OPERATING EXPENSES															
Management fee	593,750	750,000	750,000	697,917	625,000	550,896	538,879	499,313	487,375	393,518	348,143	229,393	151,330	77,268	7 141
Commitment/Guarantee fee	0	0	0	90,000	161,819	174,400	152,864	125,038	99,788	77,774	54,218	40,055	24,760	9,993	0
Agency fees	0	0	0	25,000	36,521	45,000	48,120	52,427	57,993	63,042	67,445	72,156	74,989	78 048	81 001
Amortization of start-up expense	98,823	118,592	118,592	108,467	0	0	0	0	0	0	0	0	0	0	0
Other expenses	122,055	69,666	53,251	51,500	53,838	63,000	66,150	69,458	72,930	76,577	80 406	84,426	88,647	93 080	97 734
TOTAL OPERATING EXPENSES	814,628	938,258	921,843	972,884	877,178	833,296	806,013	746,233	696,087	610,911	550 212	426 030	339 726	258 388	[illegible]
OPERATING PROFIT	140,754	(400,364)	(435,452)	(227,030)	707,900	241,799	996,169	6 827,938	(1 006,671)	1,673,693	(1 175 985)	5 007 062	3 005 028	1 342 065	[illegible]

262

AFRICA GRO[redacted]

PROJECTED BALANCE SHEET

(In United States Dollars)

	1989	1990	1991	1992	1993	1994	1995	1996
ASSETS								
Cash – interest bearing	2,339,882	4,425,085	1,149,686	1,130,518	1,283,264	506,772	(169,965)	5,457,797
Temporary investments	0	0	800,000	0	0	0	0	0
Portfolio investments – equity	0	350,000	3,586,702	7,500,000	12,061,530	11,700,836	11,350,140	10,450,000
Portfolio investments – debt	0	0	3,500,000	4,575,000	10,400,000	10,336,000	10,205,000	9,522,500
Sinking fund reserve	0	0	0	0	1,000,000	2,560,000	4,713,600	7,496,416
Other assets	444,448	170,149	621,105	142,000	304,391	150,000	150,000	150,000
TOTAL ASSETS	2,783,310	4,945,214	9,687,475	13,347,518	25,039,186	25,252,607	26,248,776	33,076,714
LIABILITIES AND PARTNERS' CAPITAL								
Notes payable	0	0	5,000,000	9,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Other Payables	67,556	54,824	212,537	119,610	103,378	75,000	75,000	75,000
TOTAL LIABILITIES	67,556	54,824	5,212,537	9,119,610	20,103,378	20,075,000	20,075,000	20,075,000
Partners' Capital								
General partner's capital	76,409	147,505	143,053	140,783	147,862	150,280	160,242	228,521
Limited partners' capital	2,639,345	4,742,985	4,311,885	4,087,125	4,787,946	5,027,327	6,013,534	12,773,192
TOTAL PARTNERS' CAPITAL	2,715,754	4,890,490	4,454,938	4,227,908	4,935,808	5,177,607	6,173,775	13,001,713
TOTAL LIABILITIES AND PARTNER'S CAPITAL	2,783,310	4,945,314	9,687,475	13,347,516	25,039,186	25,252,607	26,248,775	33,076,713

	1997	1998	1999	2000	2001	2002	2003
ASSETS							
Cash – interest bearing	3,201,678	5,628,175	3,911,605	12,252,408	16,850,377	19,678,258	25,137,969
Temporary investments	0	0	0	0	0	0	0
Portfolio investments – equity	10,450,000	8,810,000	8,810,000	5,810,000	4,135,000	2,275,000	0
Portfolio investments – debt	8,245,000	6,930,714	5,115,714	3,365,714	1,918,214	815,714	285,714
Sinking fund reserve	10,021,165	12,222,647	14,578,232	15,994,491	17,524,050	19,000,733	20,580,765
Other assets	150,000	150,000	150,000	150,000	150,000	150,000	150,000
TOTAL ASSETS	32,087,843	33,741,536	32,565,551	37,572,613	40,577,641	41,919,706	46,154,468
LIABILITIES AND PARTNERS' CAPITAL							
Notes payable	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Other Payables	75,000	75,000	75,000	75,000	75,000	75,000	75,000
TOTAL LIABILITIES	20,075,000	20,075,000	20,075,000	20,075,000	20,075,000	20,075,000	20,075,000
Partners' Capital							
General partner's capital	218,432	235,169	223,409	273,480	303,530	316,951	359,299
Limited partners' capital	11,774,411	13,431,366	12,267,141	17,224,133	20,199,110	21,527,754	25,720,169
TOTAL PARTNERS' CAPITAL	11,992,843	13,666,535	12,490,551	17,497,613	20,502,641	21,844,705	26,079,468
TOTAL LIABILITIES AND PARTNER'S CAPITAL	32,087,843	33,741,535	32,565,551	37,572,613	40,577,641	41,919,705	46,154,468

AFRICA GROWTH FUND L.P.

EQUITY DIVESTITURE SCHEDULE

(In United States Dollars)

	Investment Multiple	$Equity	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Proceeds From Sale												
Eden Roc	9.05	1,601,530	1,626,357	2,276,900	8,333,335	0	0	0	0	0	0	0
CAL	2.4	350,000	0	0	0	0	840,000	0	0	0	0	0
GIHC	2.36	740,000	0	0	0	0	1,750,000	0	0	0	0	0
Fidelity	2.5	500,000	0	0	0	0	1,250,000	0	0	0	0	0
Central Glass	3	3,000,000	0	0	0	0	0	0	9,000,000	0	0	0
AAPL Cameroon	4	50,000	0	0	0	0	200,000	0	0	0	0	0
SITC	3.48	575,000	0	0	0	0	0	0	0	2,000,000	0	0
Ghana Prawn Farms	3.18	1,100,000	0	0	0	0	0	0	0	3,500,000	0	0
Cluff Resources	3.00	2,275,000	0	0	0	0	0	0	0	0	0	6,825,000
AAPL Ghana	4	50,000	0	0	0	0	0	0	0	0	200,000	0
Unspecified	2	1,810,000	0	0	0	0	0	0	0	0	3,620,000	0
Total Proceeds Received		12,051,530	1,626,357	2,276,900	8,333,335	0	4,040,000	0	9,000,000	5,500,000	3,820,000	6,825,000
Cost Basis of Investment												
Eden Roc		1,601,530	350,695	350,695	900,140	0	0	0	0	0	0	0
CAL		350,000	0	0	0	0	350,000	0	0	0	0	0
GIHC		740,000	0	0	0	0	740,000	0	0	0	0	0
Fidelity		500,000	0	0	0	0	500,000	0	0	0	0	0
Central Glass		3,000,000	0	0	0	0	0	0	3,000,000	0	0	0
AAPL Cameroon		50,000	0	0	0	0	50,000	0	0	0	0	0
SITC		575,000	0	0	0	0	0	0	0	575,000	0	0
Ghana Prawn Farms		1,100,000	0	0	0	0	0	0	0	1,100,000	0	0
Cluff Resources		2,275,000	0	0	0	0	0	0	0	0	0	2,275,000
AAPL Ghana		50,000	0	0	0	0	0	0	0	0	50,000	0
Unspecified		1,810,000	0	0	0	0	0	0	0	0	1,810,000	0
Total Cost Basis		12,051,530	350,695	350,695	900,140	0	1,640,000	0	3,000,000	1,675,000	1,860,000	2,275,000
Gain/loss on portfolio sale			1,275,662	1,926,205	7,433,195	0	2,400,000	0	6,000,000	3,825,000	1,960,000	4,550,000
Dividends												
Eden Roc		1,601,530	0	0	0	0	0	0	0	0	0	0
CAL		350,000	20,000	20,000	20,000	20,000	20,000	0	0	0	0	0
GIHC		740,000	0	0	0	0	0	0	0	0	0	0
Fidelity		500,000	50,000	75,000	100,000	100,000	125,000	0	0	0	0	0
Central Glass		3,000,000	0	0	0	0	0	0	0	0	0	0
AAPL Cameroon		50,000	50,000	50,000	50,000	50,000	50,000	0	0	0	0	0
SITC		575,000	0	100,000	100,000	100,000	100,000	100,000	100,000	100,000	0	0
Ghana Prawn Farms		1,100,000	0	0	0	0	0	0	0	0	0	0
Cluff Resources		2,275,000	0	0	0	0	0	0	0	0	0	0
AAPL Ghana		50,000	0	0	0	0	0	0	0	0	0	0
Unspecified		1,810,000	0	0	0	0	0	0	0	0	0	0

AFRICA GROWTH FUND L.P.

