

mecene **i**nvestment.

Social Capital for Africa

## The Consolidation Imperative in Africa

World Microfinance Forum Geneva

October 1-2, 2008



Introduction to Mecene Investment

State of Microfinance in Africa

Globalization of Microfinance

The Consolidation imperative

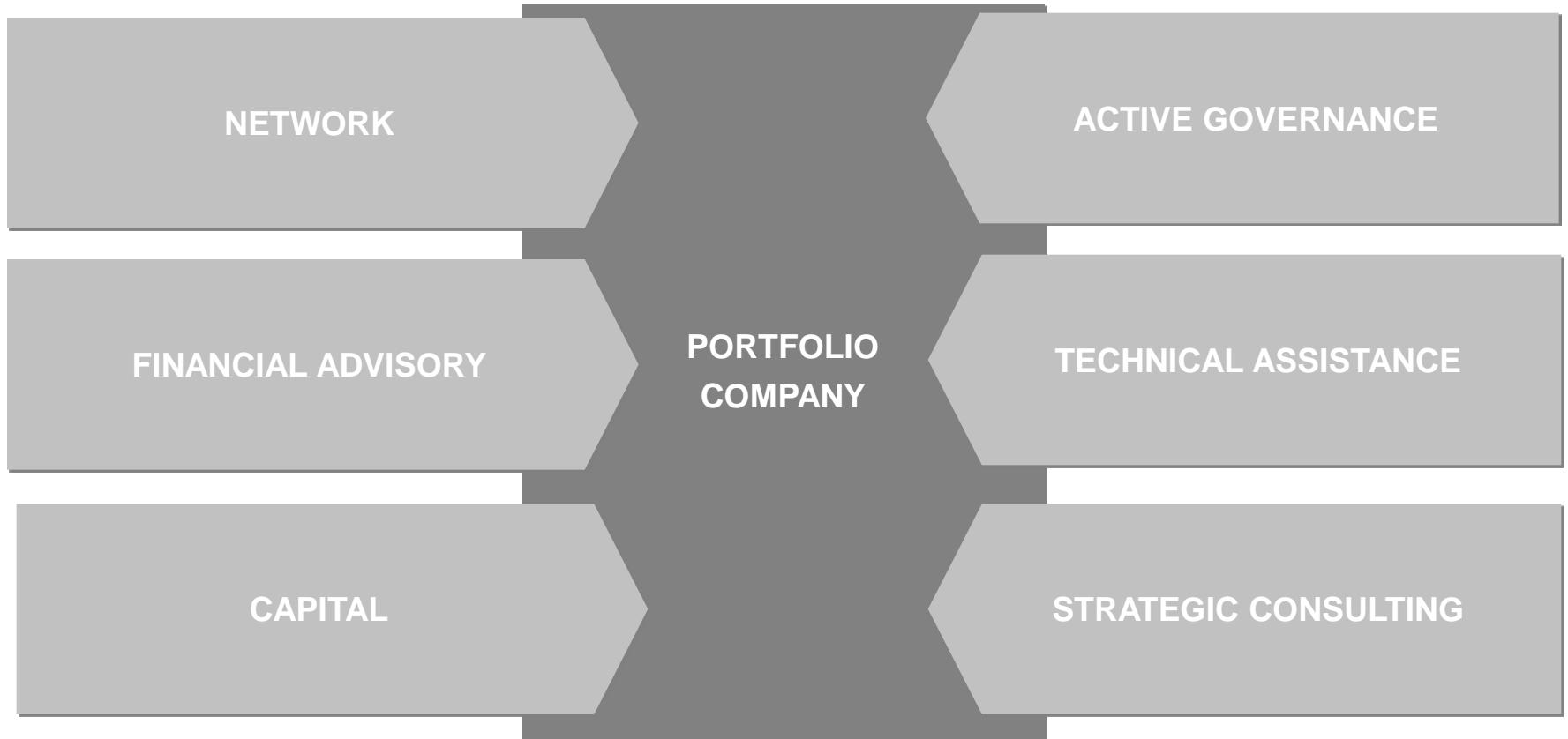
## Vision

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- Mecene Investment is a leading **African Private Equity Advisory** company specialized in **socially and environmental responsible investments**
- Our vision is to **mobilize capital** so as to support businesses that provide the informal sector entrepreneur the means to achieve growth and sustainability , while **delivering high Financial Returns to our investors.**
- We selects companies with **a competent management team** and enhances their value by providing them with **Capital, Relationships, Technical Assistance, Management Consulting and Financial Advise**
- Mecene Investment attracts and retains **creative, high-energy individuals** passionate about making an impact and achieving success through a positive **contribution to the African Continent**

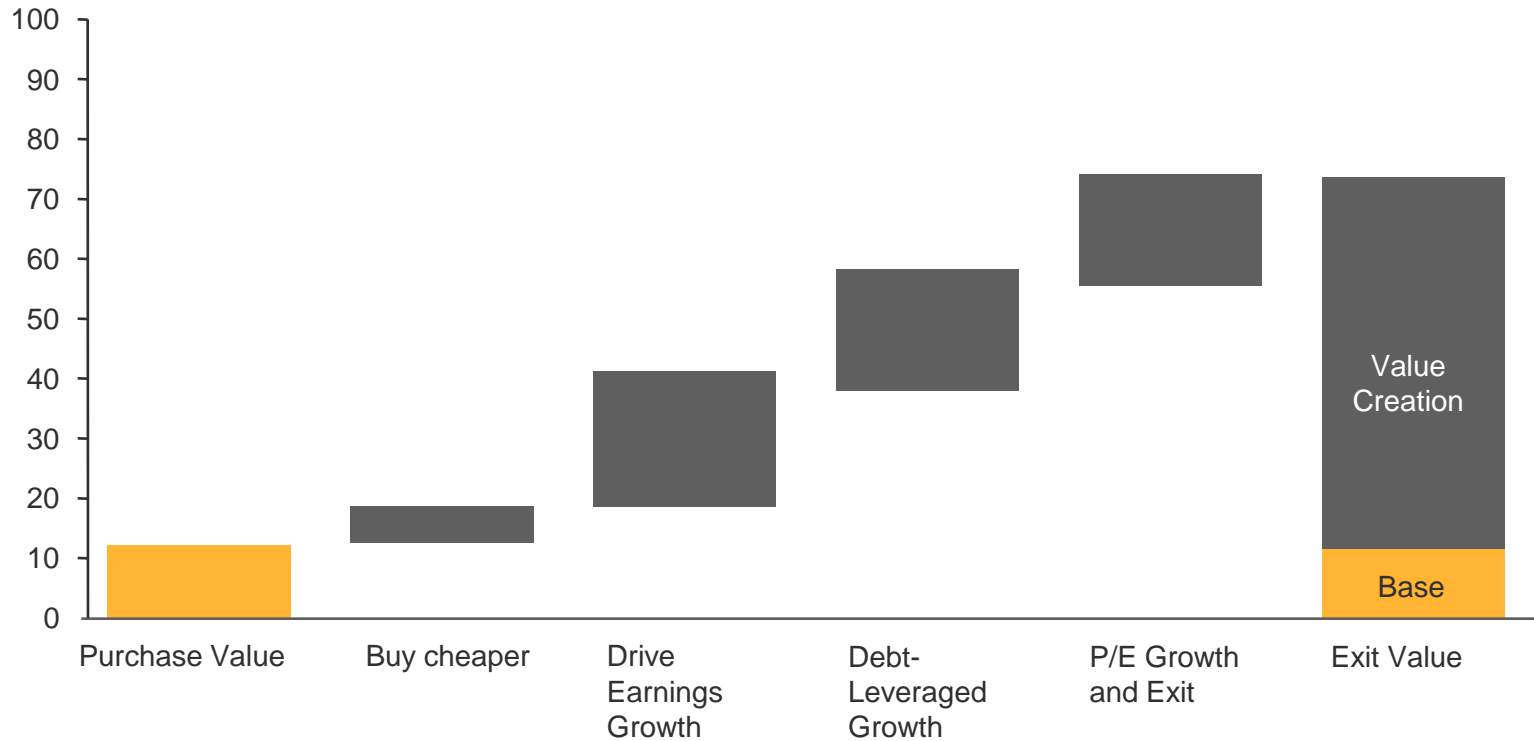
# Approach to private equity

*Create value by building strong relationships with local management teams, and by actively participating to the definition of the company's strategic direction and governance.*

