



GroFin – model for sustainable SME risk finance & development

October 2007

A unique partnership:



SHELL
FOUNDATION



GroFin

GroFin Focus

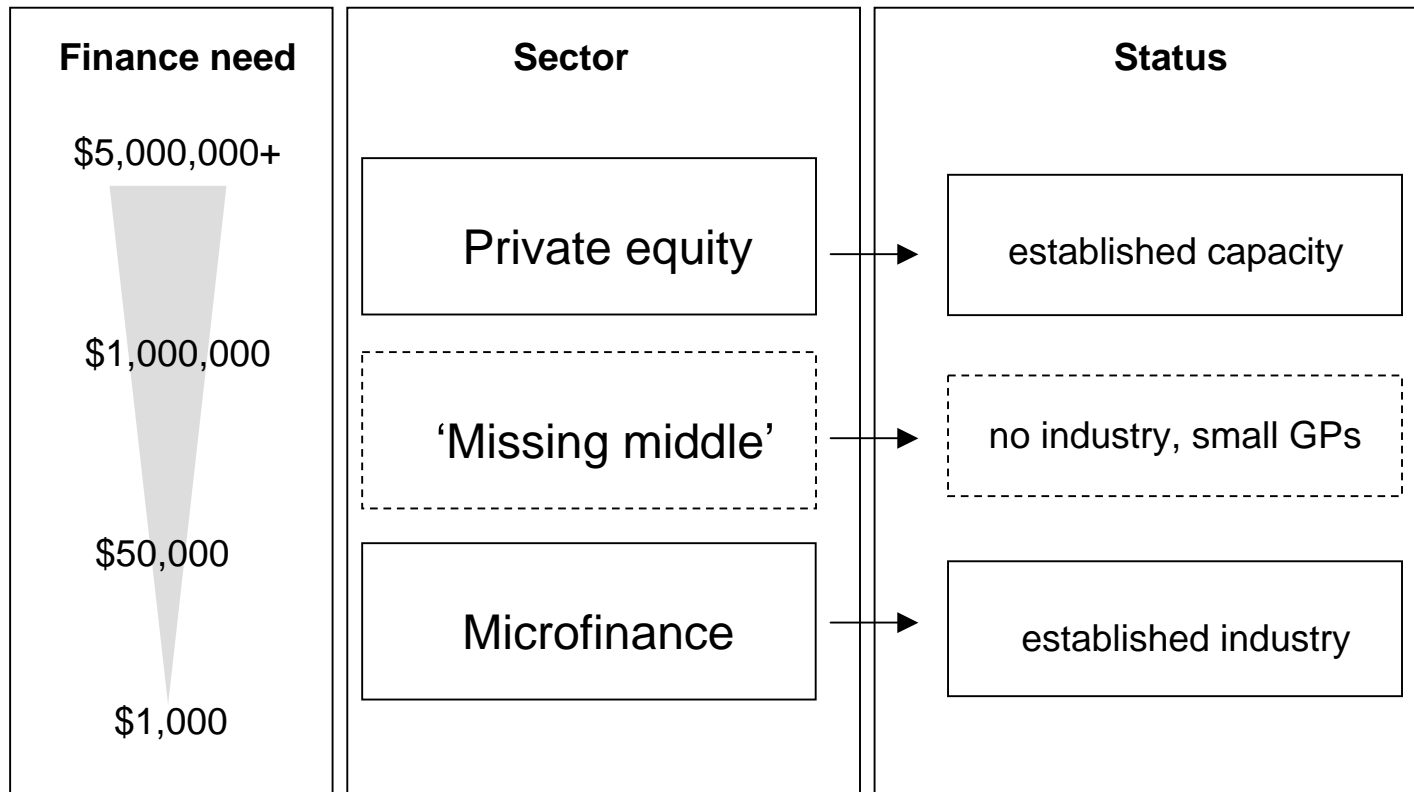


GroFin is a multi-country business development and finance company focused on providing business support and risk capital to viable entrepreneur owned enterprises in emerging markets underserved by traditional sources of capital. We integrate business development assistance with structured debt and equity investments to support locally owned start-up and growth enterprises to reach sustainability



Defining the market

- The SME risk finance 'missing middle' dilemma



GroFin background

- Vision and mission

GroFin's vision is a world in the not too distant future where local businesses have created sustainable prosperity. In this world GroFin is the leading small and medium enterprise financier, the one that everyone wants to work for, do business with or refer to as a result of our best-in-sector performance.