PROJECTED CASHFLOW STATEMENT

(In United States Dollars)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Cash flow from operations:															
Net (loss) income	140,764	(400,384)	(435,452)	(227,030)	707,900	241,799	996,169	6,827,938	(1,008,871)	1,673,693	(1,175,985)	5,007,062	3,005,028	1,342,065	4,234,762
Adjustments to reconcile net (loss) income to net cash from operating activities:															
Increase/decrease in other assets	(444,448)	274,289	(450,958)	479,105	(182,391)	154,391	0	0	0	0	0	0	0	0	0
Increase/decrease in other payables	67,556	(12,732)	157,713	(92,927)	(16,232)	(28,378)	0	0	0	0	0	0	0	0	0
Increase/decrease in note reserve yield	0	0	0	0	0	(60,000)	(153,600)	(282,818)	(524,749)	(701,482)	(855,585)	(1,166,259)	(1,279,559)	(1,226,683)	(1 330 051)
Net cash from operating activities	(236,138)	(138,797)	(728,895)	159,148	529,277	307,812	842,569	6,545,122	(1,533,820)	972,211	(2,031,570)	3,840,803	1,725,469	115,381	2 904 711
Cash flows from investing activities															
Portfolio investments	0	(360,000)	(6,746,702)	(4,978,298)	(10,376,530)	415,696	480,695	1,582,640	1,277,500	2,954,286	1,815,000	4,750,000	3,122,500	2,962 500	2 605 000
Short term advances	0	0	(800,000)	800,000	0	0	0	0	0	0	0	0	0	0	0
Net cash from investing activities	0	(360,000)	(7,546,702)	(4,178,298)	(10,378,530)	415,696	480,695	1,582,640	1,277,500	2,954,286	1,815,000	4,750,000	3,122,500	2,962,500	2 605 000
Cash flows from financing activities															
Proceeds from partnership capital	2,575,000	2,575,000	0	0	0	0	0	0	0	0	0	0	0	0	0
Proceeds from issuance of notes payable	0	0	5,000,000	4,000,000	11,000,000	0	0	0	0	0	0	0	0	0	0
Note reserve payments	0	0	0	0	(1,000,000)	(1,500,000)	(2,000,000)	(2,500,000)	(2,000,000)	(1,500,000)	(1,500,000)	(250,000)	(250,000)	(250 000)	(250 000)
Net cash from financing activities	2,575,000	2,575,000	5,000,000	4,000,000	10,000,000	(1,500,000)	(2,000,000)	(2,500,000)	(2,000,000)	(1,500,000)	(1,500 000)	(250,000)	(250,000)	(250,000)	(250 000)
Net change in cash	2,338,862	2,086,203	(3,275,397)	(19,150)	152,747	(776,493)	(676,736)	5,627,762	(2,256,120)	2,426,497	(1,716,570)	8,340,803	4,597,969	2 827 881	5 459 711
Cash balance at beginning of year	0	2,338,862	4,425,065	1,149,668	1,130,518	1,283,264	506,771	(169,966)	5,457,796	3,201,677	5,628,174	3,911,604	12,252,407	16 850,376	19 678 257
Cash balance at end of year	2,338,862	4,425,065	1,149,668	1,130,518	1,283,264	506,771	(169,966)	5,457,796	3,201,677	5,628,174	3 911 604	12 252,407	16,850,376	19 678 257	25 137 968
Cashflow Analysis															
Distribution to investors	0	0	0	0	0	0	0	3,201,677	0	1 009 927	0	8,398,249	4,675,263	2 919 896	5 576 895
Fund manager fee	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
OPIC fee	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Investor capital	(2,575,000)	(2,575,000)	0	0	0	0	0	0	0	0	0	0	0	0	0
Total investor cashflow	(2,575,000)	(2,575,000)	0	0	0	0	0	3,201,677	0	1 009 927	0	8 398 249	4 675 263	2 919 896	5 576 895

Return to investors (IRR) 16 36%

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AFRICA GROWTH FUND L.P.

DEBT REPAYMENT SCHEDULE

(In United States Dollars)

	Capital	Interest Rate	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
GIHC												
Principal	2,000,000	8.00%	0	0	142,857	285,714		285,714	285,714	285,714	285,714	142,859
Interest			162,222	162,222	156,413	144,825	121,651	98,476	75,302	52,127	28,953	5,778
Profit Part		4.50%	0	0	0	0	0	0	0	0	0	0
Total			162,222	162,222	299,270	430,539	121,651	384,190	361,016	337,841	314,667	148,637
GIHC												
Principal	1,500,000	8.50%	0	0	107,143	214,286	214,286	214,286	214,286	214,286	214,286	107,141
Interest			129,271	129,271	124,841	115,408	96,940	78,473	60,006	41,539	23,071	4,604
Profit Part		4.50%	0	0	0	0	0	0	0	0	0	0
Total			129,271	129,271	231,784	329,694	311,226	292,759	274,292	255,825	237,357	111,745
AAPL Cameroon												
Principal	650,000	15.00%	65,000	130,000	130,000	130,000	130,000	65,000	0	0	0	0
Interest			93,808	74,127	54,356	34,585	14,815	4,929	0	0	0	0
Profit Part		10.00%	0	0	0	0	0	0	0	0	0	0
Total			158,808	204,127	184,356	164,585	144,815	69,929	0	0	0	0
SITC												
Principal	425,000	13.00%	0	0	0	42,500	85,000	85,000	85,000	85,000	42,500	0
Interest			56,017	56,017	56,017	53,209	42,005	30,802	19,598	2,793	0	0
Total			56,017	56,017	56,017	95,709	127,005	115,802	104,598	87,793	42,500	0
Ghana Prawn Farms												
Principal	1,300,000	16.00%	0	0	130,000	260,000	260,000	260,000	260,000	130,000	0	0
Interest			210,880	210,880	200,316	158,138	115,960	73,782	31,604	10,516	0	0
Total			210,880	210,880	330,316	418,138	375,960	333,782	291,604	140,516	0	0
Chill Resources												
Principal	1,725,000	11.00%	0	0	172,500	345,000	345,000	345,000	345,000	172,500	0	0
Interest			210,880	210,880	182,740	144,263	105,786	67,309	28,831	9,593	0	0
Total			210,880	210,880	355,240	489,263	450,786	412,309	373,831	182,093	0	0
AAPL Ghana												
Principal	350,000	15.00%	0	0	0	0	35,000	70,000	70,000	70,000	70,000	35,000
Interest			26,542	26,542	26,542	26,542	50,560	39,915	29,269	18,623	7,977	[illegible]654
Total			26,542	26,542	26,542	26,542	85,560	109,915	99,269	88,623	77,977	37,654
Unspecified												
Principal	2,450,000	13.00%	0	0	0	0	245,000	490,000	490,000	490,000	490,000	245,000
Interest			161,019	161,019	161,019	161,019	306,733	242,148	177,564	112,979	48,394	16,102
Total			161,019	161,019	161,019	161,019	551,733	732,148	667,564	602,979	538,394	261,102
Total Principal	10,400,000		65,000	130,000	682,500	1,277,500	1,314,286	1,815,000	1,750,0[illegible]	1,447,500	1,102,500	530,000
Total Interest			1,050,747	1,030,976	962,044	837,989	654,450	635,634	422,1[illegible]4	248,169	108,395	29,138
Total Profit Part			0	0	0	0	0	0	0	0	0	0

