

IDC inquiry

Call for Evidence

Investment for development: The UK's strategy towards Development Finance Institutions - written evidence

by SPE Capital

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NB: Confidential

Introduction to SPE Capital and SPE AIF I ("AIF")

SPE Capital is an independent investment firm focused on investing responsibly in Africa and the Middle East, structured as a transparent Partnership owned and managed by the Partners.

SPE Capital was formed in 2016 from a spinout from Swicorp, a regional investment banking firm. Today SPE Capital manages circa USD 450 million in AUM. SPE Capital is led by an experienced on-the-ground investment team, with strong local knowledge and a proven track record of investing in growth companies.

With offices spanning across the region, SPE Capital has a thorough understanding of businesses in the region and strives to apply best international practices and governance standards. SPE Capital is a signatory to the United Nations Impact Principles, an investor initiative developed by the UNEPFI and the UN Global Compact and supports the “2X Challenge” – an initiative of development finance institutions of the G7 countries.

SPE AIF I is a USD 258m Private Equity Fund launched in 2019. AIF invests across Africa, with a particular focus on North Africa, in a variety of sectors including Education, Healthcare, Manufacturing and Business Services. The fund strategy focuses on majority and quasi-majority transactions in companies with growth potential. AIF has on-the-ground dedicated teams in Tunis, Casablanca, Cairo and Abidjan. As of today, AIF counts 9 portfolio companies (please refer to question 10 for more details on AIF portfolio companies).

SECTOR STRATEGY

AIF focuses primarily on three groups of sectors:

- Manufacturing, production and processing: consumer goods manufacturing, light industry, food processing, packaging, etc.;
- Business services: distribution, logistics, transportation, BPO and related, non-banking financial services, etc.;
- Human capital: healthcare services, pharmaceuticals manufacturing and education.

GEOGRAPHIC FOCUS

AIF has a pan-African scope, with a specific focus on countries in North Africa and a cap of 25% on investments in Sub-Saharan Africa.

Reason for submitting evidence

As a Fund manager, SPE Capital would like to have the opportunity to assess BII's contribution in supporting private sector and share team views on the critical role it plays to promote value creation and sustainable economic growth through its investments in Funds.

Scope of the inquiry

The Committee invites written evidence on the following terms of reference:

1. What are the British Investment Partnerships (BIPs) and what are their objectives? What role does British International Investment (BII) play within them?
2. How does the BII's strategy align with the FCDO's development agenda?
3. How does BII's strategic outlook compare with that of other comparable overseas institutions?
4. How effective are the governance structure and internal oversight mechanisms of BII (e.g., oversight over direct investments, fund investments, BII controlled companies)?
5. How is BII's budget determined? How does the budget inform BII's programme of work and to what extent can BII scale up or scale down on its investment activity?
6. How are the decisions of BII's management scrutinised? What transparency is there over BII's performance monitoring and reporting?
7. What criteria does BII use to determine investment decisions and how are financial returns balanced with achieving impact?
8. How do external events influence the investment decisions of BII (e.g., in response to the crises in Afghanistan and Ukraine, the depreciation of Sterling etc.)?
9. What due diligence does BII undertake prior to making investment decisions and how does this compare with best practice?
10. What current investments does BII hold?
11. How effectively does BII manage funds following its initial investment?
12. How does BII evaluate the impact of its investments?

9. What due diligence does BII undertake prior to making investment decisions and how does this compare with best practice?

BII conducted thorough due diligence on AIF. The process had some common criteria with other LPs, focused mainly on best practices in private equity. These are mainly listed below:

- Evaluating and validating the overall investment strategy and impact thesis;
- Assessing the experience of the team;
- Assessing the GP track record;
- Assessing the pipeline and fit to Fund's investment thesis;
- On site due diligence consisting of visiting fund offices, portfolio and pipeline companies and one-on-one interviews with senior members of the team;
- Analyzing fund economics; and
- Assessing fund operations and processes

The approval process went through several decision milestones within BII's governance bodies, after which legal negotiations kicked off, along with KYC and other administrative information to finalize the process.

10. What current investments does BII hold?

As shown in below tables, as of today, BII has invested in 9 transactions across SPE AIF I Fund core markets.

Future Pharmaceuticals Industries « FPI »			
Business Description	<ul style="list-style-type: none"> Production of own generic medicines and manufacturing for third party companies, including international companies (Sanofi, Sandoz, Abbott) and local companies. 		
Country (head office) Sector	<ul style="list-style-type: none"> Egypt Pharmaceutical's manufacturing 	Investment date	<ul style="list-style-type: none"> July 2019

Holged Tunisie			
Business Description	<ul style="list-style-type: none"> Holged Tunisie is the leading operator of K-12 level education in Tunisia, owning and managing the International School of Carthage ('ISC'), and with the ambition to build a group of schools across the country under the ISC brand name. 		
Country (head office) Sector	<ul style="list-style-type: none"> Tunisia K-12 education 	Investment date	<ul style="list-style-type: none"> July 2019

Chari (Dislog Group)			
Business Description	<ul style="list-style-type: none"> Chari.ma was created by H&S Group as a strategic initiative. It aims to be the go-to marketplace app for mom and pop stores. 		
Country (head office) Sector	<ul style="list-style-type: none"> Morocco B2B 	Investment date	<ul style="list-style-type: none"> September 2019

Amanys			
Business Description	<ul style="list-style-type: none"> Amanys Pharma (former Saham Pharma) is a pharmaceutical company engaged in the manufacturing of antibiotics for its own brand and for third parties, as well as the distribution of injectable solutions to hospitals. 		
Country (head office) Sector	<ul style="list-style-type: none"> Morocco, India Pharmaceuticals 	Investment date	<ul style="list-style-type: none"> March 2020