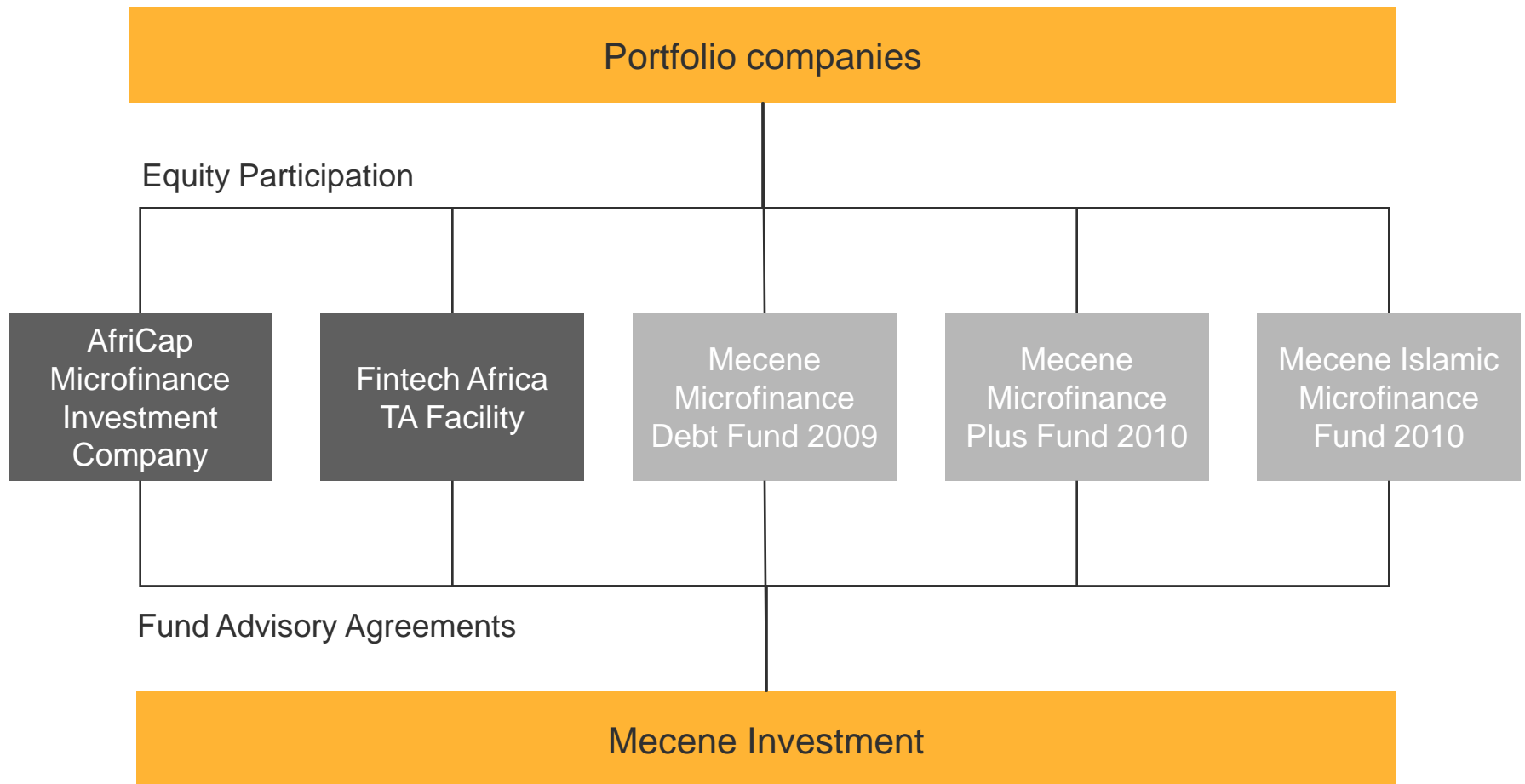


# Private Equity Value Creation Model

*Mecene Investment's preferred route to liquidity is to aggregate portfolio companies into regional players and seek a leveraged exit.*



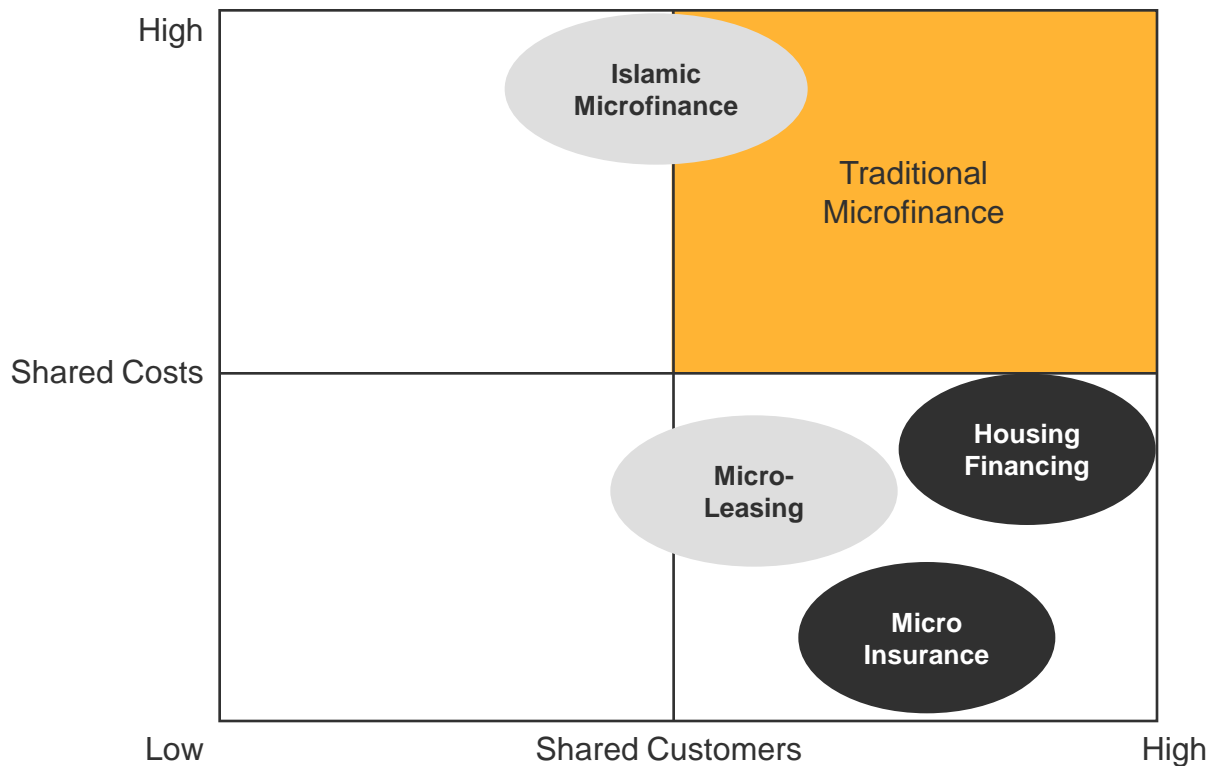
# Mecene fund activities



# Expanding Microfinance

*Mecene leverages its core competence in Social investment in Africa to expand its industry focus is sectors adjacent to the Core Microfinance Banking Services*

Analysis of company “types” relative to traditional Microfinance

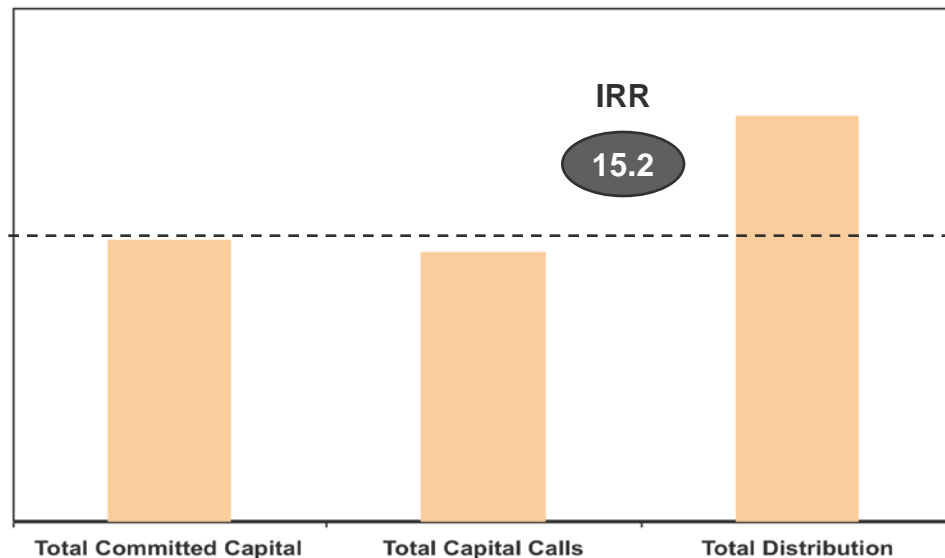


Although Islamic Microfinance, Housing and Insurance target the similar customers (the informal entrepreneur of Africa) they do not have like cost bases – in other words they are adjacencies to the “core”

# AfriCap Fund performance

## AfriCap Microfinance Fund Summary

	2007	2007
	USD	% Committed capital
Total committed	13 724 311	100
Total capital calls	13 138 231	95.7
Total distribution	19 777 144	144.1
Net IRR	15.2%	