Effectiveness of Fund Management - Observations

- No troubled investments
- Some current indications of positive performance
- Conscious strategy of "cherry picking" the best available deals that fit AGF's unique objectives and requirements
- Clear emphasis on, and evidence of, quality "partners" and relationships essential for success
- Appropriate concern and perspective re. local economic, social, and environmental development
- Creation of multiple synergies among various ventures, markets, and relationships
- Indicators of growing AGF network/contacts, credibility, reputation, and regard for MP's business capabilities and counsel. Attracting and generating more and higher quality opportunities and potential involvement from other investment entities

General Partner & Managing Partner Management - Observations

- The GP and MP are highly committed to a successful outcome and have much at stake. They appear to be cognizant of the key factors and challenges involved in achieving success and managing the onerous cash flow demands - e.g. partnership "understanding" and portfolio investment structures have been crafted to provide multiple possibilities for income and cash and ways of getting money out.

- The LP investors indicate high regard for the MP's conduct of fund operations, even though they regard prospects for return as unknowable at this time.

- Given AGF's structure, terms and resources, the GP/MP are proceeding with high levels of competence, good judgement and skill as well as an exceptional sense of responsibility in managing fund business while pursuing the AGF mission. Specifically, the management demonstrates:

    - Sound and thoughtful judgement exercised in all key management areas;

    - Evident good "chemistry" in relationships with principals and partners at all levels;

    - High sensitivity and ingenuity regarding unique challenges, complexities, and nuances of investing in Africa and particular localities; and

    - Shrewd, creative, comprehensive approach to deals, structuring, risk management, business and financial strategy.

D. COST EFFECTIVENESS

Cost Effectiveness Parameters

- Measures of activity, accomplishment or benefit
  Measures of associated costs (as related to mission, goals and objectives)

- **Cost perspectives**

  - Time frame - current/short term/long term

  - Hard costs - out of pocket

  - Soft costs - indirect, less tangible

  - Cost bases/costs to whom:

    The GP - Development costs and management costs

    OPIC - Costs of risk exposure and sponsorship

    A.I.D. - $1.4 Million start up/bridging support

- **Effectiveness Perspectives**

  Performance/Impact measures and value creation

  - Short run - long run
  - Tangible - intangible
  - Quantifiable - unquantifiable

  Relevant or related comparisons

  - VC Industry
  - Similar type investment vehicles

Remote Distance of AGF Hartford and London Headquarters from African Investments

- While remote location is counter to industry practice, as noted, the management fee is standard even for a U.S. fund with a local marketplace. While economies may logically be realized if AGF's headquarters were in Africa, any extra costs associated with distance are absorbed by Equator - out of their own profitability - not out of investor or government funds.

- Several offsetting observations follow:

    - M.P./G.P. conducts operations prudently and within G.P. management fee;

    - M.P. on site <u>over</u> 100 days/year in Africa (10 to 15 trips per year);

    - Equator's local Africa staff, network, and activities provide supplementary coverage, involvement and information flow;

    - Choice of local partners, quality of relationships, and access to investor information tend to mitigate distance/cost problems;

    - M.P. better able to maintain relations with L.P. investors, OPIC officials, and relevant international organizations and networks in the U.S. -- as well as Equator's international communication and 'back office' operation;

    - Travel costs are shared by African companies;

    - Clustering of deals geographically, and among lines of business creates efficiencies and synergies.

Cost Effectiveness - Observations

- **Venture Capital Industry Comparisons**

  - 2.5 % management fee : Average for fund without international travel

  - Legal, placement, and organization costs absorbed by fund : High

  - Fund raising : Cost-ineffective

  - Cost per investment ($500K) as measured in cumulative expe. ditures (3 1/2 years) over 7 investments (or 4 1/2 years for 12 investments), is primarily a function of intended purpose, design, and strategy.

  - Premature for any long term comparisons - contingent on performance. Valid comparison should include benefits and economic value created at time of cash-out.

  - AGF size of $25 million is small by industry comparison, tending to create disproportionately higher cost burden carried by smaller portfolio (further exaggerated by costs of $20M debt).

- **AGF Perspective**

  - Given mission, structure, and start-up costs, AGF is now managing funds cost-effectively and prudently

  - At this stage, indicators of tangible achievements/benefits/value are speculative - premature to assess long term cost-effectiveness

- Given AGF mission, it can be said that AGF funds are being used effectively to lay groundwork for the future

- Future assessment of cost-effectiveness should include range of achievements/benefits/values over time - tangible and intangible. Some indicators are objective, others are soft and speculative. Possible longer term aspects of impact and benefit include:

  - degree of participation in company growth
  - value being added and created over time - deal by deal
  - role of AGF in making the deal happen
  - future income stream being created
  - new business possibilities being created: financial and developmental opportunities
  - attracting other investors
  - intangibles business values being created, such as reputation, goodwill, credibility, relationships
  - development of entrepreneurs

- Investments appear slow in developing, though G.P expects to conclude in 1993 on schedule. This is a function of:

  - original plan not to make investments until 18 months
  - the limited supply of quality, large enough deals meeting AGF criteria
  - AGF due diligence process

- Value of long due diligence periods <u>can not</u> be discounted. It has been a strategic advantage thus far for:

  - finding quality deals that meet AGF's unique requirements and objectives, and are large enough to be worthwhile
  - assessing, evaluating, and testing the deal, the risks, the partners <u>and</u> relationships
  - dealing with the unique complexities of African investment
  - waiting for right time for advantageous deal structure and terms.

- AGF is presently "borrowing <u>short</u>" and "lending/investing <u>long</u>". Consider "fixing" the interest rates for 5 years to create a better match of sources and uses of cash, and forecast of cash flow.

o **<u>OPIC Perspective</u>**

- Given OPIC's mission and associated costs of risk exposure and sponsorship, present development and potentials of the future indicate a reasonable outcome for the cost.

o **<u>A.I.D. Perspective</u>**

- Given A.I.D.'s mission and $1.4 million to support AGF at a critical time. AGF's current development and future potential seem supportive of one of A.I.D. 's objectives and not inconsistent with the other.

E. DEVELOPMENT IMPACT

Development Perspectives

Development impact has many dimensions - ranging from hard and quantifiable to soft and qualitative. At this early stage, impact assessment is largely speculative and will be a function of long-term performance and growth of each investment.

- **Economic Development**
  - Income Generation
  - Employment
  - Foreign exchange
  - Capital Formation
  - Productivity/competitiveness
- **Private Sector Development**
  - Investment marketplace (participants on both supply and demand side)
  - Financial "technology" transfer -- capacity building
  - Enterprise development
  - Management development
- **Social Development**
  - Community Services
  - Skills Transfer
  - Living Standards

* There are some early stage indicators of potential development consequences among AGF investments.