Our mission is to create sustainable wealth, employment, economic growth and social development through the development of successful small and medium enterprises, while generating attractive returns for all stakeholders.



GroFin background

- Progress made to date

We started in 2004:

- One office, 4 people (30 yrs SME experience), fund of \$7 million
- Specialist approach combining traditional banking & venture capital
- 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

We are in 2007 with:

- \$115 million (investment and operations capital) raised in 3 years
- \$130 million fund in establishment phase
- 9 offices, 62 staff members, 31 investment professionals
- Strong partnership with Shell Foundation, growing network of investors & funders
- 100% management owned, committed & very capable senior management team
- 60+ investments, 1st fund fully invested, exits realised, fully commercial/scaleable model
- Promising portfolio results and return expectations
- Strong resource base to scale up & reach vision of becoming a specialist SME FI
- Most advanced, focussed and strategic pan African SME risk financier



Committed capital

- 21 Investors
- \$102 million in 5 funds
 - \$50 million from banks (49% of total)
 - \$19 million from corporates (18% of total)
 - \$18 million from DFIs (17% of total)
 - \$13 million from foundations (12% of total)
 - \$ 2 million from GroFin (2% of total)
- 70% of total is in-country, local currency commitments
- Investing in South Africa, Kenya, Uganda, Tanzania, Rwanda, Nigeria and Oman



GroFin background

- Lessons learnt

Capacity:

- Very extensive & costly training & capacity building is necessary
- 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

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

GroFin background

- Lessons learnt (continued)

Model:

- The hands-on approach optimises the return & addresses the risks/maturity issues
- The business methodology achieves the expected results
- 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 + incentives give equity related returns
- No exit difficulties of equity experienced if correctly structured

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

GroFin background

- Lessons learnt (continued)

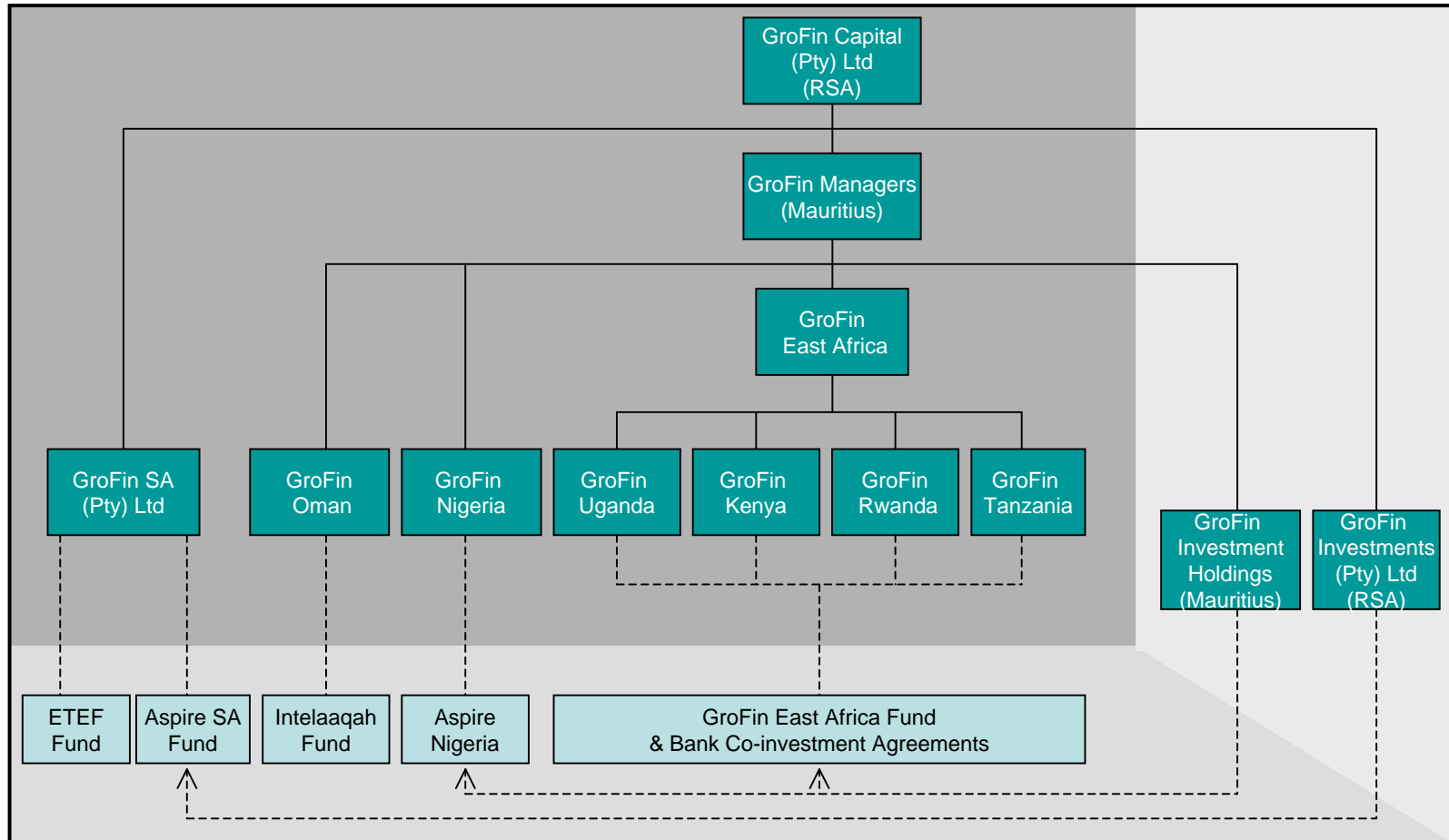
Market:

