



CASE STUDY

East Africa Fund I & Africa Fund II Novastar Ventures

Geography: **Sub-Saharan Africa**

Size: **USD 200 million (raised)**

Impact thesis: **Multiple Sustainable Development Goals (SDGs)**



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East Africa Fund I & Africa Fund II are venture capital funds managed by Novastar Ventures that support early- and growth-stage companies serving the low-income mass market segment in East Africa, Nigeria and Ghana. EAF I made 15 investments and AF II has made 7 more to date, focusing on innovative businesses with high potential for scale. Risks are reduced through local experience and networks.

Fund manager: **Novastar Ventures**

Total assets under management (AUM): USD 200 million

- Novastar Ventures, founded 2014, is a venture capital fund manager with social objectives, with offices in Nairobi and Lagos
- Through EAF I and AF II, Novastar has invested in digital companies in education, information access, agricultural technology, mobility and off-grid renewable energy
- The fund focuses exclusively on businesses addressing the low-income mass market segment in Africa
- Novastar's first fund, East Africa Fund I, raised USD 80 million with a USD 12.5 million co-investment facility and invested in 15 companies in East Africa
- Africa Fund II raised USD 108 million from many of the same investors and expanded to include West Africa

Sources: i) Dalberg Interviews ii) Novastar Ventures Website [Accessed 08/10/20]

Investment overview

Institutional investors	AXA Impact Fund II, the impact investment branch of AXA Group
Other investors	CDC - the UK's development finance institution, EIB - the European Investment Bank, the Dutch Good Growth Fund, FMO - the Dutch entrepreneurial development bank, Norfund, Proparco, SIFEM - the Swiss Investment Fund for Emerging Markets
Instrument type	Private equity (venture capital)
Average investment size in portfolio companies	USD 250,000 - USD 8 million
Time horizon	10-year closed-end fund, possibility of a two year extension

Financial return profile

Returns: Market-rate

- Novastar targets returns in the 10-19% range
- Novastar aims to exit companies at five to six times their value by selling to larger corporates

Track record:

- Novastar has yet to make any exits as part of the two funds

Liquidity:

- The fund is illiquid, at 10 year fixed terms, with the possibility of a two year extension
- No predefined timeline for disbursements

Risk profile

Currency risk:

- Investments held in USD in holding companies in jurisdictions such as Delaware, Mauritius or the UK until investment
- Investments made in USD or local currency

Political risk:

- Strong networks and on-the-ground presence throughout Africa

Execution risk:

- Novastar takes board seat with investments to help manage the direction of the invested company
- Novastar is a multi-round investor, investing a small amount of capital first and increasing investment once the business case is proven

Investment thesis

Focus on innovative businesses by:

- Partnering with high-capacity, ambitious entrepreneurs on innovative businesses developing ways to address basic needs and the biggest challenges in the region
- Supporting companies from seed to scale, taking active membership in the companies' board and commercial decisions
- Impact is considered the result of commercial success at scale

Investment process

- Novastar has a rigorous sourcing and due diligence process, based on local networks and referrals. The project pipeline for Fund I started with 6000 companies and ended with 15 investees
- Investment eligibility screens include:
 - Early- and growth-stage companies with potential to reach significant scale
 - Addressing proven demand for basic goods and services
 - Servicing the low-income mass market segment of Africa

Impact targeting

Impact thesis

Theory of change: Novastar's approach to impact is to identify transformative businesses that provide basic goods and services to low-income populations across Africa at scale, targeting 1.8 million people over the 10-year fund period. The scope of the fund includes several sectors such as education, healthcare and agricultural business

Target stakeholders: Low-income populations across Africa who will benefit from access to basic goods and services provided by portfolio companies or by being suppliers to portfolio companies

Impact metrics and outcomes

Impact key performance indicators (KPIs) are highly specific to the sector of investment and are agreed directly with the investee company as part of negotiations.

Novastar also reports on general impact metrics including:

- **Target stakeholders reached** (three million people reached as of 2020)
- **Female beneficiaries**
- **Jobs created**

Portfolio investee spotlight

NewGlobe Education (EAF I)

Education: Low-cost schools network

- NewGlobe Education (formerly Bridge International Academies) is a network of low-cost schools providing education starting from six USD a month, either as independent schools or through government contracts to improve public schooling facilities
- NewGlobe Education's first academies opened in Kenya and the network recently expanded to Liberia, Nigeria and India, teaching over 500,000 pupils before the COVID crisis
- NewGlobe Education's academies also provide teacher training and professional development and introduce education technologies to improve school systems

mPharma (AF II)

Pharmaceutical distributor

- mPharma is a pharmaceutical distributor that seeks to reduce inefficiencies in the pharmacy retail industry across Ghana, Nigeria, Zambia, Zimbabwe and Kenya by purchasing drugs on behalf of pharmacies that will sell them directly to patients
- mPharma's model helps to diminish the upfront pharmacy cost, reduces supply constraints and aggregates demand to reduce drug prices
- The company currently works with around 300 facilities and almost 100,000 patients
- mPharma has received a number of prestigious awards from Fast Company, the American business magazine, in 2018 and Skoll, the social entrepreneur foundation, in 2019

Key observations for institutional investors

- 1 Venture capital funds can provide a pipeline of direct investment opportunities for institutional investors**
 - Working with an experienced fund with a local presence in emerging markets can provide an entry point for investors to learn about investable opportunities and monitor their growth and performance over the course of the fund
 - AXA Investment Managers has, for example, subsequently made direct equity investments in several EAF I & AF II portfolio companies, including NewGlobe Education and Komaza
- 2 Development finance institutions (DFIs) can play an important role in launching venture capital in Sub-Saharan Africa, providing investment credibility**
 - Venture capital remains an emerging sector in Sub-Saharan Africa, as the sectors is still developing its track record of commercial exits
 - DFIs are playing a critical role in launching the sector and lending credibility for other investors
 - Strict DFI funding requirements de-risk venture capital funds as they require tighter due diligence standards and lower 'failure' acceptance rates compared to venture capital funds in developed countries