Summary Table: Development Impact of AGF Investments

Development Impact: ---------Economic--------- ---------Private Sector---------

Investment	No. Employees	Income/ Payroll	Potential for generating/attracting capital	Technology Transfer/Skill	Market Development	Local Ownership/ Capacity building
Continental Acceptance Limited (Ghana)	92	$600,000	Development of primary & secondary markets	New commercial, merchant, investment banking services	Financial Services Development	40% local firm ownership
Gaberone International Hotel (Botswana)	327	$1,692,580	Tourist dollars	Hotel Mgmt. & Marketing	First three star hotel	75% equity ownership local
Eden Roc (Cote d'Ivoire)	125	substantial	Exports/ on stock exchange	Mineral extraction & reserve development	Low production costs: expansion planned	13.8% public ownership
Fidelity Resources Limited (Ghana)	140	substantial	Increased capital due to expansion of services	Company building -mgt., financial, market development -infrastructure investing	Developing relationships w/ suppliers (some foreign)	70% local ownership
Africa Air Products Limited (Cameroon)	12	$114,000	Production expected to expand throughout West Africa, increasing capital.	Advanced equipment	Increased local production decreases reliance on foreign firms.	78% local ownership
Société Ivoirienne de Torréfaction de Café (Cote d'Ivoire)	estimated 50	start up	Exports expected to increased capital base	-Coffee roasting and grinding -Market & export dev't	unknown	51% Ivorian public ownership
Ghana Prawn Farm	estimated 80	start up	Exports to increase capital base.	Prawn farming (non-traditional export)	Expected to increase local farm production & develop a nucleus estate project	Local tribal ownership
Central Glass Industries (Kenya)	322	substantial	Expected sales to large users to increase capital base.	Glass bottle manufacturing	Expansion to result in local market development	65% local, or stock exchange participation

37a

AGF Value Added (early stage/near term)

A closer look at the "benefit" side of the cost-effectiveness equation and the development impact.

Questions:

1. What difference did/does AGF make beyond putting in their funds?
2. Would these deals have happened anyway?

INVESTMENT	U.S. Involvement	Equity	Investors
Botswana Sheraton Hotel	Sheraton -OPIC	$9M	Local(gov't & pension): 76% Foreign: 24%
Eden Roc (gold mine)	U.S. investors U.S. equipment U.S. technology U.S management expertise (OPIC)	$12M	Local (gov't):32% Foreign: 68%
CAL (merchant bank)	U.S. investor U.S. technical service	$3.M	Local: 40% Foreign: 60%
Fidelity Resources (infrastructure /investment)	Franchises U.S. exports/truck/ auto/earth moving pumps U.S. prefab. housing	$1.3M	Local: 70% Foreign: 30%
AAPC (portable oxygen)	U.S. technology U.S. equipment (medical & industrial)	$200K	Local: 51% Foreign: 49%
Central Glass (bottles)	supply/support U.S. multi-national (Coca Cola)	$20M	Local: 84% Foreign: 16%
SITC (coffee)	Exploring U.S. supply contract	$1.5M	Local: 74% Foreign: 26%
Ghana Prawn Farms	U.S. investor U.S. aqua-culture leader U.S. technology transfer Exploring USAID support of electrification/training	$3.5M	Local: 12% Foreign: 88%

AGF Difference

INVESTMENT	Little or no difference	Significant Contribution	Would not have happened
Botswana Sheraton Hotel	X		
Eden Roc (gold mine)		X	
CAL (merchant bank)		X	
Fidelity Resources (infrastructure /investment			X
AAPC (portable oxygen)			X
Central Glass (bottles)		X	
SITC (coffee)			X
Ghana Prawn Farms			X

Development Impact - Observations

- Early stage indications of development impact (economic, private sector, and social) are small in scale but important in character. There appears to be potential for significant development outcomes over the longer term as portfolio companies continue to grow and improve their performance.

- AGF does make a major difference and a value-added contribution in most of its investments. Half of them would not have happened without AGF.

- AGF management, though focusing primarily on a commercial goal, is clearly sensitive to the range of development issues and the possibilities for addressing them responsibly -- consistent with OPIC's and AID's private sector development objectives.

- There is some evidence of a development dimension over-and-above the sum of individual investments:

  AGF, the M.P. and Equator staff are becoming "lightening rods", or catalysts for investment and business development opportunities. Their counsel is being sought as a value-adding source for the strategies/technology involved in facilitating and structuring business transactions and for the responsible development of businesses. There is a long term potential over time for transferring and multiplying financial, technical, management, investment and venture development capabilities.

F. LESSONS LEARNED

- Choices of structure are very significant in mobilizing investors/capital, managing investments, and producing financial returns -- and must be formulated with these ramifications in mind.

- Leverage, while attractive in some ways, needs to be balanced with other considerations of mission, partner objectives, investment management and financial performance factors.

- Fundraising requires a clearly defined management team with an applicable track record, supportable focus with a documentable investment case -- and a highly professional, rigorous, credible approach to projected targets in the investor marketplace.

- The quality, capability, & commitment of fund management is crucial to every aspect of the VC model - and is a limiting factor in the replication of this type of investment vehicle. Until there is a track record of successful investment, private investors and management will be scarce.

- The AGF "Demonstration" experience, even though highly specialized, offers significant opportunities as an ongoing R&D project that could yield valuable strategic lessons, relationships, and intelligence about investment and private sector development in emerging/transitional business environments.

- There appears to be a limited but growing number and quality of investment opportunities that fit AGF's specialized, top-of-the-line, "Cherry-picking" strategy. Higher risks, stakes, and rewards are possible in a developing, transitional economy - but the difficulties and challenges of succeeding are formidable and should not be underestimated. The smell of success will bring competition and present new challenges.

- Divesting, "exiting', liquidating investments and getting money back. Worth noting that only a very small fraction (less than 5% of a thousand U.S. VC funds have legally fully divested over last 15 years. Getting successfully out of all positions will be the ultimate challenge for AGF.

- Focusing primarily on the commercial versus development goal brings financial and market-driven discipline to investment process and results - though private sector development objectives can be pursued in a subsidiary, subordinate, by-product manner.

III. EQUITY INVESTING IN THE LARGER CONTEXT

A. VENTURE CAPITAL IN THE UNITED STATES

Venture Capital Market Niche - U.S.A.

o Venture capital in the relatively conventional AGF form represents only a small fraction of capital sources, and can address the capital needs of only a small fraction of businesses. Most equity funding comes from other sources, as does nearly all debt.

The spectrum of other sources includes:

- Personal assets;
- Friends and family;
- "Angels," informal: other entrepreneurs, private individuals
- Extended family or business networks;
- Internally generated funds;
- Suppliers and creditors;
- Banks and credit organizations;
- Joint venture or corporate partners;
- Asset-based lenders;
- Private placements/investment banking (formal private equity markets);
- Merchant banks;
- Larger private institutional investors/lenders (eg. insurance companies);
- SBIC-like programs (primary public lenders leveraging private investor equity);
- Government supported development institutions and programs;
- Conventional venture capital;
- Public equity markets;
- Leasing.

Venture Capital in the Larger U.S. Context

Companies:

- 10 million businesses

  3 million corporations
  20,000 public
  5,000 listed on stock exchanges
  over 200,000 viable companies (mid-level) do not meet VC criteria

- 1 - 2 % annual start-ups public in 5 years
  only 1/2 of one % have high potential (5 - 10 times in 5 years)

- Venture funds invest in only (+ -) 2000 companies per year (only 1000 new ones)

- "Angels", informal, private individuals invest in 20-30,000 /year

- Start-ups and early stage of companies attract 60% angel $
  -only 25% of VC $.

