

Introducing the Congo Infrastructure Hedge Fund (CIHF)

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January 2012

Summary

- 1) Four tiers of “patient capital” will be invested by the CIHF (hereafter The Fund), as follows:
 - a) Tiers 1 and 2: Fortune 500 Company stocks/bonds/instruments, managed in Momentum-Plus-Value approach, with notional return of 9.2% per annum based on data for 2008 to the present, with monthly refresh
 - b) Tiers 3 and 4: Capital equipment assets and supporting infrastructure for Small/Medium Sized (SMS) company projects, co-located as business clusters on land locally owned and structured as Industrial Parks (IPs); all SMS company projects will be active in high-global-growth industries, and each will have a 10-year job creation target of at least 80,000 in Central Africa and 2,000 in Developed Countries, with a target for gross sales of \$10 billion over 10 years
- 2) The Fund’s revenue will be one (1) percent management fee of all Assets Under Management, plus an incentive fee of twelve (12) percent of gross (before tax and other distributions) profit from the use of The Fund’s investments in capital equipment assets and supporting infrastructure
- 3) The Fund capital: \$ 50 million will be allocated for each IP cluster over its 4-year start-up period, and growth in the number of IPs will determined by stakeholder interest; capital is now committed for the first IP cluster, and The Fund expects to be ready for a call on capital of \$100 million by EOY 2012 and \$ 200 million by EOY 2013

Why Congo?

Congo has the natural and human resources to be the strategic heart of the African continent. Building Congo into a democratic, stable and secure economy with ample employment prospects and upward mobility for its people, will anchor all of Africa into the global economy. The strategic importance of these objectives for America was reflected in the US Senate bill S.2125, The DR Congo Relief, Security, and Democracy Promotion Act of 2006, proposed by then-Senators Clinton and Obama and many others of both political parties. The Fund will help to implement this Act.

Vision and Mission

The Fund’s management team seeks to build the world’s premier private DR Congo infrastructure investment vehicle, providing superior returns for patient investors. Building on extensive industry and investment banking experience in/with Congo, the management team

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seeks to develop long-term relationships with respected Multi-National Companies (MNCs) having high stakes in Congo, while developing indigenous human capital (leadership, management, entrepreneurship, professionalism, skills) that will support sustained growth of local enterprises to become significant regional actors. The following synergistic activities, all basic to comprehensive and sustainable development of local areas, will be The Fund's target sectors (with local needs and resources determining portfolio selection):

- 1) Development of industrial/commercial estates (all scales)
- 2) Development of affordable housing estates (from small tracts to new towns)
- 3) Food and beverage processing (including animal feeds)
- 4) Energy, water, wastewater, irrigation, flood control
- 5) Oil, gas, and petrochemicals
- 6) Minerals & mining
- 7) Logistics, marketing and distribution
- 8) Telecommunications and information management
- 9) Factory automation & metal fabrication
- 10) Micro-credit and innovative business finance such as micro private equity

The Fund management team consists of seasoned senior management executives from the United States, European Union, India, South Africa, Nigeria and Congo itself, each with decades of experience in Fortune 500 private sector firms and/or commercial and investment banks. An Advisory Board of respected representatives from non-government organizations, universities, and multilateral official agencies is also being constituted.

Guiding Values and Principles

The Fund's values and principles are based on sixty years of experience in the promotion of African development. The Small/Medium Size (SMS) company projects that The Fund seeks to help finance must exhibit democratic and reliable governance, contribute to the training and employment of youth (especially women and girls), value initiative/responsibility/control in areas of their competence by community-based organizations (non-profit civil society groups as well as commercial groups such as farm cooperatives), and fair distribution of profits and other benefits to all stakeholders.

The Fund's guiding principles are:

- 1) Maslow Hierarchy of Needs must be satisfied for Fund investors, for the owners and employees of the SMS company projects, and for community stakeholders in the local area
- 2) SMS company project business plans must be developed in conjunction with a trusted network of community leaders, ideally with scope extending to the national level
- 3) Each SMS company project must (a) help to satisfy a critical local need, (b) enter an industry sector where its product will be broadly (ideally, globally) competitive, and (c) be sufficiently profitable when taken to efficient scale to allow The Fund's investors to achieve a satisfactory Return on Investment (ROI) within ten years, while providing reinvestment of profits sufficient for sustainable growth and some investment in community services such as child care facilities, entrepreneurial education in local

secondary schools, upscale local libraries, public access to modern ICT, and access to affordable legal services

- 4) Community services should take advantage of innovative models and practices such as:
- use of internet-based social media as practical tools for education in the use of innovative techniques, such as Crowdsourcing and Crowdfunding
 - establishment of tuition-free vocational and liberal arts education with emphasis on student social responsibility for community outreach (such as the model used by Berea College in Kentucky, USA)
 - establishment of community financial institutions such as Village Savings and Loans
 - helping local civil-society organizations to coordinate their activities (among themselves and with commercial partners) to achieve the DRC's Millennium Development Goals, using the global experience of Sustainable Local Enterprise Networks
 - using international NGOs such as Habitat for Humanity to energize development of affordable housing, US National Community Health Partners to energize affordable health care, and various sports and cultural organizations to energize local youth to organize soccer, volleyball, and the creative arts that serve to connect the "global village."

