

# Boosting CSR in African SMEs: the experience of an impact investor

*African SMEs often lack the funding to put formal CSR policies in place, but doing so could help them to achieve greater economic success and boost their impact on development. As well as providing funding, the role of an impact investor such as I&P is to support these businesses in improving their environmental, social and governance practices.*

**Élodie Nocquet**

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There is a widespread view, both in mature markets and in Africa, that entrepreneurs heading up small and medium-sized enterprises (SMEs) are not interested in social responsibility and that this remains the preserve of big companies. African SMEs indeed rarely have formal corporate social responsibility (CSR) policies and the financial and human resources

required to implement them. As a result, their ESG practices can be sometimes lax.<sup>1</sup> Yet the African entrepreneurs with whom we work are often as committed to their country's development as they are to running a successful business. This dual motivation tends to produce entrepreneurs who are admirably courageous and tenacious, since setting up a business in the countries in which we operate is both risky and challenging. The commitment of these entrepreneurs is reflected in initiatives – especially social – such as better living conditions for employees and projects benefiting local communities.

SMEs can be economically successful and have significant local impact. In Africa, there are many promising opportunities for creating combined social and economic value. Paradoxically, some of these opportunities are linked to the constraints under which SMEs operate in Africa. CSR initiatives represent innovative solutions to overcoming such obstacles. One very good example of this is the Cameroonian company ITG (box 1), which specialises in new technologies. The company has set up a training centre in partnership with the Polytechnic University of Douala to address the problem of hiring qualified IT staff. A well-designed CSR strategy in tune with a company's size and the issues it faces can be a highly effective performance driver.

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Investisseurs & Partenaires (I&P) is one of the leading private equity investors in African SMEs. As an impact investor, its goal is to maximise the economic, environmental, social and corporate governance impact of its investments while maintaining a financially sound business model.

## PROMOTING ESG INITIATIVES

I&P's core remit is to promote a new generation of responsible entrepreneurs who will have the greatest impact on their local stakeholders. To this end, I&P seeks to promote ESG strategies that can be fully integrated into a company's operations and will generate economic value. Managing key risks, such as workplace injuries, comes down to the need for good manage-

<sup>1</sup>Reasons include for instance the lack of formal employment contracts, random compliance with environmental regulations, absence of formal governance bodies or lack of anti-corruption and anti-fraud policies.



**ÉLODIE NOCQUET**

Élodie Nocquet is head of ESG (environmental, social and governance) issues and impact measurement at Investisseurs et Partenaires (I&P). Her role is to support the I&P team and their partner companies in their efforts to improve ESG practices. She was previously in charge of investment at I&P and a project manager in a fundraising company. She is a graduate of HEC business school and holds a master's degree in development economics from the Sorbonne.

ment. And seizing positive-impact opportunities, such as employee training, will improve a company's performance, especially in the medium and long term.

In practical terms, reviewing an investment project means spending a substantial amount of time with the company concerned in order to gain in-depth knowledge of its operations and the entrepreneur.

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We draw up a report of the company's ESG practices that includes, for example, an assessment of remuneration and employment contract practices, working and safety conditions at the company and, where applicable, at its suppliers, and its systems for processing effluent and waste.<sup>2</sup> Then, based on this report, we rate the ESG risks and their management. The aim is not to penalise SME's practices but rather to work with the entrepreneur to identify areas for improvement, especially with the help of existing projects. We establish priority action points for the main challenges and everything is formalised in an ESG action plan. Our partner companies legally undertake to implement and monitor this plan, and a contact person is appointed to oversee the process. While this legal obligation is well accepted, it is not the most effective way to improve business's efforts in this area. The choice of committed entrepreneurs and I&P support has a far greater impact on the success of this approach.

## ESG PRIORITY AREAS FOR I&P

As part of our ESG report, we make sure that the SMEs guarantee their employees decent work as defined by the International Labor Organization (ILO). This is a key area of analysis which covers in particular job creation, salary levels, social security, working conditions, labour rights and social dialogue. Worker safety, which can sometimes be neglected in SMEs, is prioritised in annual ESG action plans (for example, compliance of equipment with safety regulations and safety awareness workshops).

In addition to a company-by-company approach, I&P has implemented a strategy at the portfolio level. Our current network comprises some fifty entrepreneurs in Africa and so we are trying to pool initiatives across all disciplines to produce 'turnkey' solutions.