VC in the U.S. Context

Annual Business Financing

Total Annual Pie: $80 Billion (+$50 Billion internal cash - not including personal/family assets, or trade credit)

Banks	$50 Billion
"Angels"	$25 Billion
Venture Capital	$2-3 Billion
Public	$3+ Billion
SBIC	$1/2 Billion

Types of investors: Motivation and Criteria

TYPE	MOTIVATION	CRITERIA
Personal assets family/friends	-entrepreneur -give little away as possible -do what others won't -survival	-ownership & control -manage destiny
"Angels"	-gamble for stakes -personal involvement -make good return -multiply personal success -private relationship	-personal synergy (market/product) -reasonable return -piece of the action -no/little intermediary
Venture Capitalists	-active participation -make big $ -provide TA -risk manager	-5-10x/5 years -very good management -exercising influence - adding value
SBIC	-like VC only lower returns, less risk, more current income, less involvement	-like VC only lower returns, less risk, more current income, less involvement
Banks	-small return, small risk -ongoing business -market share	-security -collateral -track record -ability to repay
Public	-passive, detached -trust capital market system	-individual risk/return values
Trade credit	-increase/protect supplier/customer relationship and market share -good customer	-cash flow -no hassle -low risk

B. AGF IN THE AFRICAN INVESTMENT MARKETPLACE

- **Top fraction of 1% of deal quality**
  - Size
  - Management
  - Market potential
  - Capitalization
  - Sophistication
  - Risk/reward
  - Growth prospects

- **At this level of capitalization ($1-10M) the participants are mostly:**
  - Elite
  - Wealthy family
  - Foreigners
  - Government
  - Development Impact
  - Exceptional entrepreneur

- **The majority of business financing situations**
  - Smaller size
  - Need less $
  - Less sophisticated
  - Need more management technological assistance
  - Capitalization from private informal sources
  - Less access to elites
  - Less likely to support/debt (mixed)
  - Less access to formal commercial infrastructure (public or private)

C. INVESTMENT ENVIRONMENT - AFRICA v. U.S.A.

FACTOR	AFRICA	U.S.A.
Predictability and planning horizon	uncertain/short	relatively high/longer
Exit Alternatives/Capital Markets	few	many
Inflation	high	low
Currency convertibility	mixed	total
Political/Economic Stability	situational/uncertain	stable
Stages of industry and market development	early	mature
Attitudes about success	very mixed	relatively positive
Nature of risks	more complex, higher	fewer, mostly business risks
Legal contract	questionable	standard
Commercial infrastructure	primitive, emerging	developed
Level of sophistication and formality	low	high
Management development	beginning	widespread
Size/#/Availability of deals	99% smaller, less developed	abundant
Need for value-added technical assistance	high	mixed
Homogeneity of environment	low	high
Competition for opportunities	just developing/few alternative	many alternatives
Government, public sector involvement	high	low
Nature of risks, opportunities/strategies	* * --very different-- * *	

D. KEY ISSUES AND QUESTIONS FOR DISCUSSION

- What are the applications and limitations of the VC-type model in the early stage, emerging or transitional economy? Are there ways to go from "Custom-shop" to "wholesale and retail" distribution?

- What are the business financing needs and opportunities in a developing market economy which could legitimately support private sector investment and risk/returns? How to realistically define the scope, magnitude and accessibility of this investment marketplace? (the "demand" side of the financing equation)

- What are the technical assistance needs of this marketplace?

- What/who are the present financing sources, mechanisms, and players that are on the "supply" side of the equation?

- What are the existing investment arrangements, relationships, mechanisms which could be expanded, leveraged, supplemented?

- Lessons being learned by the various alternative models out in the field during the last 5 - 10 years?

- What new/alternative approaches could be explored ("re-inventing" private sector financing mechanisms and incentives for involvement?)

- To this end, what learning might come from a fast, systematic survey of the 10 or 15 most pioneering and productive investment vehicles/mechanisms in Eastern Europe, Africa, Asia, and Latin America to glean lessons and ideas for a "re-invention" process in 1993?

- How to leverage small amounts of public capital and mobilize large amounts of private capital, especially through the large sector of informal private investors?

- What "problem" are we trying to solve - and what are the right/useful questions to be asking at this point?

IV. AFRICA GROWTH FUND EVALUATION RETREAT: DISCUSSION POINTS, ISSUES, AND QUESTIONS

▸ Legal costs high

- High due to use of three sets of intermediaries and lawyers and OPIC debt guarantee documents in addition to Venture Capital partnership documents. Also the preparation of an unnecessarily detailed prospectus considering the small number of sophisticated investors.

- Citicorp, the second and only successful fund raising agent, prematurely terminated its involvement for internal corporate reasons.

▸ Investor motivations

Positive: Some corporations perceived AGF as fitting their self-interest in Africa; the terms of OPIC's Asia-Pacific fund solve the structural problems that tended to deter possible AGF investors.

Negative: Corporations prefer to invest in their own African activities; also there was no experienced African investment funds to base judgements on.

▸ Alternative venture capital general partners to equator

- While there were several other "Venture Capital-like" funds with regional and developmental focus, none had an applicable Africa VC track record or were equipped to be a General Partner.

▸ Common interests between Managing Partner and Limited Partners

- Essential to have common financial and performance objectives.

- Very important to have Managing Partner's compensation be a function of these objectives.

- 2.5% management fee for AGF is appropriate; may even be a case for slightly higher fee to cover additional "international" costs. Key criterion is, "what is sufficient to do the job right". All expenses paid out of management fee or profitability of General Partners.

- Wall Street and venture capital fundraising

  Wall Street goes after larger deals than AGF's $10 million target, and with a few exceptions does not have the "hands-on" experience and appetite to do it effectively.

- Importance of management team

  Critical to success of fundraising and investor decisions, as well as fund performance.

- Appeal of OPIC's Asia-Pacific Fund

  - Terms much more attractive to investors than AGF terms;
  - Much more workable and flexible for General Partner and fund management;
  - Limited Partner "owners" have power.

- Flexibility of AGF terms

  - OPIC has flexibility to renegotiate, restructure AGF debt deal. OPIC picks up loan if default;
  - Limited Partner "owners" have the power to replace AGF management team with 120 days notice - based on poor performance. The key is effectiveness as Venture Capital investment managers.

- "Position" of AGF in deal/capital structure

  - Number of deals involving country government participation, with percent positions, listed in report and deal tables
  - Deals with "technical" partners also listed in tables.
  - AGF seeks a minority position so as not to have "operational" responsibility.
  - AGF imperative is to seek right local partner, right "chemistry", and partner versus "banker/financier" relationship; for management and investors to "be in the same boat."
  - AGF is active versus passive participant in portfolio companies.

- Purposes and value of debt investments

  - Easier to manage an all-equity fund without complication of debt capital.

- However, debt investments serve valuable purposes--such as strategic information flow about business operations, early indicators of performance and problems, financial discipline, and return of cash.

- <u>OPIC oversight</u>

  OPIC monitors and conducts internal oversight of loans and guarantees.

- <u>Competition for AGF</u>

  - Not much yet - to small extent Meridien Bank;
  - Mainly IFC, CDC, and CDC/AID funds.

- <u>Phases of AGF development and marketplace</u>

  - First 1-2 years saw more deals with development orientation.
  - Now, more deals with profit and ROI goals; also more entrepreneurial teams and higher quality deals.

- <u>Cost per investment</u>

  Relatively high - comparable to other investment vehicles with small number of deals, long term, larger size, higher risk investment--also emphasis on adding value and cultivating exit strategies from the beginning.

- <u>AGF marketplace</u>

  - AGF has reviewed deals in 8 countries;
  - Next countries of interest include Angola, Namibia, and South Africa when they open up.

- <u>Extent to which AGF is catalyst for more venture capital funds?</u>

  - A few feelers and followers are in development stages, each with their own particular focus.
  - Some new initiatives developing with IFC, World Bank, and AID.
  - Purposes include privatization, private/public approaches.
  - A little early to measure much, however AGF is attracting co-investors (public and private) and increasing interest from various quarters.

- <u>Possibilities of AGF 2?</u>

  - Wary of pension funds as possible sources - too conservative.
  - As soon as real track record develops for AGF-1, then actual quality of deals and AGF management will attract investors.
  - Potential corroborated by Bill Benedetto, successful Venture Capital fundraiser who assessed AGF and investor marketplace.

- <u>Difficulty of Divesting</u>

  - Should anticipate, never underestimate, the difficulty of divesting and getting money out, especially with minority position.
  - AGF has been investing with a focus on cultivating exit possibilities from the beginning - reflected in deal structures (see deal tables).
  - AGF a "closed-end" fund and must exit.

