



# **The GroFin Way: model for sustainable SME development**

## **Presentation on Sustainable Finance: Opportunities and Challenges**

**Olugbolahan Mark-George  
General Manager  
21<sup>st</sup> May 2008**





## **Presentation contents:**

### **1. Introduction**

### **2. Defining the market**

- The SME risk finance missing middle dilemma**
- From missing middle to thriving growthfinance industry**
- Targeted results for solution and sector development**

### **3. GroFin background**

- Background**
- Lessons learnt**
- Finance strategy**

### **4. Nigeria examples**

### **5. Closing**

# 1. Introduction continued

Results to date are proof that the 'missing middle' is an asset class with a future

GroFin's success is largely attributable to its value adding partnerships

The focus is to shift from proof of model to development of the asset class (sector)

Asset class will develop by creating large scale capacity & competence

GroFin's scale-up & lessons learnt will create pull in the market & new entrants

# 1. Introduction

**GroFin, in partnership with Shell Foundation, was established in 2004**

**The sole focus of GroFin is financing & development of SMEs below \$1m**

**The GroFin model addresses the complexities of the African market**

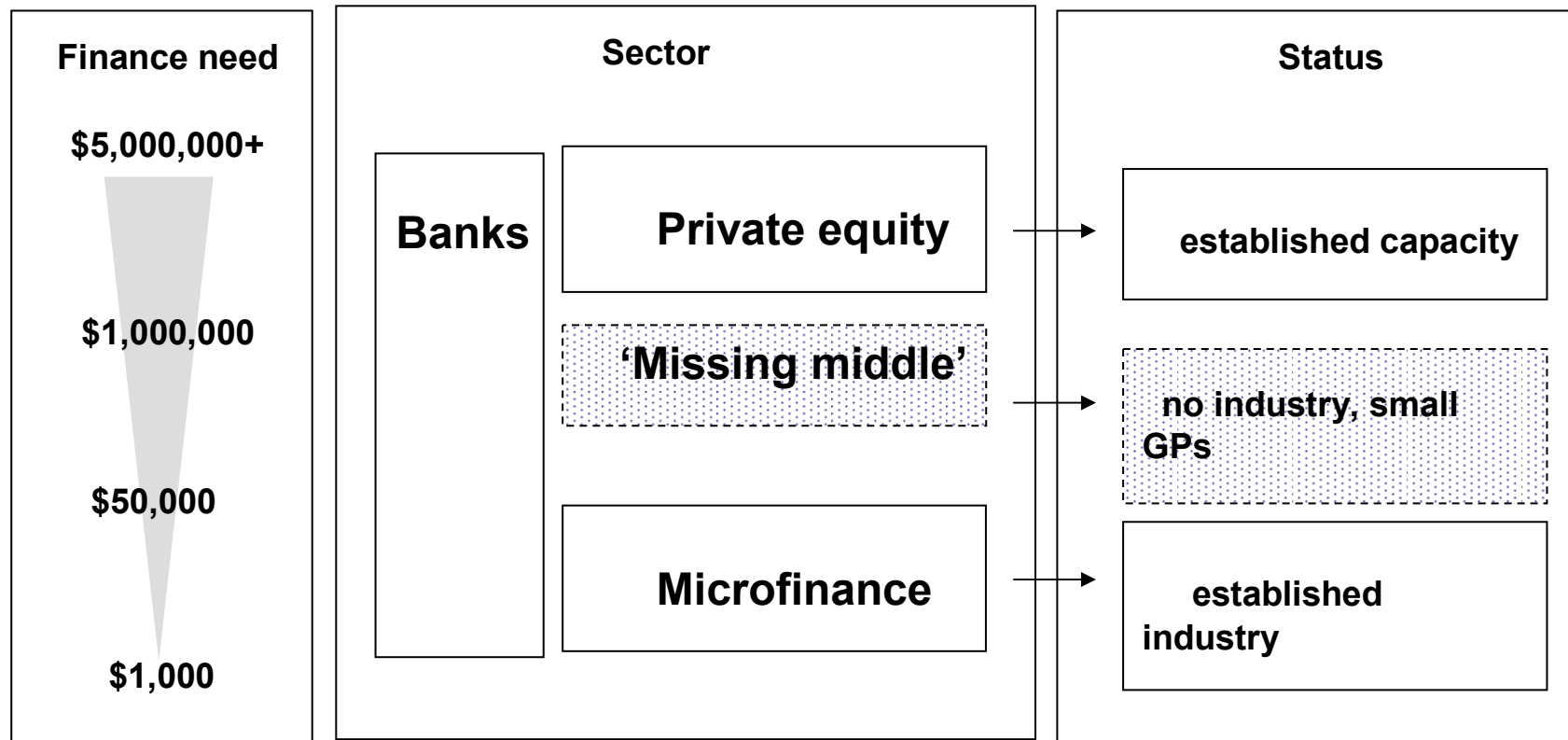
**GroFin is the 1st finance company with a pan African strategy for the 'missing middle'**