In terms of health insurance, state systems in countries in which I&P is involved offer very low coverage levels with just half of our partner companies providing employees with complementary health insurance systems. We are currently studying the possibility of creating a group health insurance solution for our partner SMEs.<sup>3</sup> The goal is to make it easier for SMEs to implement such initiatives by having collective access to more favourable conditions. Ultimately we want this incentive system to lead to universal coverage ►►►

<sup>2</sup> I&P has based its investment project analysis and monitoring guidelines on the methodological framework defined by the UK development finance institution CDC Group. For high-risk ESG sectors, I&P applies the standards and practices of the International Finance Corporation (IFC).

<sup>3</sup> This feasibility study is funded by the technical assistance budget granted by FISEA for the IPAE fund.

### BOX 1: ITG, AN INNOVATIVE TRAINING POLICY THAT BENEFITS EVERYONE

In 2006, Jean-Gabriel Fopa and his partner founded ITG, a Cameroon-based company specialising in IT and new technologies. The firm's offer includes consultancy on information systems and data management or archiving services. ITG has gradually established itself as a serious market player and its customer portfolio includes some major corporations. But to support this rapid growth, the firm quickly needed to boost its human resources. Because of the lack of specialists in Cameroon, ITG employs mostly young people and makes training a key priority. New recruits are immediately put through a basic training course, lasting between twelve and eighteen months, before they are allowed to visit customers.

After that they receive in-job training so they can keep up to date with the latest technological developments and eventually obtain recognised diplomas. In 2012 Jean-Gabriel Fopa decided to go step further: he created a training centre in partnership with Yaoundé Polytechnic University. The centre enables the university's final-year students to work on practical cases that had previously been omitted from their curricula due to lack of resources, while ITG employees can continue their in-job training. For ITG, students trained at the centre make up a unique pool of young people with high potential. But ITG's interest goes beyond this: a portion of students will join teams of current or future customers and their in-depth

knowledge of ITG's solutions will make them potential influencers and instigators of cutting-edge IT projects. The aim is also that other students will use their newfound skills to start their own business. This initiative will help create a local sector based on new technologies and encourage other entrepreneurial ventures. Today ITG employs 79 people, with an average age of 27. Some twenty students are joining the company each year. The training centre, which has been up and running since September 2013, has trained about forty students each year and ITG employees on a budget of over €0,000. I&P's strategic and financial support enabled ITG to complete this project, which has an immediate social usefulness while also benefiting the company.

Promoting  
CSR in Africa  
- a sustainable  
development  
opportunity

▶▶▶ for all employees of our partner SMEs. As regards the environment, we produce an annual assessment of the carbon footprint of all companies in our latest portfolio. This analysis identifies the main sources of CO<sub>2</sub> emissions at both the company and portfolio level and encourages companies to think more about vehicle management, supply practices, processes' energy efficiency and the use of renewable energies. Energy savings are of great interest to entrepreneurs in countries where electricity is extremely expensive. For projects that are major power consumers, an analysis of energy challenges – produced with the support of a specialist firm – identifies opportunities for improvement. For manufacturing projects, energy-saving equipment can be incorporated into the investment plan. On a modest scale, the goal is to ensure that SMEs can step up their operations without increasing their carbon emissions.

Another key part of our analysis is the ripple effect of an SME's operations on suppliers and distributors. SMEs obtain their supplies locally, far more so than multinationals, which have international networks. The contribution of an SME can go well beyond a simple ripple effect, especially in the agricultural sector. It can play a key role in creating and structuring a new local sector (Box 2). In a context where supply reliability is not always guaranteed, organising and supporting local producers is critical to a company's development. This support often exceeds the extent to which an SME can take action by itself, and in such cases partnerships with non-profit organisations can be the answer. I&P therefore plays a support role in setting up these partnerships and in seeking financing.

Lastly, standards and certifications (Fairtrade, for example) demonstrate a company's greater responsibility towards suppliers and boost access to international markets. I&P's technical assistance budgets enable us to provide joint financing to help introduce certification, which is an added incentive for partner companies.

## FOCUS

**Investisseurs et Partenaires** (I&P, [www.ietsp.com](http://www.ietsp.com)) is an impact investment group established in 2002 by Patrice Hoppenot and managed since 2011 by Jean-Michel Severino. Its goal is to promote the development of socially responsible, profitable African SMEs. I&P has invested in more than fifty companies through two investment vehicles – a financial company called I&P Développement (IPDEV) and the I&P Afrique Entrepreneurs (IPAE) investment fund. I&P has some twenty employees based in Paris and five African offices.