CIHF Tier III/IV Sourcing Strategy

In its start-up years, The Fund will focus on attracting/finding qualified SMS company projects in relatively urbanized areas, in regions logistically convenient to cities including the following: Kinshasa, Mbandaka, Kisangani, Bukavu, Goma, Lubumbashi, Kolwezi, Mbuji-Mayi, Kikwit, and Matadi. As experience and reputation grows in these easier-to-reach areas, more remote areas may become qualified, with a focus on rural development and a social goal of stemming the rate of urban migration by providing higher-income alternatives to subsistence living.

To succeed in its mission, The Fund must identify trusted local business leaders who are capable of building high-growth companies. They must produce business plans that meet The Fund's stringent project investment guidelines, which will provide the contractual basis in hard metrics for financing and long-term help by The Fund. The management team is fully aware that this is a big challenge and is prepared to cooperate with providers of business incubation services, which typically depend partly on grants to finance local capacity building.

To engage prospective local leaders of SMS company projects, The Fund's management team will consult and coordinate with respected local community institutions having international ties, including educational institutions, faith-based organizations, other civil-society groups, development NGOs, and local banks. Of course, the outside/offshore organizations having ties with these local groups will also be consulted, including interested multinational official and private agencies.

The Fund will invest in capital equipment and supporting infrastructure for projects of Small/Medium Size (SMS) Companies. These SMS companies are expected to be co-located so as to create industrial sector clusters--equivalent in concept (if not also in scale) to a Silicon

Valley. When efficiently linked through their value-added chains, and collectively served by the operations of the Industrial park (IP) Management Company that owns the land, the SMS companies stand to become a business ecosystem that optimizes the prospects for success of each member enterprise.

Each of these ecosystems will be supporting one or more of the Fortune 500/Global 1000 companies in the Fund's Tier 1 and 2 portfolios. The Fund's management team will seek to ensure that a strategic co-dependency is built and maintained between each IP ecosystem and its MNC partner(s). These MNCs will typically have, or will be planning, major investments in fixed-capital, with land, access, connectivity, and security in one or more locations in the Congo. The IP Management Company will therefore build upon (add to or modify for its purposes) these MNC investments. While the land itself may be initially procured and protected by an MNC, the IP Management Company will own the land (i.e., control its long-term use) and may charge rent to provide needed income. Alternatively, the founders of the IP Management Company may be local landowners who contribute its long-term use to this Company in return for shares in the Company. The IP Management Company itself will be a share-issuing, for-profit company that is locally owned and managed. Clearly, it will be vital for The Fund, the owners of the SMS company projects, and the local owners of the IP Management Company to cooperate for their mutual progress. Contracts among these three entities will provide recourse in the unlikely event that this cooperation breaks down.

To ensure adequate scale, the CIHF will normally require that the IP Management Company effectively control 500 hectares (1,200 acres) or more of contiguous land, suitable for business use. The Fund management team will look to the IP Management Company to organize capacity building services (entrepreneurship education/training/mentoring), micro-finance lending/equity, business planning help and related incubation services as may be needed to qualify projects for CIHF investments. The Fund does not intend to invest in the IP Management Company, whose founders will need to source its capital in their own contributions, other interested local entities (including large national/regional businesses), and grants raised on the initiative of the founders.

Targeted Quantitative Results

Based on US Value Engineering (FAR 48) methodologies, SMS company projects will be selected that have potential of generating over a five-year period \$ 220 in gross sales for every \$ 1 invested. The Fund management team has extensive experience in preparing such projects for US government agencies and strongly believes that Value Engineering methodology will be an excellent tool for exercising due diligence and risk reduction.

The Fund anticipates investing a minimum of \$ 50 million into each IP-based group of different industry clusters of SMS company projects. This investment will build up over a four-year period, assuming that planning milestones are reached on time, for example: \$ 5 million in year 1, \$ 10 million in year 2, \$ 15 million in year 3, and \$ 20 million in year 4.

Within an investment-and-outcome window of 10 years, The Fund will invest in each IP an average of \$ 250,000 in 200 SMS company projects (thus \$ 50 million in total). Within this window (using multipliers typical of Value Engineering methodology), the average project will generate gross sales of \$ 55 million, which will generate aggregate economic value of \$ 10

billion over 10 years and aggregate employment (assuming an 80-20 split between Central Africa and Developed Countries, and World Bank Purchasing Power Parity wages) of 80,000 people in Central Africa and 2,000 in Developed Countries.