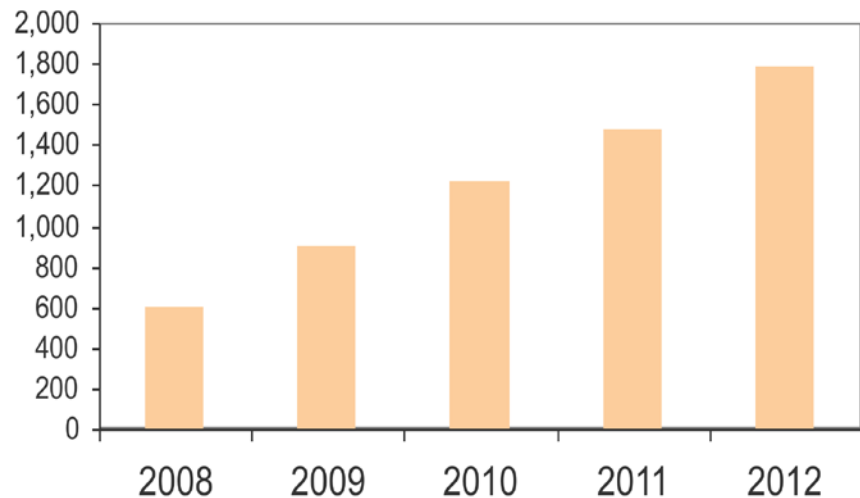


- Mecene Investment managed AfriCap Microfinance Fund (AMF) from 2002 to 2007. In 2007, Mecene raised a \$50 million fund named AfriCap Microfinance Investment company (AMIC)
- AMF achieved a great deal of success with investments in companies such as Equity Bank in Kenya which became the first private MFI to list on a stock exchange

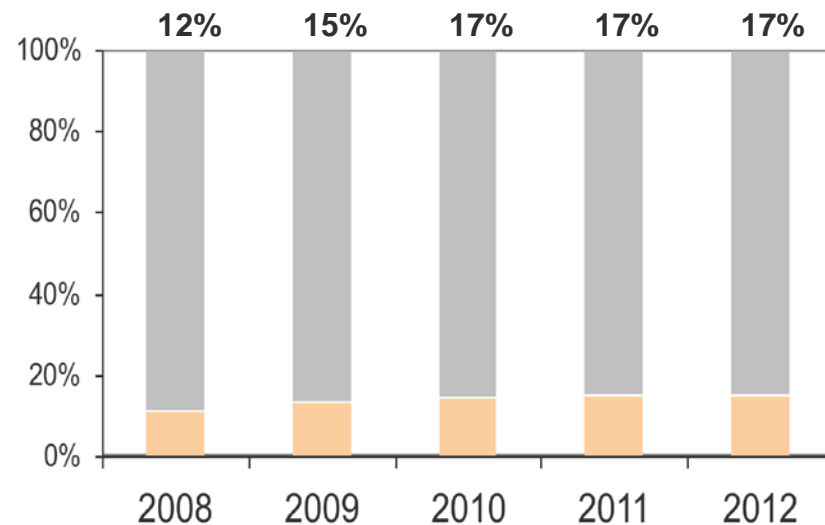
# AfriCap Social Impact

*In 2012, Mecene expects its current and former investees to disperse loans to 1.8 million borrowers, 17% of the total African microfinance market*

**Mecene Investment Outreach:  
Borrowers (000)**



**Percentage of total African  
microfinance borrowers**

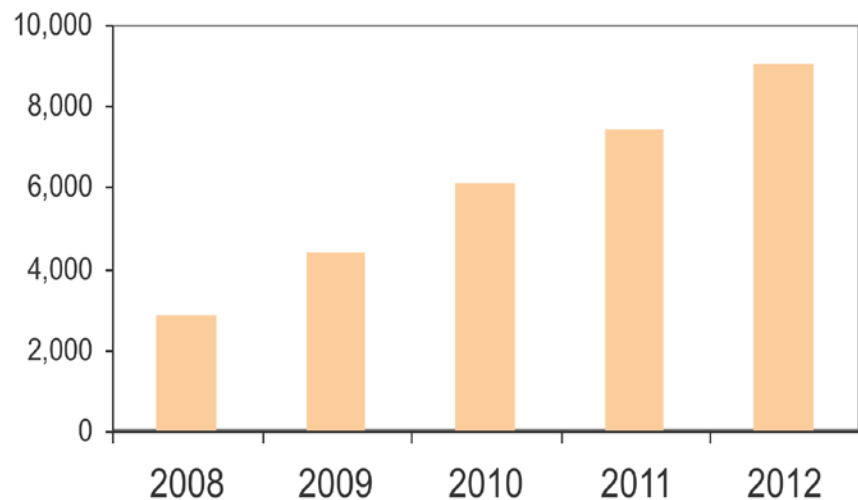


	2008	2009	2010	2011	2012
Mecene Investment Outreach: Borrowers	607,480	901,143	1,227,431	1,484,570	1,785,024
Africa Total Borrowers	5,003,549	6,004,259	7,205,111	8,646,133	10,375,359
Mecene Investment Percentage of Total	12%	15%	17%	17%	17%

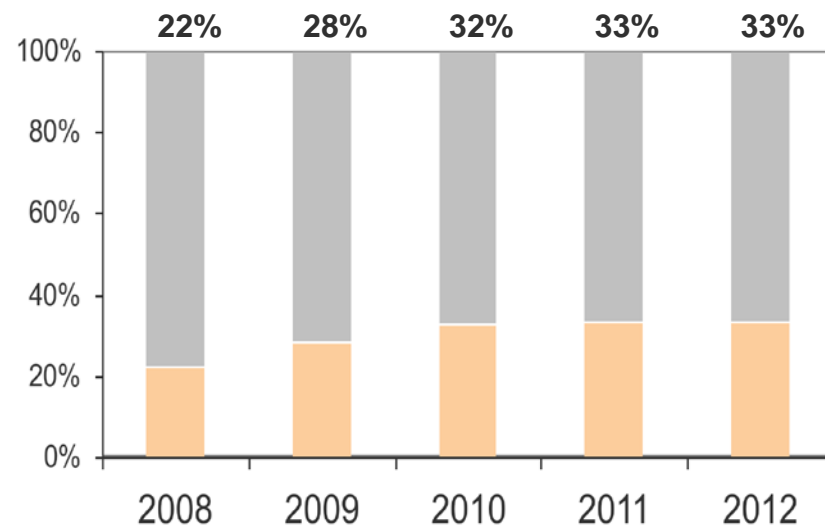
# AfriCap Social Impact

*In 2012, Mecene expects its current and former investees to serve 9 million depositors, or 33% of the total African Microfinance market*

**Mecene Investment Outreach:  
Depositors (000)**



**Percentage of total African  
microfinance borrowers**



Mecene Investment Outreach: Borrowers	2,864,647	4,439,577	6,109,974	7,466,242	9,077,064
Africa Total Borrowers	13,112,607	15,735,128	18,882,153	22,658,584	27,190,301
Mecene Investment Percentage of Total	22%	28%	32%	33%	33%

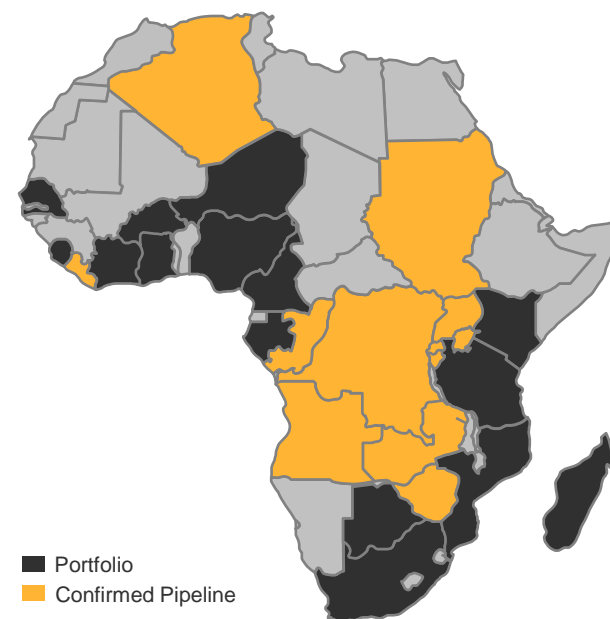
# AfriCap Investment Company

*During the first year following its recapitalization, Mecene has built an impressive portfolio of microfinance companies that constitutes a good basis for developing an exit strategy. In addition to core microfinance banking companies, Mecene is building a portfolio of insurance and leasing companies in West and Central Africa*

