Fifteen years
Fifteen lessons from Africa

INVESTISSEURS & PARTENAIRES

5 *Lessons of Impact*

13 Lesson n°13: Measuring impact on the ground only makes sense to better manage it

14 Lesson n°14: Developing an ESG approach is possible and necessary, even for SMEs in Africa, provided a long-term partnership is established

15 Lesson n°15: The Sustainable Development Goals (SDGs) present both a great opportunity to develop the impact investment sector in Africa, and a challenge to measure concrete contributions

5 Lessons of Impact

For years, I&P was doing "impact investment" without knowing it. Created with a dual objective of economic efficiency and contribution to African development, I&P brought together a team and investors deeply committed to the "cause". The many missions in the field were an opportunity for the team to observe the many facets of the impact created by the SMEs we supported: a generation of African entrepreneurs with exemplary careers, offering basic goods and services that are sorely lacking in Africa, the creation of formal jobs, the structuration of economic sectors, and more. Starting in 2012, a more rigorous approach to analyzing and quantifying these impacts was introduced, as the "impact investment" sector was itself coming into being. Over time I&P has become one of the premier actors in Africa involved in a management and impact measurement approach, which has become a sector requirement that remains as vague as it is controversial. After five years of practice, what have we learned?

13 Lesson n°13: Measuring impact on the ground only makes sense to better manage it

The collection of quantified indicators on all of our companies over five years has refined the analysis of impact already well known by the team, but illustrates the role played by SMEs in Africa and professionalizes our communication with investors.

We confirm that SMEs grow faster and create more jobs than other types of companies, especially when they are well financed and supported: I&P's partner companies have average employment growth of 50% over the investment period, which is three times higher than that observed in companies supported by traditional private equity players in Africa. Unsurprisingly, the champions are early stage companies, service companies and microfinance institutions.

SMEs respond to basic needs and have positive domino effects, since they are deeply rooted in their own territories: 90% of them are oriented towards domestic markets. They respond to a whole range of basic needs of local companies and populations and work with, on average, 70% local distributors or suppliers, whose businesses they often help to structure. We find that the majority of African SMEs, as in the rest of the world, are controlled and managed by men: 20% of the entrepreneurs we support are women, compared to 15% on average in African SMEs and 5% in large companies[1].

Our history and experience allow us to define measurable impact objectives for the new funds to be launched and to establish financial incentive mechanisms, allowing team performance bonuses to be linked, not only to financial objectives, but also to extra-financial objectives.

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However, aggregated figures alone are not enough: it has been necessary to go out in the field to perform evaluations to meet employees, customers and small producers of these companies, and to discover a more complex than expected reality. These evaluations, carried out each year on one or two companies in I&P's portfolio , have most recently mobilized CIFRE PhD students from I&P and pro-bono HEC students to get out and learn more about our business. These evaluations were conducted by the students at a very reasonable cost, and were co-financed by the technical assistance program and the beneficiary companies. The goal of these studies is not to "measure the impact" from a scientific point of view, but to better understand who the customers, suppliers, and employees of our partner companies are, and to build mutually beneficial relationships.

By interviewing a representative sample of 371 small-scale agricultural producers in Cameroon and Burkina Faso, we confirmed the huge potential impact of agribusiness enterprises, increasing productivity and incomes (+ 40% on average) of hundreds, if not thousands, of local small-scale sub-contractors, most of whom live below the poverty line. We have also gained insight about the responsibility that these companies have taken on: by creating a situation where others depend on them for their livelihood, they sometimes become sources of great vulnerability for producers when struggling to finance their seasonal campaigns or confirm their orders. Not to mention the complexity generated by this model: these SMEs have the difficult task of creating or structuring entire sectors, a service that exceeds their capacity for action and funding. They must combine their strengths with non-profit organizations to train and equip these small producers, and sometimes to help them acquire certifications.

[1] McKinsey, « Women matter Africa », 2016

For many of the SME employees surveyed, access to formal employment has indeed been a tremendous opportunity in countries where only a quarter of the workforce is employed. More than income stability or access to social protections, the main advantage of formal employment is for some, the ability to open a bank account in order to obtain a housing loan. Ensuring greater stability for the employee, formalization is often a guarantee of greater loyalty to the company on the part of employees: at an infant cereal company in Madagascar, the turnover rate of door-to-door saleswomen dropped considerably after they gained access to employee status. However, for other employees and in other contexts, moving to a formal status may mean less freedom and the impossibility of accumulating a number of small and remunerative jobs: the formalization of jobs can thus trigger an unexpected wave of departures, which can destabilize the company, as was the case, to our surprise, in a Beninese company where we recently invested.

In-depth surveys of 534 micro-entrepreneur clients of microfinance institutions in Madagascar and Cameroon have confirmed the importance of access to micro-credit in creating and developing small businesses. At their own level, these small businesses create 2 new jobs per micro-entrepreneur and + 20% turnover growth on average. These micro-entrepreneurs also informed us about the limits and risks of the model. With their ease of access, micro-credits can "lock in" the most promising companies: in the absence of a partnership with local banks, few client companies realize their full development potential and many miss out on the opportunity of bank financing, which can be more suitable and (financially) beneficial after a certain level has been reached.

This is our thirteenth lesson in Africa. It is just as difficult to evaluate the impact of an ex-ante company as it is imperative to combine different measurement tools to better understand and know how to optimize it. I&P has put in place an ongoing process to improve its measurement and impact management practices over the years. Experience has shown us that it is necessary, not only to combine quantitative tools (annual collection of cross-sectoral indicators) with qualitative tools (in-depth field study of a given company), but also with a portfolio and individualized approach, by company, according to its geographical, sectorial and market context, in order to better evaluate the positive and negative impacts of our investments and thus manage them as effectively as possible.