- Demand for viability based finance is high & we can access deals through network
- 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)

Funds:

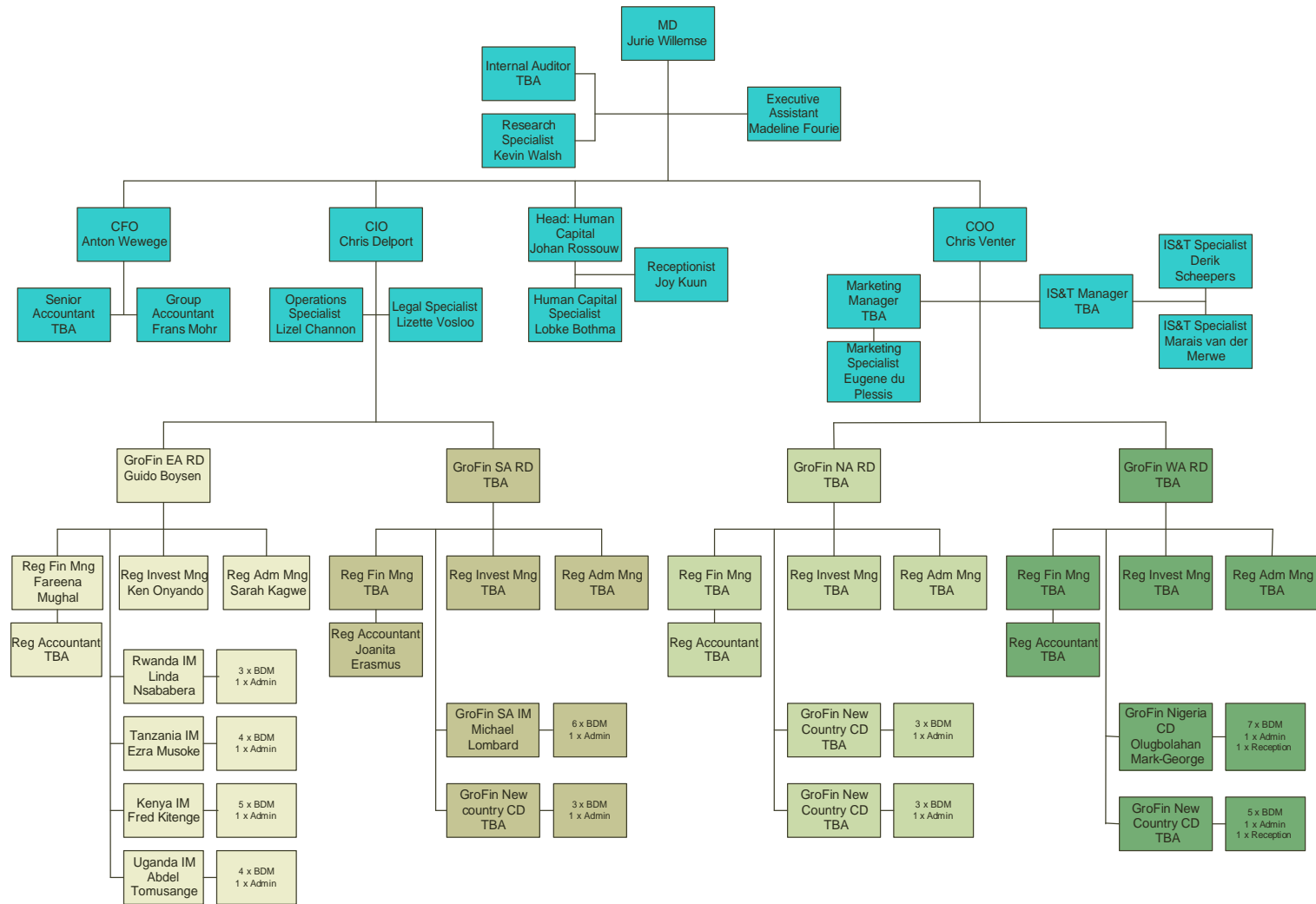
- Management fees & BDA income cover operational costs on 2nd generation funds
- Investment strategy must not be constrained beyond SME target
- Significantly less deal flow and higher risk in niche funds
- Small limited life funds are very costly to establish
- LLFs offers no financial value beyond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