- <u>A Ghana Fund not realistic</u>

  - Country too small and not diverse enough to provide adequate deal-flow, "absorption," or range of deal characteristics.
  - Too skewed toward large mining/resource deals; not wide enough deal range to spread reward and risk possibilities; too dependent on one small economic/political environment.

- Should U.S.-supported investment vehicles/strategies be Africanized versus exporting conventional U.S. models

  - US models are highly specialized and reach very narrow segment of business marketplace;
  - Need to examine ways to leverage indigenous financial/entrepreneurial networks, intermediaries and "informal" investors.
  - what possibilities for wider distribution and lower cost structures?
  - What are the issues?
  - How realistic? To what extent is investment capital the primary problem versus other problems and risks?
  - Who are local financial decision makers?
  - Are the economic/political environments and infrastructures at too early stage of development to absorb large amounts of money?
  - Where will money come from?

- Extent to which there is a secondary market for investment paper? To support investment?

  - Not much, appropriate, or realistic at this stage in Africa.
  - Does exist in India and some in Latin America.
  - Americans highly skeptical about investing abroad, even Taiwan, much less Africa. Not attracted where perception of risk is high.
  - If no secondary market in Africa for government debt, then unlikely for private equity.

- Pluralism of private investment approaches

  - Advent of "socially-conscious" investment funds in USA and beginning internationally.
  - There is now a secondary market for VC funds in the USA - in a mature Venture Capital marketplace.

APPENDIX A

Information Sources

National Venture Capital Association

Securities and Exchange Commission and congressional testimony of Chairman Richard Breeden on Small Business Finance

National Association of Securities Dealers

NASBIC, Peter McNish, Executive Director

Center for Study of Small Business, Tom Gray, Director (formerly at SBA)

Venture Economics (primary information center for the venture capital industry)

Stanley Pratt, (Pratt's Guide to Venture Capital). President, Harvard Capital, and leading advisor to VC industry

Bill Benedetto of Benedetto, Gartland and Greene - a leading fundraising and placement agent for venture capital (Raised money for 7 VC funds including OPIC's Asis Pacific Fund)

David Gladstone, President of Allied Capital and author of Venture Capital Handbook

Bruce Posnar, business financing/capital marakets authority, INC. Magazine

Professor Bill Sahlman, Harvard Business School (leading authority on entrepreneurial business development and financing)

Professor William Wetzell, University of New Hampshire (the acknowledged authority on informal, private sources of venture financing)

Venture Fund of Washington, Richard Whitney, M.P.

APPENDIX B

DEVELOPMENT IMPACT OF AGF INVESTMENT

Continental Acceptances Limited - Ghana

Current Employment Level	92 local employees
Current Payroll	CEDIS 300 million/$600,000
Technology/Skill Transfer	Technology contract with U.S. firm for technology - new banking services
Foreign Exchange Impact	none
Capital Attraction	Listed on Ghana Stock Exchange: developing primary and secondary markets
Market Development	New Financial and Trade Services, especially wholesale banking Produces foreign exchange facilities
Growth Prospects	Above Average
Business Synergies	Reinforces deposit-taking and trade finance business
Government Participation	none
Local firm Participation	40% Ghana shareholding

DEVELOPMENT IMPACT OF AGF INVESTMENT

Gaberone International Hotel - Botswana

Current Employment Level	327 local employees (2/3 expats.)
Current Payroll	Pula 3,385,000/$1,692,580
Technology/Skill Transfer	Hotel Management and Marketing provided by Sheraton
Foreign Exchange Impact	Tourist dollars
Capital Attraction	Generates foreign exchange
Market Development	First three star hotel with conference facilities and services.
Growth Prospects	Good
Business Synergies	Improved infrastructure
Government Participation	Parastatal participation
Other Effects	Improved infrastructure
Local firm Participation	75% equity ownership

DEVELOPMENT IMPACT OF AGF INVESTMENT

Eden Roc - Cote d'Ivoire

Current Employment Level	125 local employees
Current Payroll	Substantial for local enterprise
Technology/Skill Transfer	Geological: mineral extraction Managerial technical development
Foreign Exchange Impact	Significant - Exporting gold
Capital Attraction	listed on stock exchange, exports, local co-investors
Market Development	Negotiating enlarged concession area. Expanding/adding value to national reserves & wealth
Growth Prospects -productivity -competitiveness	Excellent - low production costs
Business Synergies	Gold Coast Motors - equipment/transport
Government Participation	10% ownership & strong support
Local Ownership Participation -mgmt. -public	13.8% public ownership -community services - health -support services

<u>DEVELOPMENT IMPACT OF AGF INVESTMENT</u>

Fidelity Resources Limited - Ghana

Current Employment Level	140 local employees
Current Payroll	
Technology/Skill Transfer	none
Foreign Exchange Impact	none
Capital Attraction	Expansion of services is increasing capital generation
Market Development	Introduction of American imports, creating relationships with foreign suppliers
Growth Prospects	Good
Business Synergies	Equipment and transport supporting other portfolio investments
Government Participation	none
Local firm Participation	70% local

DEVELOPMENT IMPACT OF AGF INVESTMENT

Africa Air Products Limited - Cameroon

Current Employment Level	12 local employees
Current Payroll	CFA 30 million/$114,000
Technology/Skill Transfer	Advanced equipment for oxygen cylinder refilling & acetylene and nitrogen production supplied.
Foreign Exchange Impact	none
Capital Attraction	Production at 46% of capacity after 8 mos. of operation. Sales and production within Africa expected to increase.
Market Development	Local production of oxygen is intended to provide 50% savings in relation to purchase from other companies. Expected expansion throughout West Africa will have market development effects in each nation (possible expansion throughout Africa)
Growth Prospects	Good
Business Synergies	Regional application can be used by other investments.
Government Participation	none
Local firm Participation	78% ownership

DEVELOPMENT IMPACT OF AGF INVESTMENT

Central Glass Industries - Kenya

Current Employment Level	322 local employees
Current Payroll	
Technology/Skill Transfer	Transfer of technology and skills required to produce glass bottles
Foreign Exchange Impact	Exports
Capital Attraction	Yes - 100 % absorbed in local marketplace.
Market Development	3 years old - production increased to plant capacity
Growth Prospects	Good
Business Synergies	Yes - Sales to a major shareholder, a local company and to AGF investors
Government Participation	21 % ownership
Local firm/individuals Participation	65 % (or stock exchange)

DEVELOPMENT IMPACT OF AGF INVESTMENT

Société Ivoirienne de Torréfaction de Café - Cote d'Ivoire

Current Employment Level	50 local employees
Current Payroll	
Technology/Skill Transfer	Coffee roasting and grinding technologies
Foreign Exchange Impact	Exports
Capital Attraction	Exports expected to increased capital base
Market Development	Second non-traditional export for Cote d'Ivoire. Some production sold to West Africa.
Growth Prospects	Good - much export potential
Business Synergies	none
Government Participation	none
Local firm/individuals Participation	51% Ivorian public ownership

DEVELOPMENT IMPACT OF AGF INVESTMENT

Ghana Prawn Farm - Ghana

Current Employment Level	estimated 80
Current Payroll	
Technology/Skill Transfer	Aquaculture/prawn farming supplied by technical partner and/or foreign prawn farming companies
Foreign Exchange Impact	Exports
Capital Attraction	Export income
Market Development	New farming commodity being developed, taking advantage of non-polluted estuary
Growth Prospects	Good
Business Synergies	Banking services and equipment suppliers
Government Participation	Strong support
Local firm/individuals Participation	Local Tribe participation