## Portfolio Summary as at Q1 2008

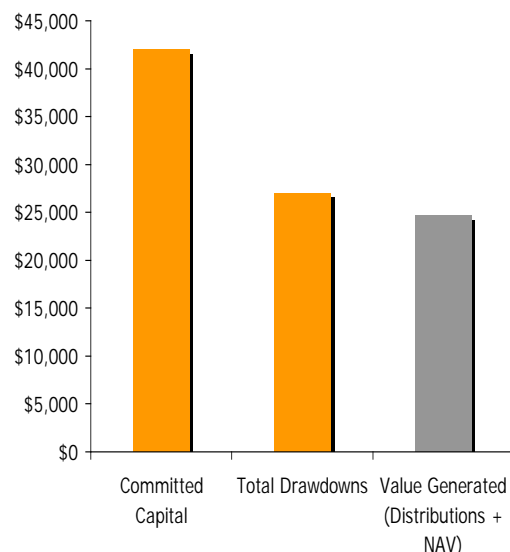
Company name	Country	Date of initial investment	Stage of initial investment	Type of investment	Current ownership %	Cost of investment
<b>Unquoted companies</b>						
Socrema	Mozambique	Dec 05	Transform	Ordinary shares	16.3	620 000
UTB	Sierra Leone	Aug 06	Expansion	Equity	0	1 006 000
QFI	Egypt	Jun 06	Start-up	Equity	0	600 000
WWBG	Ghana	Jun 06	Expansion	Ordinary shares	30	1,576, 087
CAP Microfinance	Senegal	Mar 06	Early stage	Ordinary shares	50	50 000
Access Madagascar	Madagascar	Nov 06	Start-up	Ordinary shares	16.8	545 000
OIBM	Malawi	Oct 06	Expansion	Ordinary shares	19.8	840 160
Socrema – Loan	Mozambique	Jan 07	Expansion	Loan	0	1 000 000
Wizzit	South Africa	Jun 07	Expansion	Ordinary shares	11.1	1 401 620
Wizzit (R-Qubed)	South Africa	Jun 07	Expansion	Ordinary shares	9.7	350 405
Susu Microfinance	Nigeria	Aug 07	Start-up	Ordinary shares	30	1 200 000
FERLO S.A.	Senegal	Sep 07	Start-up	Ordinary shares	34	368 529
Afrique Emergence	Cote d'Ivoire	Mar 08	Start-up	Convertible loan	20	300 000
SOFIPE	Bourkina	Mar 08	Starup	Equity	26%	1,150,718
ASUSU	Niger	May 08	Expansion	Convertible Loan		1,600,000
La Regionale	Cameroon	June 08	Expansion	Equity	25%	2,100,000
Tujjenge	Tanzania	Jul 08	Exapansion	Convertible Loan		800,000

## Mecene footprint Q3 2008



# Fund Summary

## Fund Value Generation (000's U\$D)



Item Description		%
<b>Fund Capital</b>		
	<b>USD '000</b>	
Committed Capital	42,011	
Total Funds available for Drawdown	42,011	100%
Total Drawdowns	26,931	64%
Total remaining available for Drawdowns	15,080	36%
Investment Income	145	0%
Cummulative Distributions	-	0%
<b>Fund Value</b>		
Fair Value of Portfolio	18,372	
Total Other assets / liabilities	6,326	
Total Net Asset Value	24,698	
<b>Metrics</b>		
Net Fund IRR	-15.1%	
Operating expenses / Committed Capital	4.5% (mnth 8 2008)	
<b>Multiples to Investors</b>		
Distribution to paid-in Capital	0.00 x	
Residual value to paid-in-capital	0.92 x	
Total Value to Paid in Capital	0.92 x	
<b>Portfolio Investments / Commitments</b>		
Total Invested in Portfolio Companies	15,509	
Additional Commitments / Follow on Investments	5,585	
Pipeline Opportunities	13,745	
Total allocated to Investments / Opportunities	34,839	

# Mecene team

*The core team has extensive experience in Private Equity, Investment Banking, Financial Management and Management Consulting. This established and experienced team brings Mecene an enormous competitive advantage.*

## **Wagane Diouf**

Managing Partner

5 years experience with AfriCap, 14 years senior management experience in Fortune 1000 firms and startups worldwide in Information Technology, Healthcare and Financial Services.

## **Peter Gachuba**

Partner

10 experience in investment banking, corporate finance and financial advisory services through his tenure at CDC Kenya, Kestrel Capital, Co-operative Bank of Kenya and First Africa.

## **Blaise Henry Tiam**

Partner

Blaise has an extensive experience and an outstanding track record in Private Equity Investment in Africa. Prior to joining Mecene, he spent 6 years as Investment Officer for CININVEST, a Central African Private Equity Fund based in Cameroon. .

## **Hubert Hourizene**

Partner, CFO

10 years experience in financial management. Before joining AfriCap, Hubert's was Project Officer for the Regional Office of Southern Africa at AMSCO. Prior to that, Hubert was the Head Financial Control & Reporting at Standard Chartered Bank in Ivory Coast.

## **Samuel Mathole**

TSF Mgr

Samuel started his banking career in 1986 with CBZ Bank Limited Later, he joined Metropolitan Bank of Zimbabwe as Assistant General Manager, Finance. He then joined Vulindlela, a Microfinance Consulting Firm in South Africa.

## **Jay Kloppenberg**

Associate

Prior to joining Mecene, Jay worked at McKinsey & Co. in South Africa and in the United States, advising CEOs and upper-management figures across industries in matters of growth strategy, M&A, and operations. Jay holds a Bachelor of Arts degree summa cum laude from Amherst College, in the US with Phi Beta Kappa honors. Jay is fluent in English and French.

Introduction to Mecene Investment

State of Microfinance in Africa

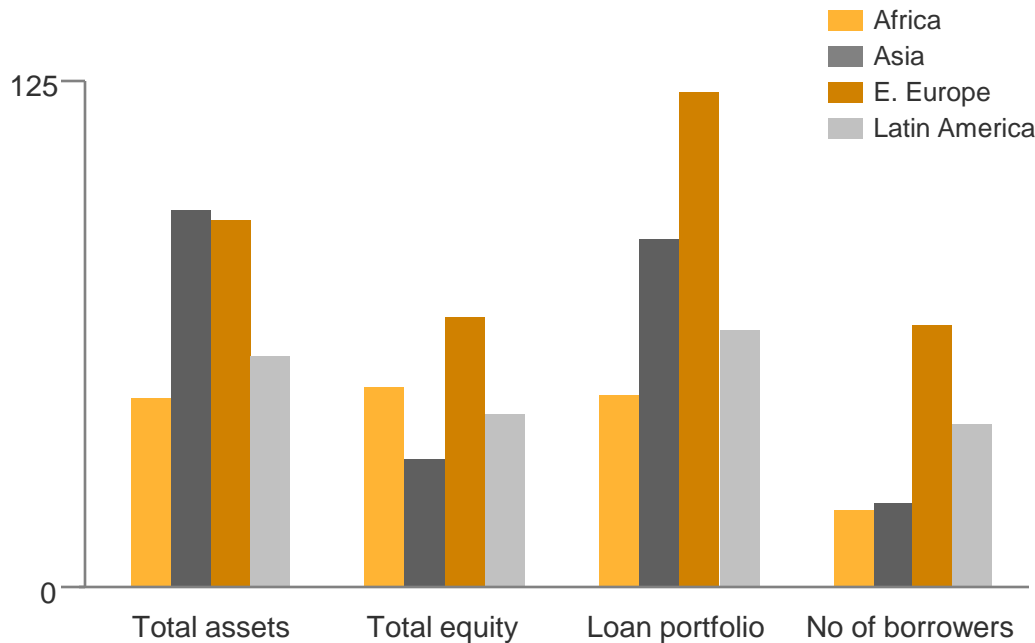
Globalization of Microfinance

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# Size and growth of microfinance globally

*The global microfinance market is large and growing...*

## % CAGR in Microfinance from 2004 to 2006



Average	73%	48%	80%	36%
Projections to 2011	32%	27%	36%	15%

Although difficult to ascertain exact size of the market...

