



## CASE STUDY

# Pan-African fund due diligence

We proposed innovative deal terms, including the introduction of a co-investment program with domestic African banks and a fund-level currency risk guarantee.



### LOCATION

Democratic Republic of the Congo, Ethiopia, Guinea, Liberia, Sierra Leone, Zimbabwe,

### REQUIREMENT

In 2017, Sofala’s team was engaged by a Nairobi-based client to conduct financial and technical due diligence on a \$50 million pan-African debt fund. Our task was (i) to determine whether our client should proceed with a detailed \$7 million investment proposal for submission to its Board and Investment Committee; and (ii) to help define the scope and deal terms of this investment. We advised our client on the fund manager’s track record and capability, the credibility of the fund’s financial and operating model, and the level of measurable impact the fund was likely to achieve. We then advised on the specific deal terms, suggesting the introduction of a co-investment program with domestic African banks, as well as an innovative currency risk mitigation guarantee.

### APPROACH

**Workshop** – The engagement began with a scoping and strategy session to share perspectives and information gathered to date; discuss and refine objectives; and agree a full list of documents to be shared.

**Document review** – Examples of fund documents we reviewed:

- Investment strategy and financial targets
- Management information system and enterprise resource planning
- Risk management plan and safeguards
- Organisation chart and HR policies

**Market assessment** – Detailed assessment of market dynamics and fund management issues in target markets such as Sierra Leone, DR Congo, Ethiopia and Zimbabwe, to determine the feasibility of the fund’s stated objectives in light of the market context.

**Subject due diligence** – (i) Interviews with fund manager team (ii) Discreet enquiries with informed sources in the focus countries and among the fund management community to assess the capacity and integrity of key personnel, including identification of any ‘red flags’ or conflicts of interest

**Report writing** – Our report was structured around the following sub-headings:

- Market conditions
- Credibility of the fund strategy
- Quality of the operational framework
- Alignment with our client’s objectives
- Risks to our client
- Recommendation

**Interactive presentation** – We led a wrap-up workshop to jointly discuss the report’s findings and to brainstorm the implications for our client’s decision-making process.

### OUTCOME

Our findings allowed our client to make a ‘go / no go’ decision, and to recommend specific improvements to the fund structure as a condition precedent to participation in the fund.

### CONTACT US

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