GroFin Group & Fund Structure - 2007



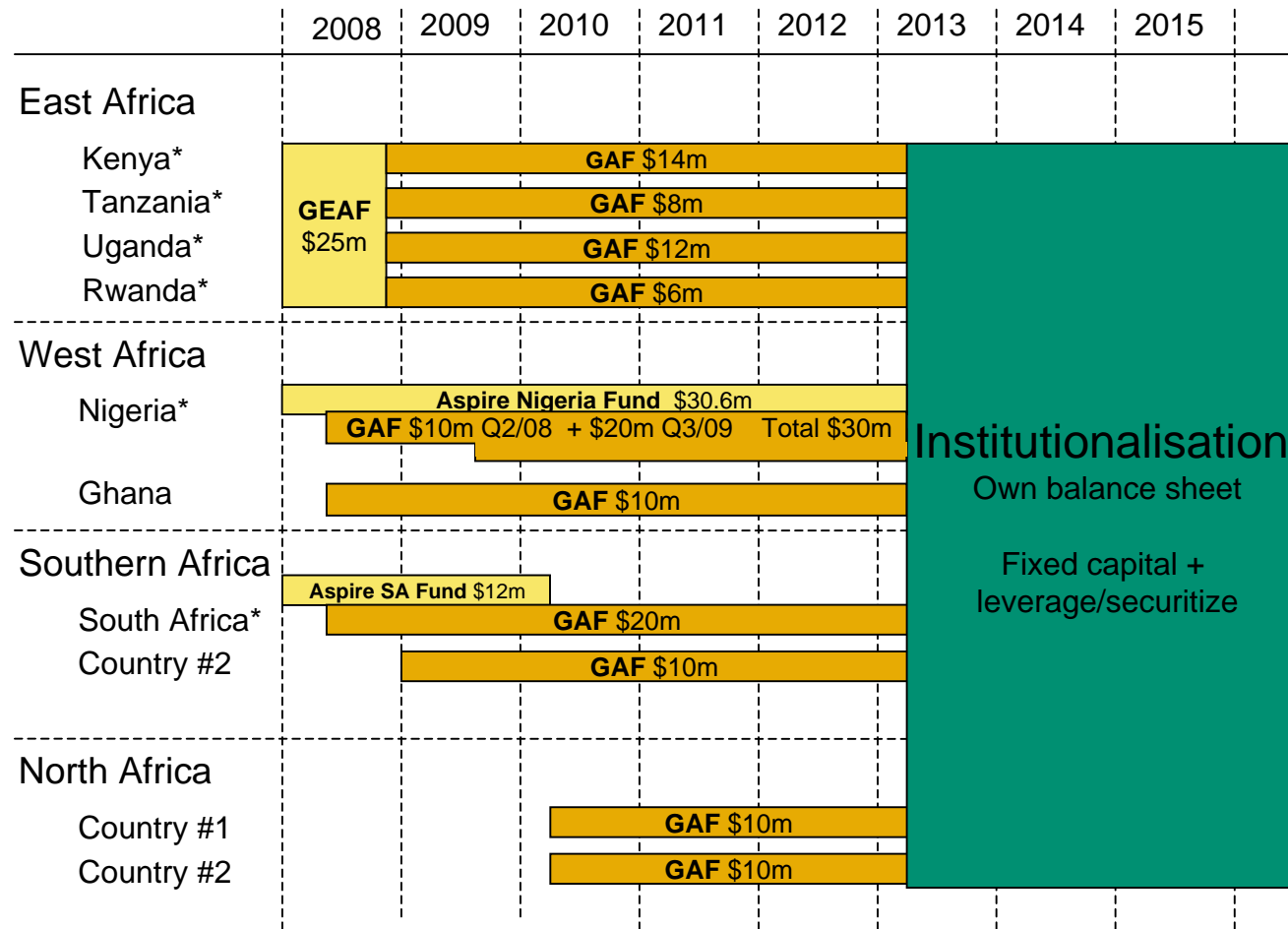
Operational build-up

- Organisation structure



6. GroFin Africa Funds

- Target countries and capital commitments



Note: * established GroFin operations



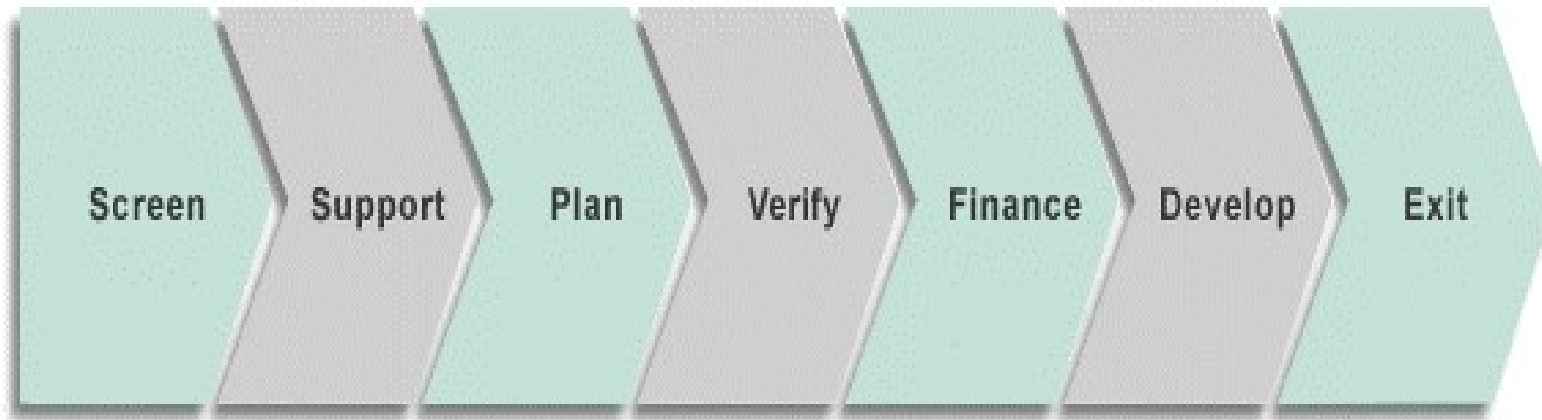
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GroFin Finance Strategy

- Target SMEs with turnover below \$5m, assets below \$3m and employees <50
- Real SMEs: Start-ups, all stages of development, MBO, MBI, franchises
- Finance from \$50,000 to \$1 million per transaction
- Self-liquidating instruments, incentives & equity with exit negotiated
- Equity type returns, fair risk-reward, priced according to risk in each transaction
- GroFin sustainable development to apply (environment, health, safety, governance)
- 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
- Transaction term maximum of 6 years
- Investment only in approved countries with full GroFin operations



GroFin business development and finance process



Key Performance Indicators:

Financier impacts	Finance impacts	BDA impacts	Socio-economic impacts
\$102 M total capital committed	59 businesses financed	492 businesses provided with initial BDA	12 new jobs created per business financed
\$20,507,464 total finance approved	\$347,584 average transaction size	112 businesses provided with detailed BDA	1595 jobs created and maintained
70% of total capital committed by in-country partners	48 months average transaction term	98% of businesses financed still operating	11 214 people benefitting from finance*
17 strategic investors	32% of finance provided to start-ups	97% of businesses financed through self liquidating instruments	\$1,000,000 of capital required to benefit 547 people
7 less developed countries serviced	59% average collateral cover	22% of jobs created and maintained are female employment	7 successful exits

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