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INTEGRATION

Growing regional champions

Private equity has an important role to play in helping African companies expand beyond the borders of their home country, says Ann Wyman

Over the past decade, the African continent has been experiencing a dramatic increase in regional integration and intra-African trade. This has been driven in large part by the private sector, supported by both regulatory and policy initiatives. At the same time, many African companies have been expanding beyond the borders of their home countries to become regional champions. Private equity has, and will continue to have, an important role in funding this expansion, supporting companies with knowledge and experience to effectively access broader markets and improve competitiveness.

REGIONAL INTEGRATION

In recent years, many African companies that have become dominant in their local markets – especially ones based in smaller countries and economies –have also begun to seek to export to, or open operations in, neighboring countries exhibiting similar levels of demand. Company managers are increasingly recognising opportunities to form regional value chains and achieve economies of scale in production. The private sector has also led the increase in regional trade volumes, which has been of particular importance for African companies in light of a more uncertain global economy and the stagnation in the developed markets of both Europe and North America. And a new generation of well-educated managers, who have been more exposed to developed economies, is supporting this private sector push.

Wyman: *private sector has driven regional integration*

All of this private-sector-led effort has been buoyed by the implementation of regulatory and policy initiatives, as well as some select political efforts to sustain the continent's growth and stability and achieve long-term competitiveness. Indeed, many regional trade pacts have been signed over the past 10 years. Moreover, an increased emphasis on improving infrastructure has emerged as a priority for many governments, particularly to reduce cost and improve reliability of transport within the region. Finally, increased interdependence and cooperation among countries has resulted in greater transparency, coordinated economic policies, and improved fiscal management.

Several impediments remain, which some governments have been slow to address. Some sovereign governments have not seen it in their political interests to promote cross-border ties, despite the potential economic benefits. Moreover, restrictive exchange rate regimes and volatile exchange rates mean that exchange rate risk can inhibit cross border expansion. Non-transparent and cumbersome border administration, especially for imports/exports, the limited use of information communication technologies (ICT) and a still-meaningful infrastructure deficit are also factors that have inhibited regional integration.

AFRICAN COMPANIES STEP IN

Despite these challenges, a number of African companies have recognised the value of growing their businesses regionally. Regional expansion allows companies to access a larger customer base, as well as enabling them to take advantage of past experience, bringing it to new markets. This expansion is occurring in a range of industries, including FMCG, pharmaceuticals, ICT, financial services, health and education.

Private equity firms such as AfricInvest have targeted investing in this type of regional expansion for its high returns –both financially, and for the economic development of the continent. Moreover, the experience that private equity investors can bring, and their connections to markets in various countries, can provide considerable benefit to companies open to such a strategy.

The following are three examples of investments made in companies with regional expansion strategies that AfricInvest believes have the potential to become regional champions in their respective industries.

UAP (insurance)

AfricInvest has invested in UAP Holdings (UAP), which controls a number of insurance and related financial services businesses throughout East Africa. It comprises subsidiary insurance businesses for short and long-term insurance, property »

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» investment companies, and an investment company that also provides stock brokerage services.

Key Investment Attributes

Compelling market dynamic: The East African Community (EAC) benefits from enhanced economic integration and regional growth opportunities. In addition, the EAC presents a substantial growth opportunity for insurance considering its low penetration in the region. With a growing middle class and higher disposable incomes, as well as further awareness of insurance, the market represents a strong environment for growth.

Clear potential for growth and regional expansion: AfricInvest had plans to accelerate the company's regional growth strategy through expansion into new markets (Tanzania, Rwanda and Democratic Republic of the Congo) and through the establishment of an asset management and a property development/management subsidiary to attract the required level of talent and professionalism. Furthermore, AfricInvest's existing portfolio companies in the insurance sector provided the manager with valuable experience and knowledge to assist in the expansion of networks and sharing of industry best practices.

Pre-identified operational improvement initiatives: The life insurance business was under-capitalised relative to regulatory requirements. The injection of capital is expected to bring it in compliance with regulations as well as allowing for the expansion and growth of the business. Furthermore, there was great value in consolidation of the existing businesses.

BRIDGE GROUP (banking)

AfricInvest has recently subscribed to a capital increase undertaken by the Bridge Group West Africa, the parent company of Bridge Group Cote d'Ivoire, taking advantage of an opportunity to invest in supporting the regional growth ambitions of a very professional banking group. The funds were used to partly finance the acquisition of a substantial minority stake in BNDE in Senegal as well as to work on the introduction of a number of innovative products and services in both countries.

Key investment attributes:

Compelling market dynamic: AfricInvest sees substantial growth and improvement potential in the banking sector of West Africa. The low penetration rate, especially in rural areas, of about 3-6 percent (depending on the country) should afford the company significant expansion opportunities. Moreover, the banking sector also has a dynamic regulator that has tightened regulation and supervision over time. The regulatory bodies have also improved their monitoring of the sector, leading to improving corporate governance standards.

Clear potential for regional expansion: The West African Economic Monetary Union possesses good overall liquidity reserve for the leading banks in the region, while banks with a smaller balance sheet (less than FCFA 100billion (~€150 million)) face insufficient liquidity. This could provide future opportunities for growth. Moreover, the region is notable for its absence of long term financing and resources and there is comfortable profitability, especially in Côte d'Ivoire, Senegal, Niger and Togo.

KIBOKO (FMCG & Pharmaceuticals)

AfricInvest also holds a stake in Kiboko Holdings Limited ("Kiboko"), a holding company consisting of eight entities, with operations in Uganda, Tanzania, Rwanda, Burundi and, more recently, in Kenya. Kiboko is active in the pharmaceutical industry through the manufacturing and distribution of pharmaceutical products, and in the general distribution industry for fast moving consumer goods (FMCG).

Kiboko presented AfricInvest with an opportunity to partner with a market leader to help them grow and expand regionally. Kiboko was already well respected in Uganda, being the sole distributor of Procter & Gamble products. The pharma manufacturing facility was the only one of its kind in Uganda and the second in the region, manufacturing lifesaving intravenous fluids and vials of water for injection and eye drops, which presented a huge growth opportunity by leveraging the company's existing distribution channels and established customer base.

Key Investment Attributes

Compelling market dynamic: This investment was an opportunity to meet the growing demand for healthcare, a severely underpenetrated market in East Africa, through Kiboko's pharmaceutical activities. The growing middle class and corresponding rising consumer demand are expected to drive the FMCG business.

Pre-identified operational improvement initiatives: AfricInvest saw an opportunity for restructuring as well as enhancing corporate governance. Kiboko also represented an opportunity to repeat a thesis from successful prior investments in other markets, including North Africa, in the pharmaceutical and FMCG sectors. AfricInvest possessed the unique skills, connections and industry knowledge to add significant value to Kiboko.

Clear potential for growth and regional expansion: AfricInvest helped Kiboko to launch operations in Tanzania, South Sudan and Kenya and is strengthening the Ugandan operations. AfricInvest plans to help reinforce the leadership position of Kiboko throughout the region by developing a wider range of products for its customers and accelerating market penetration. ■

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