

## Private investors warm to small business investments in Africa's most underserved markets

Lucy Ngige



Kinshasa, Congo

The lion's share of private capital in Africa goes to just six or seven countries. XSML has spent the last 15 years trying to push more private investors into some of the others.

The Netherlands-based fund manager takes small equity shares and provides mezzanine and debt financing to small and medium-sized businesses in Angola, Zambia, Uganda, the DRC. For a time, XSML was even doing deals in the Central African Republic – a conflict-prone country whose entire GDP is multiples smaller than some of the private equity impact funds *ImpactAlpha* has covered.

Over four funds, more than 70 deals and \$145 million in deployed capital, there's been a gradual shift in the types of investors engaging in XSML's target markets. Development finance institutions are still the most visible investors, says XSML's Barthout van Slingelandt.

"What we have seen is that there's more impact money, a bit more private capital, and a bit more local money," he tells *ImpactAlpha*.

### Leveraging local capital

Financing small businesses in most markets is hard. It's especially so in markets where political and economic risk perceptions are high, or where international investors have little underwriting experience and knowledge.

Nearly half of private credit and equity invested in Africa last year – \$5 billion – went into [just one market](#): South Africa. Kenya, Morocco, Egypt, Nigeria and, notably, Cote d'Ivoire, shared 35%. The remaining 18%, or \$900 million, was shared across Africa's 48 other countries.

In response, fund managers and ecosystem players in Africa's smaller markets are stepping up efforts to mobilize capital from institutional investors on the continent, which collectively [represent more than](#) \$2 trillion in assets. Angola's **Kimbo Fund**, which provides debt to small and medium-sized businesses in agriculture and logistics, [raised](#) \$5 million from the **Angola Sovereign Wealth Fund** in August this year. Kimbo is aiming to attract more capital from local and foreign pension funds and insurance companies, as are two funding mechanisms for local fund managers run by the National Advisory Boards for Impact Investing in Ghana and Zambia.

XSML's approach is to bring investors in with creative repayment mechanisms. The firm provides flexible financing and grace periods as needed to its portfolio businesses, but disburses proceeds to investors on a monthly basis. This helps build investors' confidence in the market opportunity, says van Slingelandt.

"Getting cash flows back and then distributing to your investors helps investors see that we're not just putting the money out there – they see money coming back. And then they reinvest money they have already collected from you in a new fund," he says. "If they see those returns increasing fund over fund, it becomes a model people start to trust."

### **Core economy businesses**

XSML focuses on core economic sectors with a wide consumer base and high potential for job creation, such as retail, manufacturing, healthcare, transport, agribusiness and financial inclusion. Its investments include Ugandan pharmacy chain **Ecopharm** and Angolan auto-parts business **Advancetire Comercio**. It offers tickets of between \$300,000 to \$10 million.

The firm is in the market with its fourth fund, African Rivers Fund IV, to go deeper into its key markets. It has so far [raised](#) more than \$98 million for African Rivers Fund IV and is aiming for a final close in March. It has backing from six development finance institutions, **responsAbility's** Swiss Investment Fund for Emerging Markets and BIO Invest's **SDG Frontier Fund**. Three other DFIs have made commitments.

The firm reassesses market risk as it goes: XSML has paused investing in the Central African Republic due to political instability.

It's also rooting out opportunities in emerging green sectors, like waste management, rather than steering toward more established sectors, like solar energy. Africa's surging population growth is amplifying the need for sustainable waste solutions, van Slingelandt says.

"In the markets we are operating in, there's room to improve [recycling and waste management]," van Slingelandt says. "The results are mixed, so we're trying to be careful in looking at these types of opportunities."

Climate-related investment more broadly, he adds, "is an important element and it will become something that we will be looking at."