APPENDIX C

Continental Acceptance Limited	
Country	Ghana
Initial Request Date of Commitment Date of Disbursement	May 28, 1990 September 19, 1990 December 31, 1990
Due Diligence Period	217 days
Sector	Merchant Bank pioneering specialized financial services such as banker's acceptances, commercial paper, factoring, and leasing in Ghana. Also deposit-taking and trade financing.
Investors and Capital Structure	Vanguard Group 40% International Finance Corporation 25% Commonwealth Devel. Corp. 15% Pryor, McClendon et al 10% Africa Growth Fund 10%
AGF Deal Structure	$350,000 for a 10% equity interest in CAL
AGF Investment Strategy	Equity Participation in lending house in Ghana with on and off shore capabilities for current political, economic intelligence in Ghana. To provide appropriate financial services to other AGF investments to provide alternatives for exit. Seat on Board of Directors.
Key Local Partners	Vanguard Group (composed of Ghanian institutional and individual investors)
Exit Strategy	Sell shares on local equity market. Possible Vanguard purchase of AGF shares.
Key Risk Areas	Lack of liquidity Exposure to large bad loans Risk of management departure to other duties Political disruptions Competition
Current Indicators of Value and Growth	Strong capital base (C1 billion in equity) IMF estimates CAL will control 20-25% of the Ghanian wholesale banking market w/in the next 3-4 years, producing a favorable stream of dividends -showing Internal Rate of Return of 20%
Expected Return on Investment	Return on Investment in Constant $ = 25 - 30 %

Continental Acceptance Limited	
Synergies with other investments	Gold Coast Motors Air Products financial and trade facilities for other investments on and offshore. Foreign exchange facilities
Competitive Advantage	New services will reinforce deposit-taking and trade finance business. Government working closely w/ World Bank and IMF to institute sector adjustment programs and developing primary and secondary money markets.

Gaberone International Hotel Co.	
Country	Botswana
Initial Request Date of Commitment Date of Disbursement	January 20, 1990 July 19, 1990 December 17, 1991
Due Diligence Period	696 days
Sector	Hotel
Investors and Capital Structure	Botswana Development Corp 54.31% Botswana Insurance Corporation 9.14% Botswana Pension Fund 12.18% Africa Growth Fund 7.61% Commonwealth Devel. Corp. 7.61% FMO (Netherlands) 5.08% Sheraton 4.06%
Deal Structure	AGF: $750,000 in common equity and $3.5 million subordinated income participation notes. 8.5% p.a. interest plus 13% of annual cash flow (Cap of 17% per annum) 12 year loans 14 equal semi annual payments after 5th year Put and Call options: 15% p.a. put & 22% p.a. call with BDC OPIC guarantee for 2 million of the 3.5 million - fully salable and available for cash flow for AGF.
AGF Investment Strategy	Create current income from debt service and participation in cash flow. Salable $2 million. Long term equity appreciation possibility with put/call agreement. Seat on Board of Directors.
Key Local Partners	Botswana Development Corp Botswana Insurance Corporation Botswana Pension Fund
Exit Strategy	Put/call agreements Existing shareholders Local pension funds Botswana Stock Exchange
Key Risk Areas	New Competitors Dependence on diamond industry (60% of country revenues)

	Gaberone International Hotel Co.
Current Indicators of Value and Growth	• 18% return for 1/92-7/92 period with 36% room revenue and 62.9 occupancy level. • Interest on the Fund's $3.5 million subordinated loan received on schedule. • Adequate debt coverage throughout life of loans. • More that adequate cash flows to serve debt. • Involvement of Sheraton brings marketing and management experience. • High Demand - Botswana is currently the most viable • African economy and government support is high. • OPIC subordinating financing with a profit participation feature thus retaining the liquidity right of the scheduled amortization.
Synergies with other investments/potential investments	May include -Ecoturism -Sheraton Corporation

Eden Roc Somiaf	
Country	Cote d'Ivoire
Initial Request Date of Commitment Date of Disbursement	May 28, 1990 September 19, 1990 December 31, 1990
Due Diligence Period	302 days
Sector	Gold Mining
Investors and Capital Structure	Presently: Marshall Minerals 59.8% Public 13.8% AGF 18.4% Swiss Insurance 8.0%
Deal Structure	$2.5 million equity (Purchase of 5,750,000 in common stock in Eden Roc) Eden Roc has 90% interest in Afema gold concession in the Cote d'Ivoire. Government has 10% interest. $603,000 in short term debt
AGF Investment Strategy	Minimum of 50% of net profit expected to be paid out in dividends annually to reduce risks. Participate in dividend stream for gold production Long term capital appreciation or publicly traded stock. Seat on Board of Directors.
Key Local Partners	Government/general public
Exit Strategy	-Plans for U.S. listings for the company after production commences should increase valuation and liquidity of the stock (listed in Toronto) -Eden Roc's parent may purchase the Fund's shares -Ivorian investors are potential buyers -U.S. brokerage firm potential buyer
Key Risk Areas	-Lower grade of ore mined posed a threat if the cost of mining was not adequately offset by the selling price. This is no longer a risk. -Involvement of other investors in a publicly traded stock
Expected Rate of Return	Estimated ROE: 14% Estimated IRR: 60%

Eden Roc Somiaf	
Current Indicators of Value	Unaudited accounts as of June 30, 1992 reflect a positive cash flow for the first time. Net Cash is expected to generate $41 million for an average return over six years of approximately 14.2% and 21% over the first three years of production. Publicly traded stock price has risen from .50 to $1.50 - $1.65 on Toronto exchange. (Canadian Dollars) Gold production is at $160/oz. while current selling price is $333/oz. Eden Roc is documenting the large reserves value and determining the value associated with selling them off.
Synergies with other investments and Growth	Equipment/transport: Gold Coast Motors
Competitive Advantage	-Company's production costs are far lower that those of many international producers, thus assuring its relative profitability in all but the most catastrophic pricing scenarios -Project development work has been successfully completed -Strong government support -Experienced management team

Fidelity Resources Limited	
Country	Ghana
Initial Request Date of Commitment Date of Disbursement	September 16, 1991 December 17, 1991 March 31, 1992
Due Diligence Period	197 days
Sector	Leasing/Transportation
Investors and Capital Structure	I & P Holdings AGF 50% ownership Sabah Bedwi Majdoub 25% Don Ackah 25% I & P owns 60% of Fidelity. Don Ackah 35% AGF 30% Sabah Bedwi Majdoub 26.25% Prosper Asamesh 8.75%
Deal Structure	AGF: $500,000 equity expansion investment for a 30% ownership.
AGF Investment Strategy	Hedge against inflation Dividend up Grow sub-groups & sell off Sell rights for the gold operation Seat on Board of Directors
Key Local Partners	Sabah Bedwi Majdoub Prosper Asamesh Gold Coast Motors Bugudon Mining Company
Exit Strategy	Develop distributorship for foreign investors
Key Risk Areas	Vehicle maintenance and support
Current Indicators of Value and Growth	-Financial Statements are positive -Sales were steady in 1991 -Continual inflow of donor capital -Country aggressively promoting economic growth

12

Fidelity Resources Limited	
Synergies with other investments	I&P entered into 50/50 joint venture with Equator to establish West Africa Motors Equator: $25,000 plus GM franchise + $500,000 trading line Gold Coast Motors: $25,000 and transfer of Paccar and Dresser franchises to the joint venture. Transport for Eden Roc and Africa Air Products Relationships with: Dresser Industries, General Motors, Chrysler, and Paccar sales and service agents.
Competitive Advantages	Relationships with foreign suppliers and investors

<table>
<tr><th colspan="2">Africa Air Products Limited (AAPL)</th></tr>
<tr><td>Country</td><td>Cameroon</td></tr>
<tr><td>Date 1st heard about
Date of Commitment
Date of Disbursement</td><td>February 4, 1992
April 17, 1992
October 29, 1992</td></tr>
<tr><td>Due Diligence Period</td><td>268 days</td></tr>
<tr><td>Sector</td><td>oxygen cylinder refilling plants
acetylene and nitrogen production</td></tr>
<tr><td>Investors and Capital Structure</td><td><table>
<tr><th>Partners</th><th>AAPL</th><th></th><th>Asepcam</th></tr>
<tr><td>AGF</td><td>49%</td><td>4%</td><td></td></tr>
<tr><td>Martin Djoukeng</td><td>20%</td><td>12%</td><td></td></tr>
<tr><td>Richard Youmbi</td><td>11%</td><td>7%</td><td></td></tr>
<tr><td>Hans Anagho</td><td>8%</td><td>5%</td><td></td></tr>
<tr><td>Other</td><td>12%</td><td>26%</td><td></td></tr>
<tr><td>AAPL</td><td>--</td><td></td><td>46%</td></tr>
</table>
AAPL owns 46% of Air Separation Cameroon S.A. (Asepcam). It is the holding company for future related investments in other African countries and to source and sell oxygen, acetylene making equipment, and related accessories.</td></tr>
<tr><td>Deal Structure</td><td>Total $700,000 investment:
Equity investment for a 46% ownership in AAPL to hold a 35% interest in ASEPCAM. AGF to hold a 4% local shareholding.