- “~\$23 billion outstanding to 52 million people” – Financial Times - Financial Times
- “\$20-\$30 billion” – Damian von Stauffenberg
- “..today’s \$17 billion” – S&P
- ...there is still significant room for growth...
- “at least \$250 billion” – S&P
- “demand for sustainable financial services among the low income groups estimated at \$300 billion” – J PMorgan

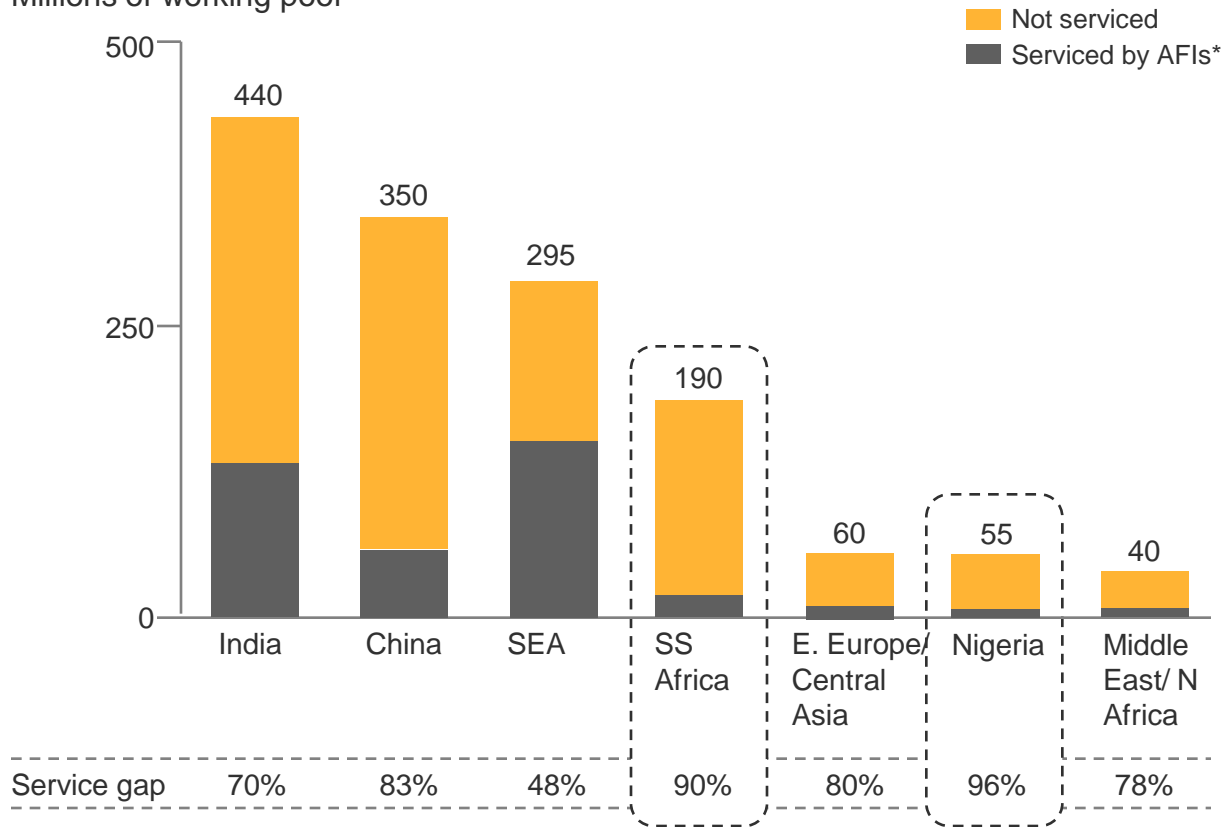
Source: Rhyne and Busch, The Growth of Commercial Microfinance, September 2006. Results based on analysis of 71 MFIs

# Supply and demand

*Despite the growth, the demand for microfinance services still far outstrips the supply*

## Demand and service gap in microfinance

Millions of working poor



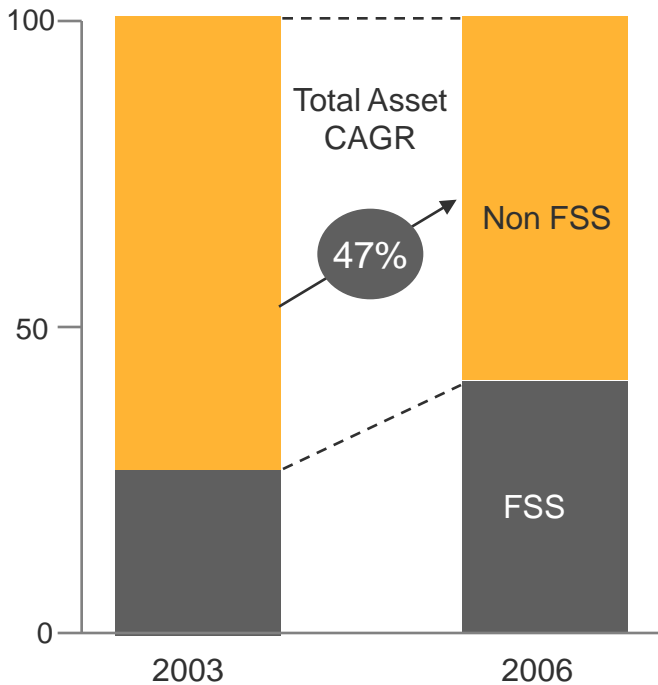
The supply / demand “gap” remains the greatest in Africa. There is both a need and demand for the support of Microfinance

\*AFIs (Alternative Financial Institutions) have social objectives and target clients below the level of commercial banks, even though they also serve the non-poor. They include MFIs, Co-ops, Credit unions, Banks (i.e. broader than just MFIs)

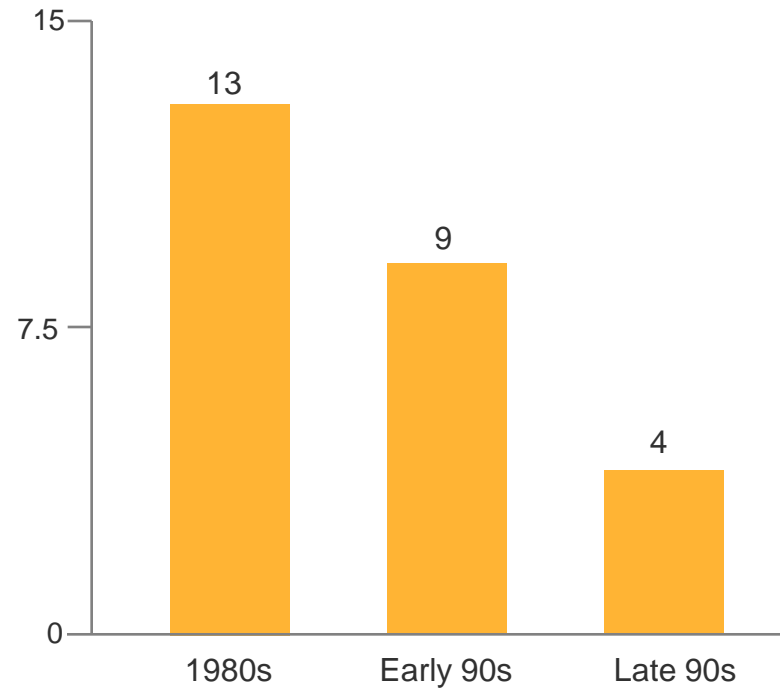
# Africa is a growth market

*Africa is a promising market for Microfinance. The growth is fueled by the continent's large population of informal sector players and an average economic growth rate of 5% per year. The microfinance market is estimated at \$30 billion. The market is underserved and growing at a compounded annual growth rate of 47%. African institutions are mostly unsustainable, but the time to sustainability is decreasing substantially. The growth is in turn driving demand for equity and debt funding*

FSS African MFIs  
%



Time to sustainability by date of establishment  
Yrs



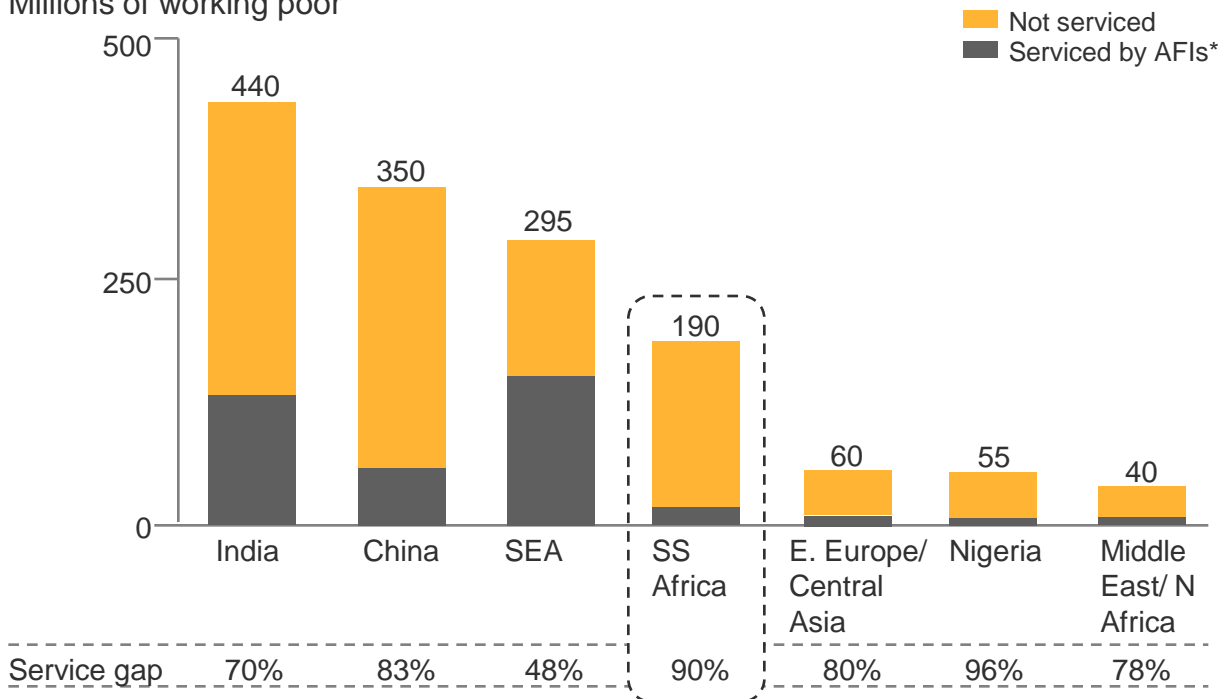
Source: MicroBanking Bulletin (2005), MIX Market, McKinsey Analysis

# Africa is a growth market

The market for microfinance services in Africa is at its infancy. Given the large portion of the informal sector in the African economies, the demand for microfinance services is very large. Unlike Latin America and Asia the microfinance industry is relatively recent. Therefore, the majority of institutions are still NGOs that are barely profitable and serve a small number of clients. This state of affairs makes Africa a particularly attractive market for microfinance. As indicated in the chart below Africa is one of the markets where the unmet demand is the largest. The continent is now poised for accelerated growth with democratic systems taking hold in most of the countries and the progressive microfinance regulatory frameworks are now in place across the continent.

