

Discussing venture capital and entrepreneurship in Angola

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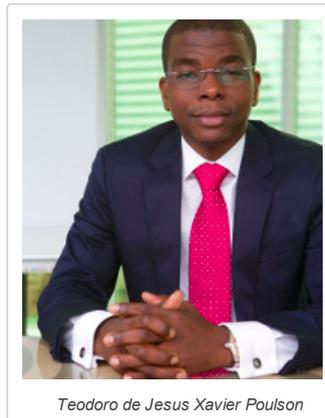
In an effort to stimulate local entrepreneurship, Angola has set up a public venture capital fund, Fundo Activo de Capital de Risco Angolano (FACRA), that invests in Angolan small and medium enterprises (SMEs).

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*In the first of a two-part interview, **How we made it in Africa** asks Teodoro de Jesus Xavier Poulson, a member of FACRA's investment committee, about Angola's venture capital industry and some of the challenges facing entrepreneurs in the country.*

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Teodoro de Jesus Xavier Poulson

Give us some insight into the venture capital (VC) space in Angola, as well as the outlook for the industry.

There is still no formal private equity (PE) market in [Angola](#) and so, understandably, there have been a small number of VC firms to enter the market from outside of the country.

However, Angola is enjoying significant economic diversification and is considered a prime location for business ventures. Capital sourced from local and international investors is funding many development projects in Luanda and in other parts of the country.

We anticipate seeing more interest from [international investors](#) as the economy opens up. The government has put in place several measures to stimulate interest from foreign firms. These measures should lead to an increase in external investment, particularly in the [financial services sector](#). As the sector grows, it is natural that a healthy lending environment will emerge, resulting in the emergence of local VC and private equity firms.

In the absence of a stock exchange in Angola, how do you intend to exit your investments?

FACRA works on a case-by-case basis with all of its ventures and their financial arrangements will differ. FACRA supports the management of its portfolio companies in their efforts to drive and grow their businesses. We are confident that our ability to support promising business in that way, as well as the general future development of Angola's economy, will provide multiple exit options, including trade sales, reverse mergers or a listing on other markets. Also, Angola will eventually have its own formal securities exchange – we invest with a longer-term horizon, so that option will likely be viable when we make our first exits.

Why are banks reluctant to lend capital to SMEs in Angola?

There has always been a deficit here, right across the region. A recent report from the African Development Bank states that the credit gap for SME lending in sub-Saharan Africa is estimated to be between US\$70bn and \$90bn. A report from the World Bank on this matter suggests that whilst older, larger and more established companies are able to access capital from banks, younger startups and SMEs have greater difficulty.

This Africa-wide issue has been addressed by Sir Paul Collier, director of the Centre for the Study of

African Economies at Oxford University in an article entitled *Rethinking Finance for Africa's Small Firms*. He comments that "providing finance for small firms is globally rated as riskier than for large firms". He also suggests that whilst the appetite for risk was improving before the economic crisis, this appetite "evaporated" and with it the scope for private finance for Africa's small firms. He also references a survey that shows a historic reluctance across sub-Saharan Africa to lend to SMEs. This is partly because the financial services industry is fragmented from country to country.

In Angola, specifically, the sector is still relatively new and is therefore risk-averse. SMEs also very often have no credit history, making it difficult for banks to make an accurate credit check on individuals and startups.

In addition to financing, what are some of the other common challenges faced by SMEs in Angola?

Like any other African nation, the business environment in Angola can be challenging. The government has embarked upon a mission to encourage foreign direct investment inflows into the country and with this objective in mind the Angolan government is offering various incentives to foreign businesses.

Things are improving in the country but the change will not happen overnight. For the time being, businesses that plan to set up shop in Angola will have to consider several hurdles, such as the high cost of doing business and a lack of capacity in some areas. These include the limited availability of a qualified workforce, bureaucratic hurdles and language barriers. There also remain issues with [infrastructures](#) such as access to broadband and office space, which is very expensive in Luanda. There are not enough factories, so any startup in the manufacturing space may require financing in order to actually build a factory.

Read How we made it in Africa tomorrow for the second part of our interview with Teodoro de Jesus Xavier Poulson.