## KEY SUCCESS FACTORS

For investors, the rigorous choice of a committed entrepreneur and a socially relevant project is the number one factor for success. ESG initiatives must be part of a holistic strategy and be driven by the manager. This is therefore an issue that must be addressed as early in the project appraisal process as possible in order to formalise all options. In terms of financing, this means quantifying certain investments (such as the use of renewable energies) or certain costs (such as setting up health insurance). The planned ESG initiatives must be included in a 'road map' along with a timetable. This sets long-term goals and also defines short-term priorities. If investors serve on a company's board of directors, they can check that governance bodies are paying regular attention to the CSR policy. To be sustained, ESG initiatives must have a positive impact not only on stakeholders but also on the company

itself: the benefit of integrating ESG initiatives into a company's operations is often obvious but carries more weight when quantified. While

some initiatives, such as energy savings, produce quick, direct and easily quantifiable benefits, other impacts are more difficult to measure. Establishing a system to monitor the rate of absenteeism and employee turnover, for example, can provide useful feedback about the success of social initiatives, albeit more indirectly. When it comes to manage certain risks, 'not doing something' can result in prohibitively costly consequences, such as tax reassessment penalties or the financial consequences of an accident in the event of non-compliance with safety rules.

Given the lack of human and financial resources, technical assistance mechanisms offered by some investors are particularly useful for implementing ESG initiatives in SMEs. Because I&P has access to grants from the European Investment Bank (EIB) and FISEA (an investment fund held by the AFD Group and managed by Proparco), it can cofinance a variety of support missions being carried out by independent specialists.

The success of the ESG strategy also requires good governance. When I&P takes a stake in a company, it immediately sets up a shareholder representative body to manage the company in a concerted manner. Such shared governance helps some entre-

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preneurs feel less isolated: they remain in charge of day-to-day operations while I&P pursues a minority investment strategy. Good governance also involves impeccable integrity at all levels of the company. No matter how complex the situation, I&P will not tolerate corruption or bad practices, even if it means giving up an investment.

Establishing a formalised approach to ESG within I&P has proved highly beneficial.

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But this didn't happen overnight: taking account of every aspect of ESG for each investment was a gradual process that requires the raise of staff members' awareness and the progressive adoption of the methodology by the investment team. When it comes to selecting and monitoring investments, our policy regarding ESG and impact is now included in all procedures related to the various investment process stages. Specialist members help with the practical application of this approach, not only in memos sent to the various committees but also within the committees themselves. The team also receives regular training. In addition, it is useful for employees' performance in this area to be part of their annual appraisals and potentially reflected in their salaries.

As a signatory to the Principles for Responsible Investment (PRIs), a United Na-

tions initiative, I&P reports annually on its ESG measures. The first items assessed under these PRIs were very positive and confirm that our policies are in line with international best practice. But we are determined to go further: we are currently looking into ways to have an independent, broader assessment made of our ESG approach and impact.<sup>4</sup> This assessment would be based on methodology as well as implementation. ●

<sup>4</sup>The Global Impact Investing Rating System (GIIRS), led by american specialists in CSR certification, is one avenue worth pursuing.

## BOX 2: THE RIPPLE EFFECTS OF A CAMEROON-BASED SME ON THE ORGANIC FARMING SECTOR

Biotropical is a Cameroon-based company that produces and exports organically farmed tropical fruit. As the country's leader in this sector, the company sells its production primarily to wholesalers and processors based in France. Despite a difficult environment, Biotropical has managed to develop a network of 80 small local producers and has also brought other exporters into its mix. But to get to the industrial stage, it had to overcome a lack of financial resources. It therefore turned to I&P Développement for help. In September 2012, I&P assessed Biotropical's impact on its stakeholders – including

80 small independent organic producers – so that the company could then use this information to improve its financial and societal performance. One of the key findings of the study was the need to strengthen the performance of local producers, who provided half of Biotropical's supplies. This meant not only ensuring reliable, regular production, but also quality and compliance with organic certification requirements. Biotropical would have to provide these producers with inputs – mainly plant-based – and training in organic farming at an estimated cost of around €0,000 per year. Although 70% of small producers

said their income had increased since they started working with Biotropical, the study also revealed their heavy dependency on the company: 71% of producers surveyed sold their entire production to Biotropical. Such dependency makes them highly vulnerable. The first people to be affected by order fluctuations are independent producers, since part of production is handled directly by Biotropical. The study therefore recommended that external producers should be a more integral part of the company's supply chain to stabilise their income, increase their yields and build their loyalty.