

METIER
SUBMISSION TO THE INTERNATIONAL DEVELOPMENT COMMITTEE'S
INQUIRY ON UK'S STRATEGY TOWARDS DEVELOPMENT FINANCE
INSTITUTIONS

Date: 2 February 2023

1. Introduction

Metier appreciates the opportunity to make a submission to the International Development Committee's inquiry on UK's strategy towards development finance institutions and the effectiveness of aid spending through British International Investment ("BII").

Development finance institutions ("DFI's") play a crucial role in "plugging the finance gap in terms of funding development and supporting Africa's infrastructure needs"¹. Africa requires more than \$500 billion per year until 2030 to finance the Sustainable Development Goals ("SDGs")². According to the Southern African Venture Capital and Private Equity Association's publication entitled *Three Decades*, DFIs have pioneered private equity investment on the African continent in the 1990's³. DFIs recognised more than 30 years ago that through investing in private equity funds in Africa, they could stimulate growth and mobilise capital towards initiatives that are critical to people and planet.

With this in mind, and as a beneficiary of DFI investment, Metier hopes this submission will illustrate the value of DFIs on the African continent and in particular BII's effectiveness. Through our funds, Metier has been able to make a substantial impact as illustrated in our inaugural Impact Report, which can be provided upon request as supporting evidence. Our submission focuses on four questions where we feel we can add the most insight given our interactions with BII and other DFIs.

We hope you will find this submission of value and welcome any additional engagements needed as part of the inquiry.

2. Overview of Metier

Metier is an independent owner-managed private equity firm founded in 2003 by Paul Botha, Thierry Dalais and Anthony Hewat. The firm's independence is fundamental to its distinctive style, where the team forges partnerships with its portfolio companies and management teams, which has built Metier and its team a reputation that attracts deal flow.

1. <https://brightafrica.riscura.com/sources-of-capital-on-the-continent/development-finance-institutions/institutions-overview/#scroll>
2. https://www.brookings.edu/wp-content/uploads/2020/01/ForesightAfrica2020_20200110.pdf
3. <https://savca.co.za/wp-content/uploads/2015/02/Three-Decades-Magazine-2015.pdf>

Metier is an active partner to its portfolio companies and their management teams. Metier brings much more than capital to the equation. Metier's role is to be a sounding board for senior management, a key driver of shareholder activism and necessary change, as well as a contributor to executive team development, transformation, environmental responsibility and corporate governance.

Since its formation, Metier has grown to comprise a team of over 40 professionals. With offices in Johannesburg, Mauritius and Nairobi, representation in London and a team with a wealth of experience in the field of private equity, Metier is progressing well in its strategic ambition to become a pan-African private equity manager over the next decade.

Metier has a track record spanning four decades across 104 transactions and \$1.27 billion invested, with 27% USD gross IRR (35% gross ZAR IRR), 2.04x Cash in USD (2.22x Cash in ZAR) with 79% deals realised and a strong track record of delivering co-investment opportunities.

We operate two parallel investment practices, the Capital Growth practice and the Sustainable Capital practice. The Capital Growth practice concentrates on mid-cap entrepreneurial businesses requiring growth capital in sectors which demonstrate emerging market growth potential and is currently fundraising for its third fund targeting \$200 million for deployment across Sub-Saharan Africa with a first close targeted for mid-2023. The Sustainable Capital practice targets investments in energy efficiency, renewables, water and waste management businesses and projects supporting Africa's development objectives and closed its second fund at USD 156 million in June 2021. Total Assets under Management at December 2022 are in excess of \$500 million.

For more information about Metier, feel free to access our website at www.metier.africa.

3. Metier's response to the Terms of Reference

Metier has elected to focus its submission on the following four questions where we believe we can provide insight, given our experience partnering with DFIs, including BII, within the private equity sector in Africa:

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

In our experience, BII conducts a detailed due diligence process whether investing in a fund or investing directly into a portfolio company alongside a fund as a co-investor. The due diligence process focuses on various aspects such as financial and tax, legal, commercial viability, technical, Environmental, Social & Governance ("ESG"), the management team and business integrity.

BII interrogates all existing reports/materials, and in some instances requests that further work be completed with the support of appropriate experts. The due diligence also includes in-person visits and country visits, over and above detailed reviews.

The due diligence process followed by BII compares with best practice and those of other DFIs that invest on the African continent. The BII team were on top of the details and asked insightful and relevant questions during the due diligence process.

3.2 What current investments does BII hold?

In relation to Metier, BII currently holds the following investments:

- A commitment of USD USD 20 million into the second sustainable capital fund (MSC II) which achieved its final close in June 2021 at US\$156 million.
- An equity investment of USD 11.8 million into Africa Mobile Networks (“AMN”), a telecommunications infrastructure provider, alongside Metier and other co-investors.
- Commitments to Catalyst Fund I (“CFI”) of USD 15 million and Catalyst Fund II (“CFII”) of USD 30 million. Metier has recently taken on the administration of CFI and the management of CFII at the behest of the investors.

3.3 How effectively does BII manage funds following its initial investment?

As an investor, BII has been proactive and engaged in their approach to managing their investments. There are regular virtual and in-person interactions with the BII deal teams regarding investments and progress. The level of interaction with, and detailed questions from the BII team, indicate that they thoroughly review Metier’s quarterly and annual reports. BII also offers materials, resources and training which is helpful in supporting fund managers and portfolio companies with improving aspects such as ESG, impact, governance and business integrity monitoring and reporting.

From an administrative perspective post investment, processes such as drawdowns have been seamless and the BII team is very responsive.

3.4 How does BII evaluate the impact of its investments?

BII upholds high standards when evaluating the impact of its investments. Extensive reporting requirements and various metrics that a private equity fund manager needs to measure and report on are captured in the legal agreements. Aspects such as social and environmental impact, governance and financial metrics are included amongst the reporting requirements per investment made, as well as any contextual metrics that may serve as an impact indicator for a particular industry or region to ensure the impact/metric is contextually relevant.

Some of the indicators required from portfolio companies include:

- Direct employment
- Female direct employment
- Youth direct employment
- Revenue
- Cost of goods sold

- Wages and salaries
- EBITDA
- Corporate income taxes
- Greenhouse Gas Emissions
- Reach (dependent on product/service)

4. Conclusion

DFIs have played a pivotal role on the African continent to mobilise capital to where it is needed. Private equity as an asset class has benefited from the investments from DFIs to invest in the real economy with the aim of stimulating growth, creating jobs and tackling issues such as inequality and climate change. With the slowdown of investment from international commercial investors into Africa, DFIs will continue to play an important role in the development and growth of the African continent. More can be done by all DFIs to mobilise local capital through de-risking, supporting regulatory reforms and through innovative financing mechanisms. Limitations placed on DFI mandates such as geography and/or narrow investment themes, may enhance development needs in these focus areas, but may also have unintended consequences on aspects such as financial performance. The opportunity costs of investment mandates, the financial implications thereof and the development needs of the continent all require a considered approach by DFIs.

BII has historically been a significant investor on the African continent and have been able to positively impact millions of lives through its investments. It offers additional support to fund managers which have contributed to uplifting the quality and standards of private equity fund managers in Africa. BII is thorough and considered in their due diligence processes ensuring they understand the risks and sustainability of potential investments. They also understand the dynamics of the private equity sector and apply themselves on matters that affect the sector and how, as an investor, they can play a positive role in the broader investment ecosystem.