## Demand and service gap in microfinance

Millions of working poor



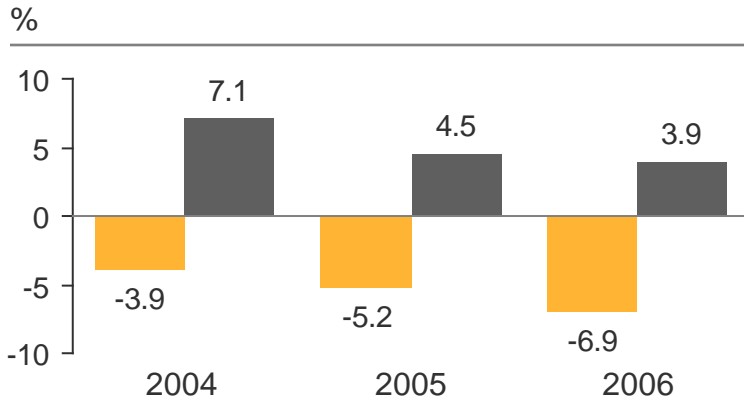
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 Source: McKinsey analysis, World Bank; United Nations; CGAP Occasional Paper #8 (2004)

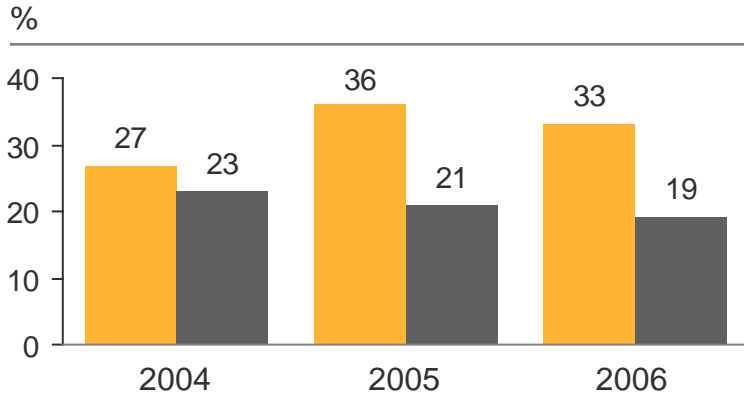
# Africa is a fragmented market

*Despite a high demand and fast growing industry, African microfinance is inefficient due to the fragmentation of the market and the absence of economies of scale. In the end, microfinance services do not reach those who need them and when they do, their pricing is exorbitant.*

## Return on equity

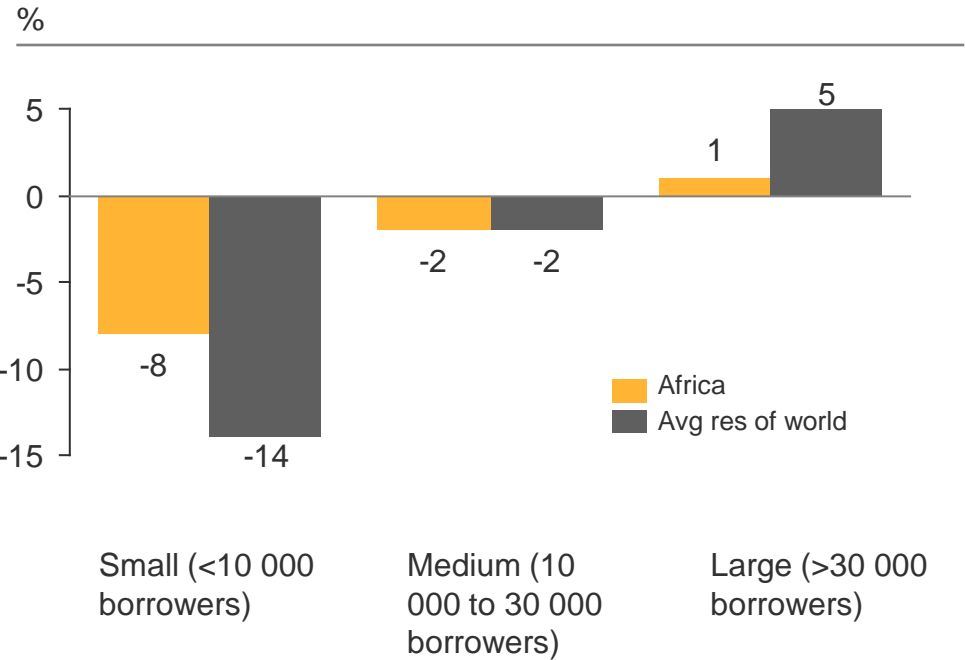


## Operating efficiency



Source: Mix Market MFI Benchmarks 2004, 2005, 2006

## Profitability of African MFIs by Institution size (2006)

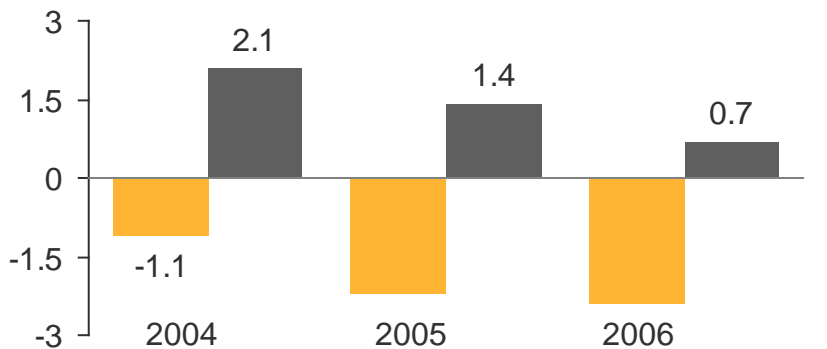


African MFIs are, as a whole, significantly less profitable, driven by higher operating costs and a lack of efficiency. Inefficiencies are linked to institution size

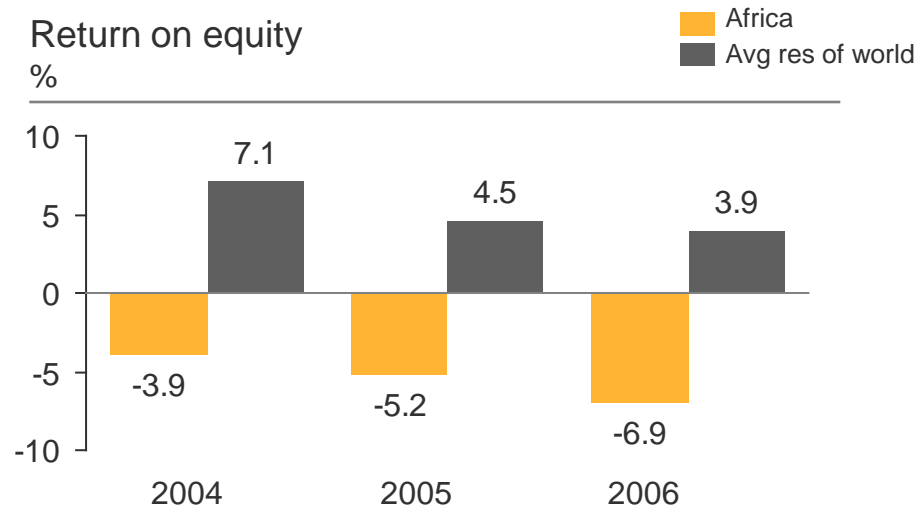
# Profitability

*As a whole, African MFIs are significantly less profitable than those of the rest of the world*

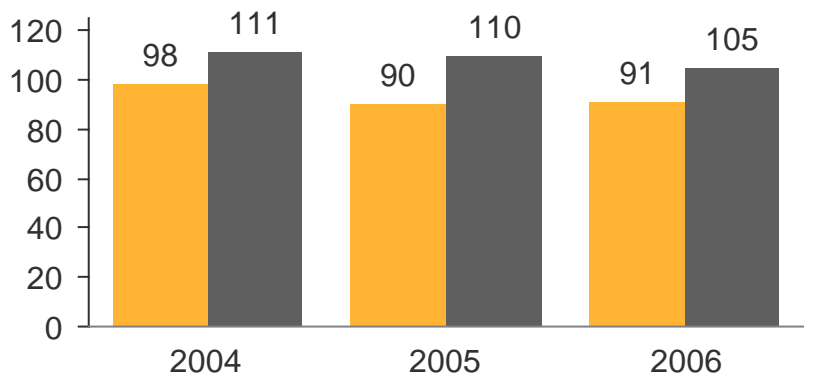
Return on assets  
%



Return on equity  
%



Financial self sustainability  
%



What is driving the lack of profitability?

