Private Sector & Development

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Equity investment to bring to scale: An interview with two financed SMEs

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As we have repeated on a number of occasions in this issue – and the different articles have borne this out – access to funding is one of the key challenges and obstacles to the development of SMEs in Africa. In order to highlight this issue, we interviewed two business people to get the view from the field and get a better idea of the problems – as well as any successes – they have had in their quest for funds.

HOW WE MADE IT IN AFRICA

AFRICA BUSINESS INSIGHT

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THE VARIOUS PHASES IN THE DEVELOPMENT OF YOUR BUSINESS REQUIRED FUNDING. WHAT DIFFICULTIES HAVE YOU ENCOUNTERED AND WHAT HELP HAVE YOU RECEIVED ALONG THE WAY ?

Habib Hassim: Technopet and Food & Beverage have required the most external financing as they need to fund very high levels of working capital. They were launched amidst political and economic turmoil in Madagascar at a time when banks were extremely risk averse. It was impos-sible to obtain any external financing, especially for greenfield projects. Our seed capital, work-ing capital and various expansion projects over the first four years were therefore financed by the shareholders themselves.

Once the crisis was over, we entered into discussions with local commercial banks with a view to financing our development. It didn't take us long to understand that their approach was asset-based rather than cash-flow-based. In other words, they took no account of our economic pro-spects but simply wished to protect themselves by over-collateralizing assets which is also a very costly way of doing business. When faced with this obstacle, we turned to several locally-available solutions: opening up our capital for a limited period and organizing a shareholder loan from Fiaro[1] and obtaining an external guarantee via Solidis[2]. These solutions partially met our needs because the barriers remained fairly low while the total cost of financing was too high to be sustainable over the long term.

Beginning in 2016, our financing needs really took off. Because we had established technical and organisational control over each of our businesses, we wished to upscale both in terms of size and geographical reach. This required significant investment as well as a major structural reorgan-isation. In 2017, we began a long and complicated process of raising debt across different juris-dictions – between Madagascar and Mauritius. This was a steep learning curve both for ourselves and the bank involved as it was a new experience for both parties. The whole thing took two years but we demonstrated our ability to put together highly-detailed application files under-pinned by a large measure of financial and legal engineering. In late 2018, in a bid to consolidate our market and set our governance structure in stone, we decided to open up Technopet's capital to a private equity fund and this operation has just closed. This investment is intended to en-hance our capacity to support the ISO and BRC/FDA certification processes and boost our pro-file in the Indian Ocean.

Inside Capital Partners, based in Mauritius, has placed its trust in us and is helping our business to grow. The arrival of a strategic shareholder strengthens the commitment of all stakeholders to the project, be they banks, institutional investors or key suppliers and customers.

Jean-Philippe Bigot: The creation of our Kenyan subsidiary in 2002 did not merely enable us to consolidate and grow our positions in France, it also allowed us to set up a big production unit in Kenya and break into other high-potential markets – in the UK, Germany and Switzer-land, for example. Before we created the subsidiary, we employed less than 50 people in France. The Group now has 150 employees in France and nearly 1,100 in Kenya.

Between 2002 and 2008, because Bigot Flowers Kenya did not actually own any land, it was unable to raise funds in Kenya and had to finance its development using its own resources. In 2008, we were put in touch with Agence Française de Développement (AFD) and Proparco and we were able to obtain a loan of nearly €1.7 million in 2010 via Fisea[3]. We used it to acquire the land we needed in Kenya to build new, more modern greenhouses. At the same time, Fisea ac-quired a 10% stake in Holding Bigot Finances.

In late 2013, we were presented with an external growth opportunity – the acquisition of a neighbouring farm – and we again turned to Proparco for funding. At the same time, we bought back Fisea's stake in Holding Bigot Finances.

IN HINDSIGHT, WOULD YOU DO THINGS DIFFERENTLY?

Jean-Philippe Bigot: Getting access to the different Proparco loans was an extraordinary piece of luck. Without Proparco, we wouldn't have been able to structure our foreign business assets or consolidate our position in the production and distribution of cut flowers in both the French and European markets.

Being a stakeholder in the development of rural areas – both in our historic fiefdom of the Sarthe department in France and in Kenya – is a big responsibility but it's also a very satisfying one. As such, our involvement in equatorial trade takes on all of its meaning and constitutes a major driver in our commitment to work alongside the Kenyan population.

Habib Hassim: In emerging countries, there is often a tendency to put compliance in the back-ground and focus on maximising profitability, especially of family-owned firms. A lot of Mada-gascar businesses use a wily combination of fraud and corruption to achieve abnormally high growth rates and margins. This is neither sustainable nor ethical. Our guiding principle has always been 100% transparency and complete tax compliance (i.e., VAT, customs duties, income tax and payroll), but we have suffered from the setbacks inherent in this business model: ethical firms do not grow as fast.

In hindsight, we should probably have trumpeted this ethical aspect a bit more. We now realise that this is what underpins our integrity, credibility and legitimacy in the eyes of our partners. Ever since we have been able to report clearly to our partners about our financial situation, the dialogue is much more fruitful and they have begun to see us as long-term partners. It was a long hard road that required a change in paradigm but we now feel not only relief but pride as well.

1 A local institutional investment fund.

2 Provision of a bank guarantee backed by AFD Group via the ARIZ guarantee mechanism.

3 Investment fund to support African businesses.