**The GroFin model is scaleable, replicable and commercially viable**



## 2. Defining the market

### - The SME risk finance 'missing middle' dilemma



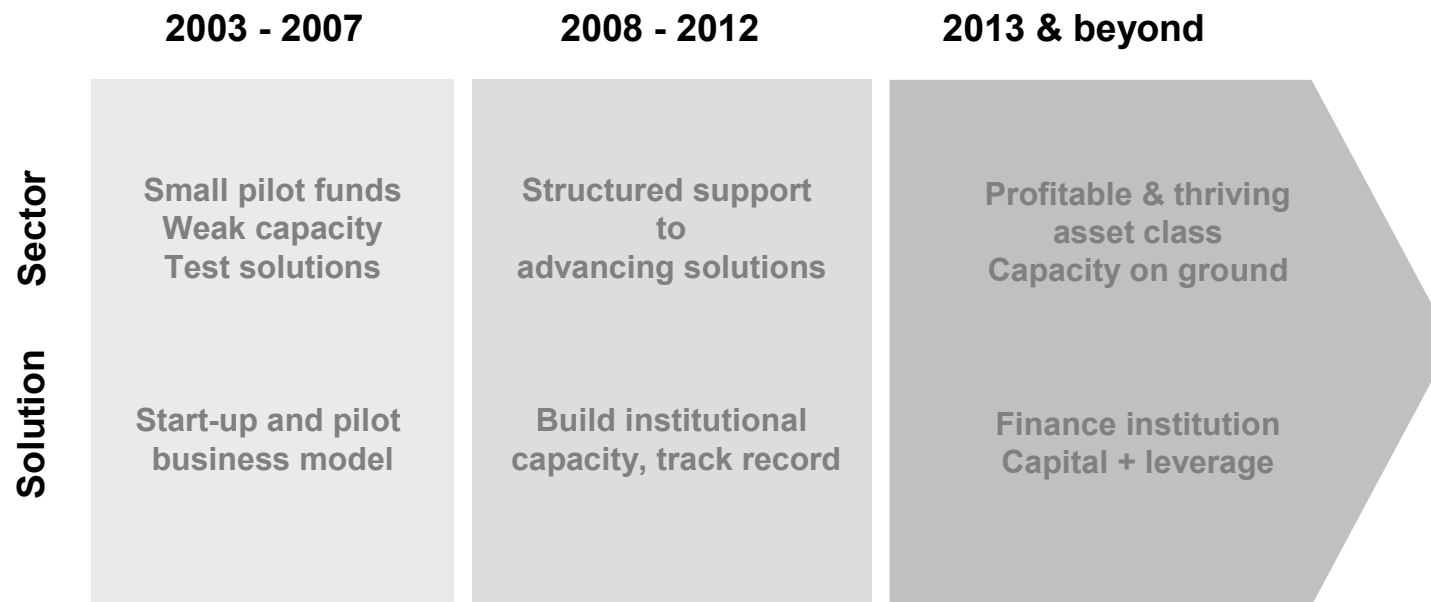
## 2. Defining the market (continued)

### - Differentiation and market positioning

- Missing middle not between Microfinance and Banks
- More accurately, between Microfinance and Private equity
- Banks cover entire spectrum of finance need but finance decision is collateral based
- Missing middle finance on viability, collateral considered post-finance as part of risk-reward relationship
- This is risk finance for SMEs, or Growthfinance
- Therefore GroFin is not:
  - competing with banks
  - a lender of last resort
- GroFin is the preferred risk financier

## 2. Defining the market

### - From missing middle to growthfinance



## 2. Defining the market

### - Targeted results for solution and sector development

- Problem of risk finance for viable SMEs addressed through proven solution
- Solution addresses both management skills and finance needs of SMEs
- Self-liquidating instruments with equity type returns for SME risk finance
- Institutionalised solution is the foundation of a new class of SME FI



## 2. Defining the market

### - Targeted results for solution and sector development

- Numerous profitable SME FIs serving thousands of viable SMEs
- Develop sector from “missing middle” to growthfinance industry
- Growthfinance industry a thriving asset class within a decade
- Major triple bottom line benefits

## 3. GroFin background

We started in 2004:

- One office, 4 people (30 yrs SME experience), fund of \$7 million
- Viability based lender doing business development & finance
- Committed/focused team & Shell Foundation as strategic partner
- Long-term goal to become an SME risk finance institution of scale