Source: Mix Market MFI Benchmarks 2004, 2005, 2006

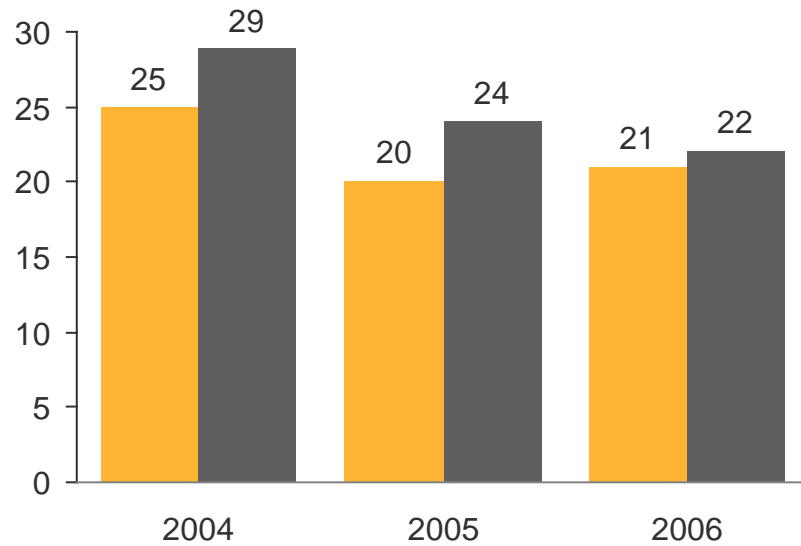
# MICROFINANCE IN AFRICA

## Drivers of profitability

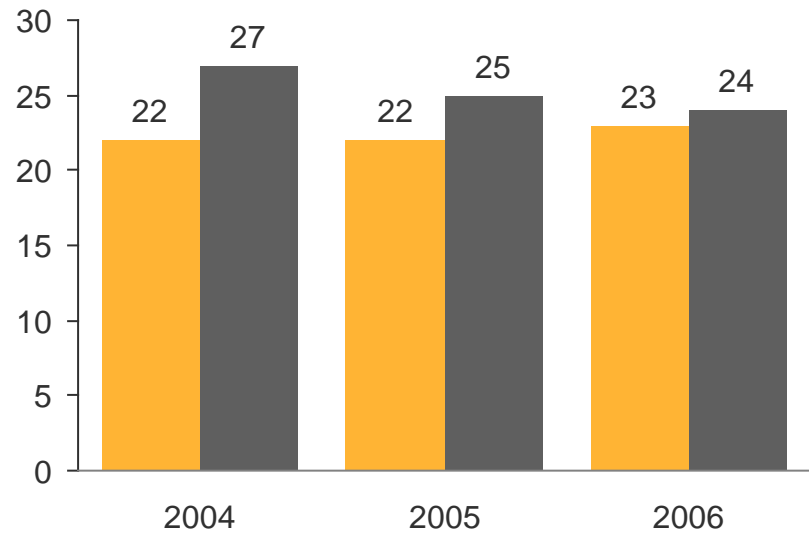
*Whilst generating somewhat equitable top line and yield on portfolio...*

Africa  
Avg res of world

Yield on gross portfolio  
%



Financial revenue / assets  
%



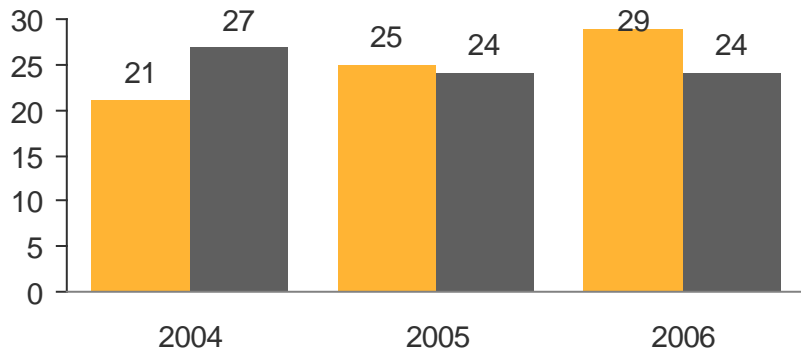
Source: Mix Market MFI Benchmarks 2004, 2005, 2006

# MICROFINANCE IN AFRICA

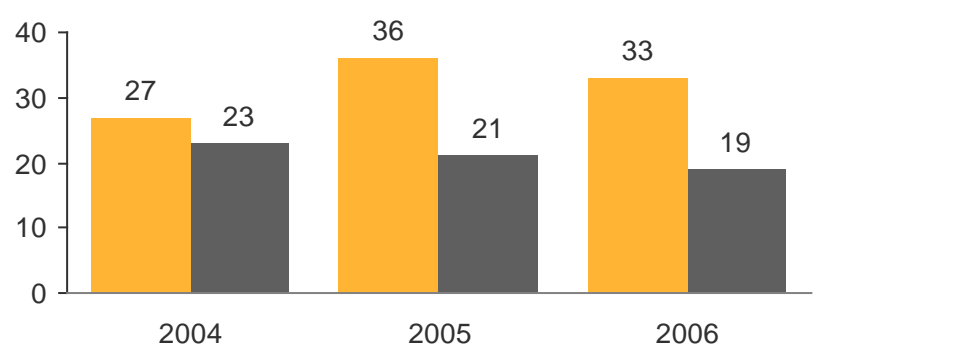
## Drivers of profitability

... profits are drained by high operating costs and a high risk client profile

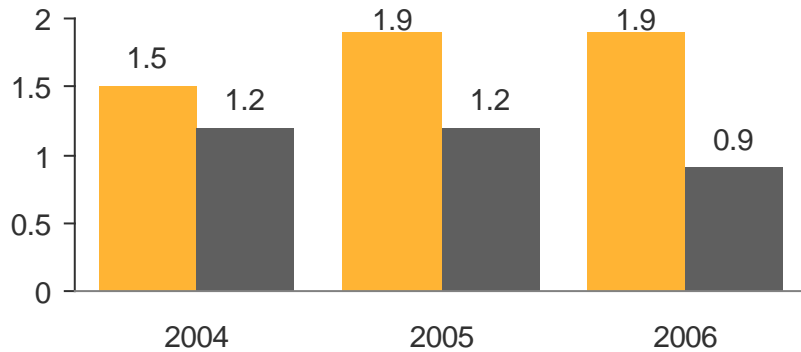
### Total expenses / assets %



### Operating efficiency %



### Write off ratio %



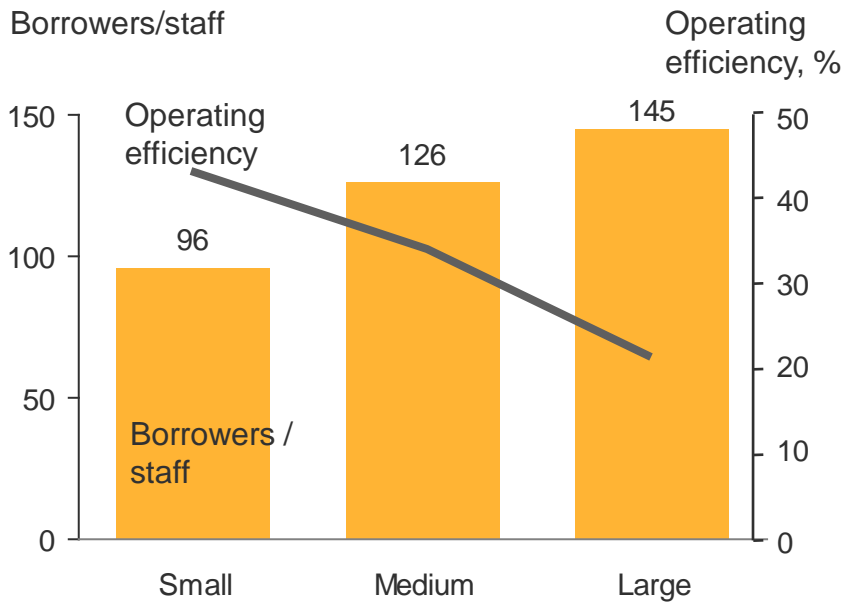
Probably explained by poor infrastructure, highly dispersed population, lack of technology and a fragmented industry

