French SME support model could provide template for Africa growth

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Could Africa learn from the French model as it looks to support growth through SME development? Kusuntu Partners managing partner Jean-Luc Koffi Vovor believes so.

Restrictive regulations on banks, insurance companies and pensions that have followed the global financial crisis have considerably reduced money available to finance SMEs, which in the end is detrimental to employment and growth. The French government has since tried several initiatives of which one has been further confirmed and strengthened to consolidate financing the real economy. Parts of this is FSI France Investissements, a program that bundles a series of private capital funds promoted by the government in association with institutional investors to help small and medium sized enterprises (SME) secure investments. FSI France Initiative is a family of fund of funds that could also go co-investment, enabling the consolidation of the French private capital funds industry.

Through this partnership program, the French Strategic Investment fund (FSI) and a group of private institutional investors have agreed to join forces to finance private capital investment vehicles that would back companies on the venture and growth segments. The investment funds would also to a certain extent be used to support small to medium transmission transactions. To date, the FSI France Investissements has been able to back close to a thousand SMEs through more than 200 private capital funds. Those underlying funds provide equity, quasi-equity and medium-term loans to companies in those sectors identified as the best positioned to support the economic growth rebound, namely, technology, health, biotechnology, ecotechnology, etc. The overall concept is to get a multiplier effect by which more investors come to a private capital fund provided the FSI and the partners LP's commit their support.

Francophone countries in Africa usually have business models that in many perspectives take their inspiration from France. As in many others places, SMEs in Francophone Africa are being recognized as the key driver for employment and growth and, they also suffer difficult access to long term and stable capital from bank and finance institutions. The embryonic nature of the Francophone private capital industry, contrary to the Anglophone region such as East Africa, Nigeria or Ghana does not help either. There are probably lessons to be learned from the French experience and get it adapted to the Francophone Africa context.

In many aspects, Francophone Africa is a cash rich place with many advantages to build on. The majority of Francophone Africa states share a common currency that is pegged to the euro through an agreement to keep 20 per cent of their foreign exchange reserve with the French Treasury. The Euro-CFA cover rate is currently five times its requirement at 100 per cent, following a limited reduction from 112 per cent in 2011. Many financial and economic initiatives are conducted at the economic and monetary union level, thanks to an effective infrastructure of regional development and financial institutions. The economies are supported by an important number of bank and insurance companies that are yet to leverage full potential of the high level of saving rate experienced within the region. All ingredients exist for government level or economic union level initiatives that would parallel the French government initiative. A positive experience has been made 20 years ago in West Africa with the incubation of Cauris, and within Central Africa with the creation of CENA Invest. Such initiatives supportive to the creation of an industry to support investment needs of SMEs could further be strengthened from initiatives seen in countries like Gabon and Senegal that have recently launched their specific sovereign wealth funds, while there are indications others are working on similar plans.

A vast SME investment program through the development of a Francophone private capital initiative would have many positive side effects. First is the creation of an industry next to the banks and insurance companies that would help accompany those entrepreneurs looking not only for cash but also for technical and management assistance. Secondly, the capital commitment from those regional financial instructions that are co-managed by the governments, as well as from banks and insurance companies and the increased number of private capital firms would help attract more capital from external investors, as they often quote the limited number of teams to deploy money across the region. And this could locally start by pulling off a little money from the fat foreign exchange account the Francophone states hold with France.

Opportunities are numerous for a Francophone private capital industry that is currently made of less than ten actors within a region of 14 countries and more than 200 million people. Bigger pole of business attractiveness for an SME-focused industry are DRC, a Francophone country that does not share the CFA Franc but has strong business ties with the CFA zone, Cameroon, Côte d'Ivoire and Senegal. This is not to say other places have limited opportunities as people think business regionally in the CFA zone and many transportation, communication and finance infrastructure are being developed to strengthen their economic integration, which also is another opportunity for infrastructure, communication and natural resources funds.

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