Ademat			
Business Description	<ul style="list-style-type: none"> Ademat is the leading provider of power security solutions in Côte d'Ivoire. It provides a wide range of technical solutions for companies in various industries, including telecommunications, financial services, manufacturing, healthcare and hospitality. 		
Country (head office) Sector	<ul style="list-style-type: none"> Côte d'Ivoire Services 	Investment date	<ul style="list-style-type: none"> April 2021

Holged			
Business Description	<ul style="list-style-type: none"> Founded in 1986, Holged is a leading K-12 education group in Morocco and Tunisia, teaching to 16,000+ students across 4 school brands (notably Ecoles Yassamine, Al Jabr in Morocco, and ISC in Tunisia). Holged employs c. 2,240 people through a growing footprint, with presence in the largest Moroccan cities as well as in Tunis and Sfax. 		
Country (head office) Sector	<ul style="list-style-type: none"> Morocco, Tunisia K-12 education 	Investment date	<ul style="list-style-type: none"> March 2022

Global Corp			
Business Description	<ul style="list-style-type: none"> GlobalCorp is a non-bank financial services company providing financial & operating leases and factoring solutions to corporates and SMEs. The company's leased assets include production lines, equipment and machinery, vehicles and commercial/industrial real estate. GLC serves clients in the manufacturing (e.g., F&B, pharma), services (e.g., transport, construction, hospitality, healthcare) and real estate sectors. 		
Country (head office) Sector	<ul style="list-style-type: none"> Egypt Non-banking financial services (NBFS) 	Investment date	<ul style="list-style-type: none"> April 2022

Outsourcia			
Business Description	<ul style="list-style-type: none"> Outsourcia is an independent player specializing in outsourcing businesses, covering remote omnichannel customer relationship management (contact centers), back office processes (BPO), digital services, marketing studies, and medical outsourcing (management of medical reports). 		
Country (head office) Sector	<ul style="list-style-type: none"> Morocco Outsourcing 	Investment date	<ul style="list-style-type: none"> September 2022

Vital			
Business Description	<ul style="list-style-type: none"> Founded in 2000 in Tunisia, Vital is specialized in the field of phytotherapy, therapy, well-being, and cosmetology. Vital is the leader in natural herbal food supplements with a portfolio of over 400 high quality products, 8 million units are manufactured each year. The company has about 400 employees of which 24% are managers. 		
Country (head office) Sector	<ul style="list-style-type: none"> Tunisia Nutritional supplements 	Investment date	<ul style="list-style-type: none"> December 2022

11. How effectively does BII manage funds following its initial investment?

BII adopts a proactive approach to oversee its projects, with a regular feedback loop that has been established to exchange on the fund manager recent developments, strategic plans and other topics such as assessing the quality of investments, capacity building, operational efficiency.

For instance, BII worked towards implementing the main recommendations that were raised during the due diligence screens. It played a crucial role to mitigate those gaps and undertake improvements within the firm. Key intervention areas have been across ESG topics and business integrity at the level of both the GP and the investee companies where it provided guidance on integrating ESG considerations into the investment cycle.

BII also has a representative member in the Advisory Committee of the Fund. The Committee convenes four times in each calendar year to (i) review, assess and approve or disapprove potential conflict transactions (ii) challenge the valuations of the Fund's assets prepared by the Fund Manager; (iii) review and discuss the annual budget; (iv) review and discuss the general performance and prospects of the Fund, including its investment pipeline; (v) approve any material changes to the valuation methodology adopted by the Manager to value the Fund's assets;

In addition to the above, BII provides innovative technical assistance programmes when there is a fit to support their clients to implement work-sharing schemes, effective employee retrenchment policies, improved employee safety, and adapted business operations.

More broadly, BII embodied a learning mentality that helped SPE Capital focus on its operational and strategic competence. Over the medium term, BII supported the team to embed financial sustainability principles at the level of both the GP and investees.

13. How does BII evaluate the impact of its investments?

BII carries out evaluations on an ongoing basis to better understand the actual impact of its investments, track progress against its initial impact targets, and to identify the areas in which more value can be added.

BII encourages responsible investing as a core strategy for long-term growth and economic development by providing support to enhance environmental, social and governance (ESG) practices. BII has active ESG representation on the Special E&S Subcommittee of the Fund that meets on a quarterly basis to regularly review and assess the portfolio's ESG performance. This forum provides an opportunity for BII to discuss any concerns raised, provide ESG guidance and offer additional expertise or resources as needed. This also builds trust and collaboration and helps BII identify gaps and needs, leading to increased opportunities for improvements.

BII has been instrumental in enhancing the Fund Manager's capacity and capabilities on ESG and Impact matters; has contributed significant time and resources to trainings on gender and business integrity; and has actively supported the Fund Manager in developing a proprietary impact management and measurement framework to systematically assess, measure, monitor and track the progress of its investments in achieving the intended impact outcomes. The impact framework measures impact across 5 dimensions, each dimension translating into an impact theme that is relevant to the Fund's investment strategy and context, and consistent with well-recognized impact assessment tools, in alignment with the Operating Principles for Impact Management and the UN Sustainable Development Goals.

BII also requires the Fund Manager to report on key monitoring indicators each year which provides a consistent approach to establishing and managing the portfolio impact. It includes a range of metrics aligned to its strategic objectives such as jobs supported, local taxes contributed to governments, gender performance indicators in alignment with the 2X Challenge, etc.