Source: Mix Market MFI Benchmarks 2004, 2005, 2006

# Profitability

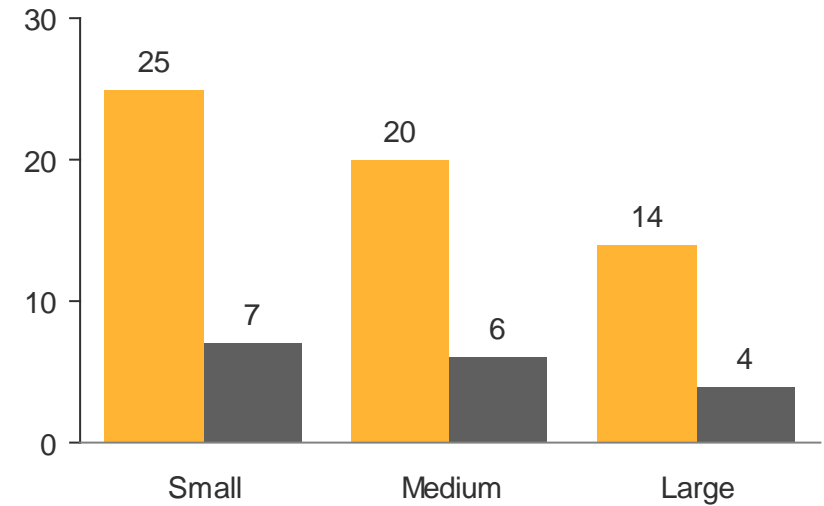
*It is clearly apparent that size does matter and that scale is a major driver of profitability*

## Efficiency / productivity by size



## Expenses by size (as % of assets)

Operating expenses  
Financial expenses



Institutions at scale are able to generate the necessary efficiencies to drive operating costs downwards. They also appear to have access to cheaper sources of financing

Source: Mix Market MFI Benchmarks 2006, Mecene analysis

\*Note: Small <10,000 Borrowers, Medium: 10,000 to 30,000 Borrowers, Large: >30,000 Borrowers

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# Unlevelled playing field

In recent years, the competitive landscape has changed dramatically. The small players are now facing competition from a new breed of competitors. Commercial Banks are aggressively pursuing entry into Microfinance, Networks such as Accion, MicroCred, Advans and FINCA are expanding rapidly in Africa. Furthermore new global players such as BRAC and ASA are making an entry into the African market

The new competitive dynamic is threatening the very existence of local African microfinance companies who unfortunately have a scale and cost of capital disadvantage. To make matters worst, most of the debt and equity capital goes to the larger global players further exacerbating the gap between local and international players. Additionally, the new international players have consulting groups which they use for capacity building

## New MFI Entrants

- Experienced and scale international players who wish to gain a foothold in Africa
- The following players are entering the market: BRAC, ASA, Advans, AccessBank, MicroCred

## Regional Expansions

- Existing MFIs are looking at ways to expand their current operations across their regions
- E.g. Equity Bank who recently raised \$180M for African expansion

## Partnerships

- Existing MFIs seeking ways to build scale are entering into strategic partnerships
- E.g. Ecobank / Accion

## Commercial banks

- Local commercial banks have taken note of the MFI offering and are examining ways to address the low-income market
- E.g. Absa's new productive lending scheme

# Grouped vs. individual

*The benefits afforded by the consolidation of investments must be outweigh to the new costs required to manage / service the network*

Shared Costs	Increased Revenues	Accelerated Scaling	Increased liquidity options
<ul style="list-style-type: none"> <li>• Management Information Systems</li> <li>• Marketing and Branding</li> <li>• Product Development</li> <li>• Risk Management Techniques</li> <li>• Treasury / Liquidity Management</li> <li>• Access to lower cost capital</li> </ul>	<ul style="list-style-type: none"> <li>• Market Research</li> <li>• Tailored Products</li> <li>• Value Propositions</li> <li>• Pricing Optimisation</li> </ul>	<ul style="list-style-type: none"> <li>• The benefits of scale are clear</li> <li>• Access to shared services / infrastructure will help institutions grow to scale - becoming more financially sustainable in a short period of time</li> </ul>	<ul style="list-style-type: none"> <li>• The scale and scope afforded by the 'grouped' investments will enable liquidity options that would otherwise not have existed (e.g. international listings)</li> </ul>



The whole *must* be greater than the sum of the parts!

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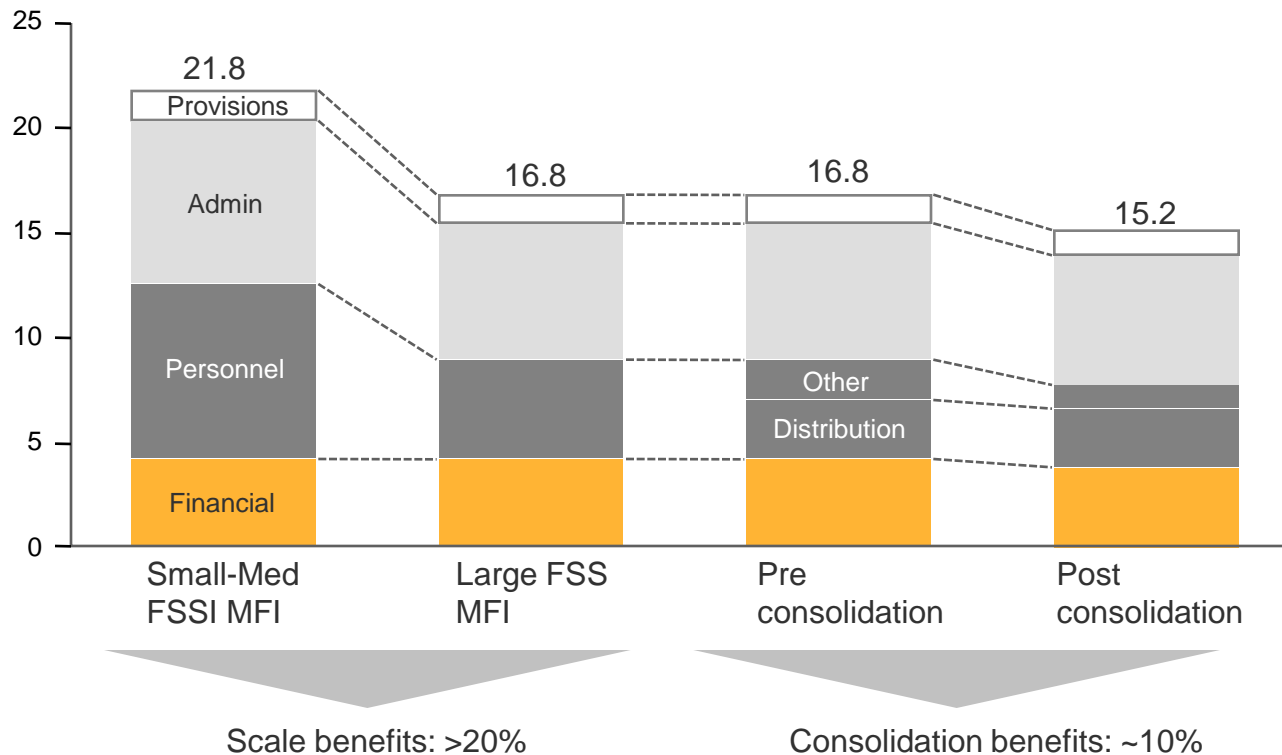
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# Quantifying consolidation benefits

*In quantification of the benefits, it is clear that scale is a driver of efficiency. However one of the major operating costs of MFIs is distribution – a cost that can not be shared when consolidating across countries*

% of total assets



It is more difficult to directly quantify increased revenues and availability of new liquidity options

Source: Mix Market MFI Benchmarks 2006, Mecene Investee Financials and Mecene analysis

# Vision for African microfinance

## The challenge...

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The African Microfinance industry is maturing and competitive pressures are increasing. Microfinance Institutions and networks *need* to look for ways to remain competitive and sustainable. The key lever will be cost reduction

Microfinance is a branded channel to the informal sector and holds a great deal of potential. However scale and branding is key to achieving the benefits

## Meeting the challenge together...

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Consolidation is the natural industry progression. By coming together institutions can build the requisite scale, lowering their operational costs and their cost of capital. An operational Holding company with shared services and infrastructure is the ideal mechanism to achieve this

## And then some...

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In addition to providing a sustainable means to compete, consolidation provides a route to liquidity. By listing the entity, existing investors / shareholders can extract their value and new investors attain access to a diversified Microfinance asset. In addition it enables the company to raise lower-cost sources of capital for expansion (e.g. possible to leverage against the equity)