### 3. GroFin background : 2008

- \$300 million (investment and operations capital) raised
- 9 offices, 100 staff members, 60 investment professionals
- Strong partnership with Shell Foundation, growing network of investors & financiers
- 100% management owned, committed & capable senior management team
- 100+ investments, 1st fund fully invested, exits realised, fully commercial/scaleable model
- Promising portfolio results and return expectations
- Exiting start-up phase, well resourced (focus on Quality, People, Capital)

### 3. GroFin background - Lessons learnt

#### Capacity:

- Very extensive & costly training & capacity building is required
- Takes a number of years to have local staff fully competent
- Strategy of using local talent is delivering good results
- Capacity build up is slower but significant skills transfer takes place
- Retaining trained staff is a challenge
- Significant subsidy & grant support is needed to establish footprint & capacity
- #1 priority is to create competence and capacity to provide service



## 3. GroFin background - Lessons learnt

### Investors:

- Triple bottom line returns addresses investor need for IRR & ERR
- Too many restrictions from investors leads to misalignment of finance strategy
- Few clear-sighted investors contribute to a clear long-term vision

### 3. GroFin background - Lessons learnt

#### Model:

- The hands-on approach optimises return & addresses risk issues
- Continuous improvement necessary as more experience is gained
- Successful institutionalisation will drive industry/sector development
- Deal quality allows pricing in accordance with risk & required IRR
- Self-liquidating instruments with performance based profit share give equity related returns
- Exit difficulties of pure equity solved if correctly structured

### 3. GroFin background - Lessons learnt

#### Banks:

- Banks eager to partner as it extends service to SMEs but major alignment issues
- Banks have capital but follow conservative credit risk policies & restrict progress
- Banks must invest through parallel vehicles with identical terms to ensure commitment

### 3. GroFin background - Lessons learnt

#### Market:

- Demand for viability based finance is significant
- Quality deal flow with fair risk/reward exists in all countries of operation
- The target market needs skills, assistance, guidance & flexible structured finance
- Attractive returns (financial & developmental) from this asset class
- We don't compete with banks (conservative credit risk policy) or MFIs (<\$10k deals)



### 3. GroFin background - Lessons learnt

#### Funds:

- Management fees & BDA income cover operational costs on 2nd generation funds
- Investment strategy must not be constrained beyond SME target
- Significantly less deal flow and higher risk in niche funds
- Small limited life funds are very costly to establish
- LLFs offer no financial value beyond the net investment return
- Many small commitments are not sustainable

## 3. GroFin – Finance Strategy

- Target SMEs with turnover below \$5m, assets below \$3m and employees <100
- Support all stages of development
- Finance from \$50,000 to \$1 million per transaction
- Self-liquidating instruments with performance based incentives, equity always an option
- Equity type returns, fair risk-reward, priced according to risk in each transaction
- GroFin sustainable development to apply (environment, health, safety, governance)

## 3. GroFin – Finance Strategy

- Target all sectors of economy and only for-profit formal companies
- Finance criteria: Quality of entrepreneur/s, viability, deal structure, collateral
- Transaction return to support net portfolio return of 10% USD after costs, write-offs
- Apart from sustainable development, no restrictions to enhance deal flow & quality
- Max 30% of portfolio in start-ups
- Investment only in approved countries with full GroFin operations

# Nigeria Example

## Newstar Industrial Limited

**Business: Photography Studios**

**Facility for working capital; Equipment Purchase;**

**Refinance of existing debt**

**Facility Amount: \$1 million**

## MNT Investments Limited

**Petroleum Dealership**

**Facility for Working capital; Equipment Purchase;**

**Refinance of existing debt**

**Facility Amount: \$295,000**

# Nigeria Example

## Seacat 2k Limited

**Business: Ferry and Cruise Operators**

**Facility for working capital; Equipment Purchase;**

**Facility Amount: \$1 million**

## Bungalow Limited

**Business: Restaurant**

**Facility for Working capital; Equipment Purchase**

**Facility Amount: \$460,000**

# Nigeria Example

## Kontinental Foods Limited

**Business: Ice cream manufacturers**

**Facility for working capital; Equipment Purchase;**

**Facility Amount: \$130,000**

## Powerex Limited

**Business: Power solutions**

**Facility for Working capital; Equipment Purchase**

**Facility Amount: \$295,000**

**Thank You for Listening**



**GroFin Nigeria contact:**

**Tel: +234 1 2708046-8**

**Fax: +234 1 2708049**

**[olugbolahanm@grofin.com](mailto:olugbolahanm@grofin.com)**

**[Info.nigeria@grofin.com](mailto:Info.nigeria@grofin.com)**

**[www.grofin.com](http://www.grofin.com)**