The Fund management team conservatively assumes a minimum gross profit margin of 5 per cent for SMS company projects that the Fund invests in. So each IP is reckoned to earn about \$ 550 million in gross profits over a 10 year period ($\$ 55 \text{ million} \times 200 \times .05$), or \$ 55 million per year, of which The Fund will retain 12% or \$ 6.6 million per year for distribution to investors in the CIHF and/or reinvestment in Fund projects. Returning \$66 million on an investment of \$50 million is not itself a high ROI for emerging markets, but it is consistent with the for-benefit mission of the CIHF's Tiers 3 and 4. Tiers 1 and 2 may average up the overall ROI of The Fund.

While The Fund will typically invest in the ownership/leasing of revenue-producing capital equipment and/or supporting infrastructure assets, the management team reserves the right to invest in equity stakes (up to 50%) in the SMS company projects themselves, and may seek to bring in equity partners from among the Global 1000 leading companies with present or planned interest in operating in Congo.

Fund Structure

The Fund will invest in the equity and/or debt and/or gross profits of 4 tiers of companies, thereby achieving a reasonable balance of risk versus return on investment.

TIER I: "Blue Chip." Fortune 500/Global 1000 Companies (minimum \$ 1 billion market capitalization on the stock exchanges on which they are listed) with existing activities in, or related to, DR Congo. These companies will be selected on the basis of some of the following criteria:

- listed on major international stock exchanges such as NYSE, NASDAQ, AMEX, London, Paris, Frankfurt, Tokyo, Mumbai, etc
- listed on major African stock exchanges
- referred to the Fund by officials at select multinational and national entities (World Bank/IFC, US EXIM, US OPIC, etc)
- referred to the Fund by officials of select private sector commercial & investment banks
- International and African companies with a minimum of 1 billion US dollars market capitalization on the exchanges on which they are traded

TIER II: "Blue Chip Extended." International and African companies with a minimum of \$ 250 million market capitalization on the exchanges on which they are traded. These market leading companies have a reputation for proven ability to start a new business unit, production plant, marketing program, and are known to be planning expansion into Congo projects.

TIER III: Private firms not presently listed on any stock exchange, but with potential to do so in two to three years, with present gross revenue in the range of \$ 25 million to \$ 100 million per year. To be eligible for CIHF investment, the firm must submit a business plan that complies with CIHF Project Investment Criteria, which are rigorous and commonly used in the Developed Countries. Alternatively, The Fund may invest in bonds issued by qualified Government

institutions that are financing infrastructure projects in Private Public Partnership with the Tier III firms.

TIER IV: SMS companies whose values and principles accord well with The Fund's mission and investment criteria, but are not presently listed on any stock exchange. They may be in an early stage of formation/incubation and need seed capital to leverage capital contributed by the founder-entrepreneurs. Based on their qualifying business plans, they have a strong potential to reach \$ 25 million gross revenue and to become eligible for listing on the local/regional stock exchange in 3 to 5 years.

The Fund's capital will normally be invested as follows:

- Tier 1 Blue Chip, 30%
- Tier 2 Blue Chip Extended, 30%
- Tier 3: Established Private Firms, 25%
- Tier 4: New, High-Potential Firms, 15%

Launching the CIHF

The Fund management team has identified a core group of U.S. individual investors who share its vision and mission and are linked with a network of faith-based organizations in the Congo and USA. This network is ready and eager to find and support local business leaders with interests in benefitting their communities, and to help them to tackle the challenges posed by The Fund's business discipline. These individual investors have committed significant resources that will be invested in SMS company projects to be clustered in The Fund's initial IP. The individual capital investors have run their own businesses successfully and are personally interested in the CIHF business model. They are willing to be "patient investors" because they see their investments as "charity-plus," i.e., they would fund these kinds of initiatives anyway, though at smaller amounts, and like the idea of a business/profit upside. Their interests have been exclusively in Arizona/California/New Mexico/Texas (typically with links to projects in oil, gas, petrochemicals, and minerals), and welcome the chance to be part of the "African Renaissance" that is now in full swing.

Proving and improving the model with a first experiment should help to pave the way for replication (with suitable adaptations to local conditions) within the Congo—and conceivably beyond, if others wish to join this open table. Already there is interest expressed in North and South Kivu, as well as in Nigeria, which deserves its own fund. While the CIHF will not dilute its strategic focus on the Congo, the development community of global and regional organizations should be introduced to the CIHF concept and strategy, and prepare to promote it widely if the proof of the pudding is positive.

About Alex Dely



Born in Belgium, Alex immigrated to the USA in 1976. Educated in physics at universities in Illinois, Alex has broad experience in research, teaching, and consulting in engineering, space research, materials science, and national security issues. While teaching physics at the University of Arizona, he studied property law. As a trainer, he developed courses for professional certification in many aspects of technology, engineering, and business management, delivering these courses to employees of many large companies. Building on these connections with businesses in America and Europe, Alex founded TTT Inc. in 1980, which structured high-tech joint ventures in over 30 countries. He sold it in 2007 when he joined the Raytheon Corporation as a Contracts Manager in Tucson.