$650,000 of AGF financing provided in some form of debt carrying 15% interest with 15 mos. grace &10 semi-annual payments
Interest 15% p.a. paid semi-annually in arrears plus income part. in trading profits/cash flow
Cap of 25% p.a.

$1.3 million has been approved for expansion into other African countries at a later date</td></tr>
<tr><td>Investment Strategy</td><td>AGf to receive one seat on the Board of Directors of both the Company and Asepcam.</td></tr>
<tr><td>Key Local Partners</td><td>AAPL has the exclusive distribution franchise from the U.S. manufacturer for Cameroon and Ghana and a right of first refusal for other African countries.</td></tr>
<tr><td>Exit Strategy</td><td>Local Partners, foreign investors</td></tr>
</table>

14

Africa Air Products Limited (AAPL)	
Expected Rates of Return	Financial projections yield average profit of $600,000/year (75% equity and long term debt from ASEPCAM's current and proposed shareholders)
Key Risk Areas	Expansion is contingent upon co. having exclusive territorial rights to the technology in its markets. Competition intimidation. However, competition has outdated technology, high overhead, and lacks production facilities outside Doula.
Current Indicators of Value and Growth	-Gross sales reached $34,000/month at 24% below competitor's price eight months since start up. -Production: 46% of capacity and 11% of market share after 8 months in operation. -Local production of oxygen intended to provide 50% savings in relation to purchase from other companies. -Considering expansion into other African markets. (This will provide enhanced competition and price reduction.)
Synergies with other investments	Franchise expansion throughout continent.
Competitive Advantages	Modest investment required to purchase the technology and ease of operation permits broad scale application.

Central Glass Industries	
Country	Kenya
Initial Request Date of Commitment Date of Disbursement	January 21, 1992 June 8, 1992 pending
Due Diligence Period	---
Sector	Glass Manufacturing, including bottles
Investors and Capital Structure	CGI is a wholly owned by Kenya Breweries Limited, a quoted company on the Nairobi Stock Exchange. KBL's shareholding structure is as follows: Gov't Parastatals 21% Private Institutional Investors 24% U.K.-owned Private Investment Co. 10% Individual small shareholders 45%
AGF Deal Structure	$3 million expansion equity investment for a 23% shareholding in CGI. CGI Agrees to use its best efforts to pay common shareholders annual cash dividends equal to 70% of annual net after-tax profit. AGF will receive 5% commission on the sale of every export bottle.
Investment Strategy	AGF has a seat on the Board of Directors.
Key Local Partners	Kenya Breweries
Exit Strategy	Move CGI onto the Nairobi Stock Exchange. AGF has the right to put its shares after 6 years to KBL based on an agreed formula & piggy back rights to KBL for listing on NSE.
Expected Rates of Return	>30% p.a.
Key Risk Areas	Foreign exchange risk, however Coca Cola and Kenya Breweries have indemnified AGF for 65% of foreign exchange devaluation up to $1,950,000.
Current Indicators of Value and Growth	Working highly efficiently (90%), modern, and well-run.
Synergies with other investments/ potential investments	Higher visibility in East Africa through Kenya Breweries.

Central Glass Industries	
Competitive Advantages	Other glass manufacturer is in receivership German glass company provided technical management 1987 to 1991 and signed another 5 year contract. Plant able to handle increased production capacity. Up to 50% of the sales will be to Kenya Breweries and Coca Cola.

Société Ivorienne de Torréfaction de Café	
Country	Cote d'Ivoire
Initial Request Date of Commitment Date of Disbursement	April 15, 1992 prior to December 14, 1992 prior to December 31, 1992
Due Diligence Period	8 1/2 months
Sector	Coffee roasting, grinding and export
Investors and Capital Structure	Total cost of $5 million: AGF: Tentative $575,000 for 24% interest in SITC Spanish co.: tentative 25% interest with 51% majority position to be held by Ivorians
AGF Deal Structure	$575,000 equity investment for 24% share with 37% dividend participation and $425,000 for 13% subordinated 7 year loan with 2 years grace and 10 equal semi-annual principal repayments.
AGF Investment Strategy	AGF Board Seat. 10 year contract with Spanish technical partner and shareholder to buy a minimum of 50% of the plant's annual production at 23% markup over cost. Technical partners purchases will be sold to Eastern Europe. Balance of coffee will be sold throughout West Africa and Europe.
Key Local Partners	Ivorian Investors
Exit Strategy	Sale to technical partner and/or Ivorian investors.
Key Risk Areas	Soft commodity market with stiff competition
Current Indicators of Value and Growth	High net worth. Ivorian project sponsors with successful private business including experience in coffee and cocoa procurement and export.
Expected Return on Investment	30%+ p.a.
Synergies with other investments	Second non-traditional export for Cote d'Ivoire. Enhances visibility through West Africa.
Competitive Advantage	Priority agreements negotiated that will enable SITC to purchase coffee beans directly from the farmers in Côte d'Ivoire at prices that average 50% below world prices.

Ghana Prawn Farm

Country	Ghana
Date 1st heard about Date of Commitment Date of Disbursement	July 1990 1st quarter 1993 1st quarter 1993
Due Diligence Period	2 1/2 years
Sector	aquaculture/farming
Investors and Capital Structure	Total cost of $7.2 million
AGF Deal Structure	to acquire 90% shareholding of U.S. sponsor of this project: 49% of GPF and subordinated debt for a total project investment of $2.4 million
AGF Investment Strategy	To develop prawn farming in the Volta River Estuary as a non-traditional export for future expansion through local farmers and to ultimately develop Ghana Prawn Farm into a nucleus estate project.
Key Local Partners	Local Tribe
Exit Strategy	Technical partner and/or other foreign prawn farming companies
Key Risk Areas	Maintaining production cost competition with world producers.
Current Indicators of Value and Growth	Strong private and government support and virgin estuary for future development.
Expected Return on Investment	25% + p.a.
Synergies with other investments	Banking: Continental Acceptance Limited Equipment: Gold Coast Motors
Competitive Advantage	Non-polluted estuary should result in lower cost production.

Cluff Resources

Country	Ghana
Date 1st heard about Date of Commitment Date of Disbursement	June 1991 1st quarter 1993 1st quarter 1993
Due Diligence Period	18 months
Sector	Gold Mining
Investors and Capital Structure	Total investment: $ 4 million Cluff resources AGF Commonwealth D.C.
AGF Deal Structure	
AGF Investment Strategy	
Key Local Partners	
Exit Strategy	
Key Risk Areas	
Current Indicators of Value and Growth	
Expected Return on Investment	
Synergies with other investments	Equipment sources: Gold Coast Motors
Competitive Advantage	Government Support/Chief of Dangmebiawe support is strong.