



Investing in Entrepreneurs

Promoting & Supporting SME Development: The case of Madagascar and Kenya

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Technical Assistance – Mentorship and Consulting



Who is Business Partners?

- Unlisted public company and ISO 9001:2000 certified
- Invests in viable formal sector SME's requiring between R250 000 and R15million (Approx US\$50 000 to \$2,5million)
- 22 offices throughout South Africa
- 2 International offices:
 - Antananarivo, Madagascar
 - Nairobi, Kenya
- International expansion with IFC through Business Partners International (BPI)



What do we do?

- Investment in SMEs (Approx \$50 000 to \$2,5million):
 - Risk based transactions, i.e. private equity
 - Applications assessed on viability, not collateral
- Property Management Services:
 - Management of commercial and industrial property for entrepreneurs or multi-tenanted properties
- Technical Assistance: Mentorship and Consulting services
 - Mainly SMEs
 - Focused on business improvement
- Business Partners International (BPI):
 - JV with IFC doing investments from \$50 000 to \$500 000
 - Uses Business Partners model



Business Partners' 2006 Highlights

- Investment portfolio of R1 288million (Approx US\$185million)
- 634 investments of R740million (\$106m) approved for the year
- Created in excess of 7 250 jobs in formal economy
- Properties under management of 675 000m² and 3 450 tenants
- 507 Mentors completed 658 value adding assignments to SMEs



Business Partners – 5 Key ingredients for Success

- 1 Sector Specific knowledge
 - Expert database of SME sectors and industry norms
- 2 Efficient processing
 - Streamlined due diligence; 7-day initial review; Standardized equity products and legal documents
- 3 Unique product structures
 - Six basic investment products for Equity, Property, Loan, Royalty transactions



Business Partners – 5 Key ingredients for Success

4 Integrated Technical Assistance

- Entrepreneurs required to work with mentors in their ventures
- Aim is to improve value-added and profitability

5 Alignment of interests

- Performance Scorecard for staff – aligned with various factors of importance for the Company



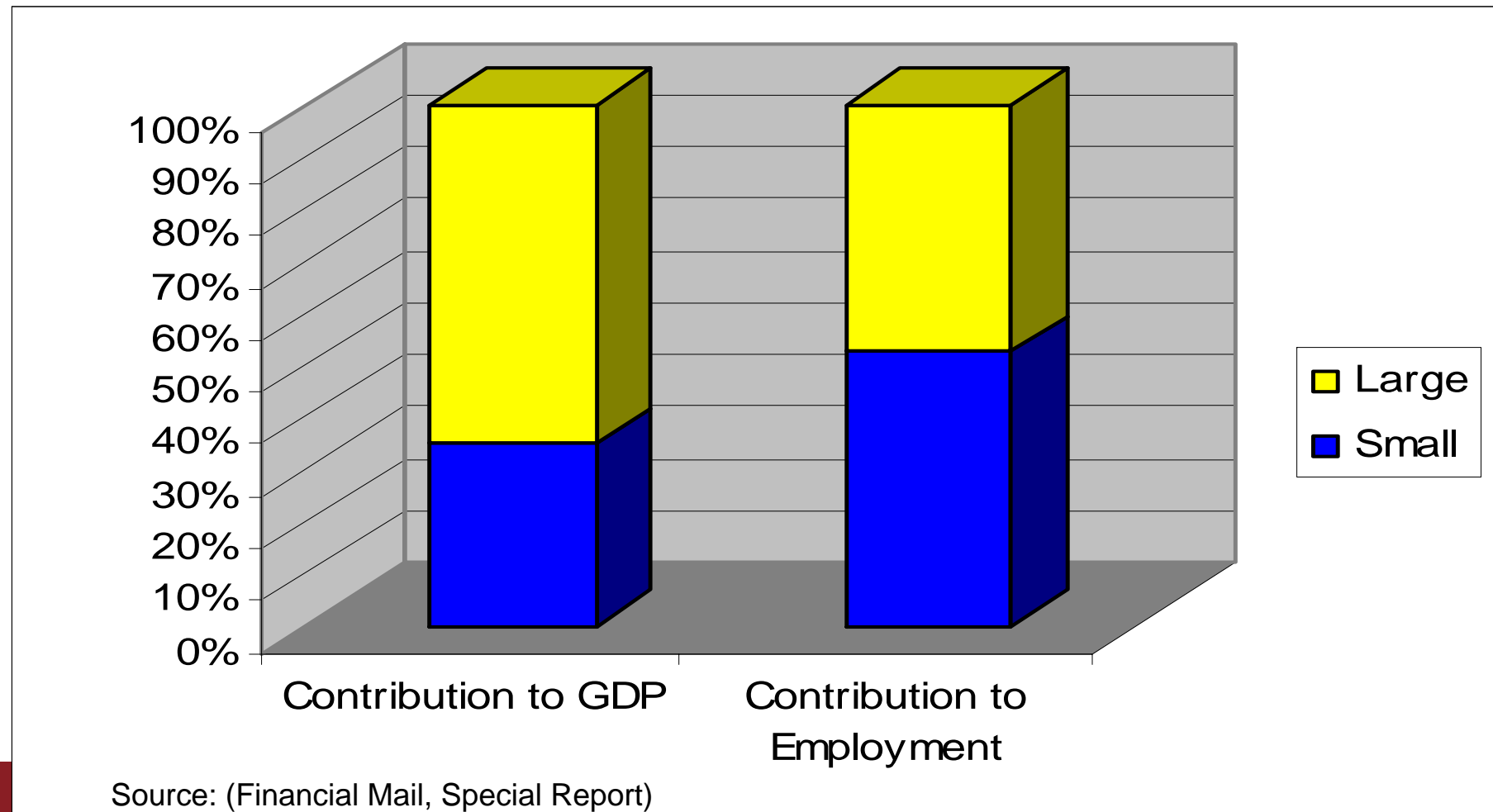
Background to the role of SMEs

- SMEs exceed corporates by large margin (SA has ±650 000 SMEs)
- Micro businesses exceed SMEs (SA has ±2,35 million micro / survivalist businesses)
- Large corporates are shedding jobs; SMEs create employment
- High unemployment in SA, leading to crime

Similar factors exist in virtually all developing economies



Contribution to Economy: SMEs in South Africa



Factors that promote or impede SME growth

DEALFLOW FOR SME'S DETERMINED BY "DRIVERS"

Big Manufacturing Big Agriculture Big Mining Major Tourism
Nodes of Transport Seats of Learning Seats of Bureaucracy

INFRASTRUCTURE

Tax Regime



Physical infrastructure:

- Transport
- Telecommunication
- Energy
- Information



Sensible financial institutions/
financial products
for RISK FINANCE



some deals



some deals

HUMAN CAPITAL



Education system:
- Basic
- Tertiary



Training:
- Including Mentorship



Stimulation of entrepreneurship:
- Technology centres



Health



Bureaucratic environment:
- labour
- fiscal predictability
- exchange rate
- inflation

Socio-political stability,
security

Absence of corruption

Legal rights enforceable:
- rule of law
- property rights
- bankruptcy proceedings

GOVERNANCE

The Entrepreneur

Integrity

Doing skills

Business Skills

Entrepreneurial Talent

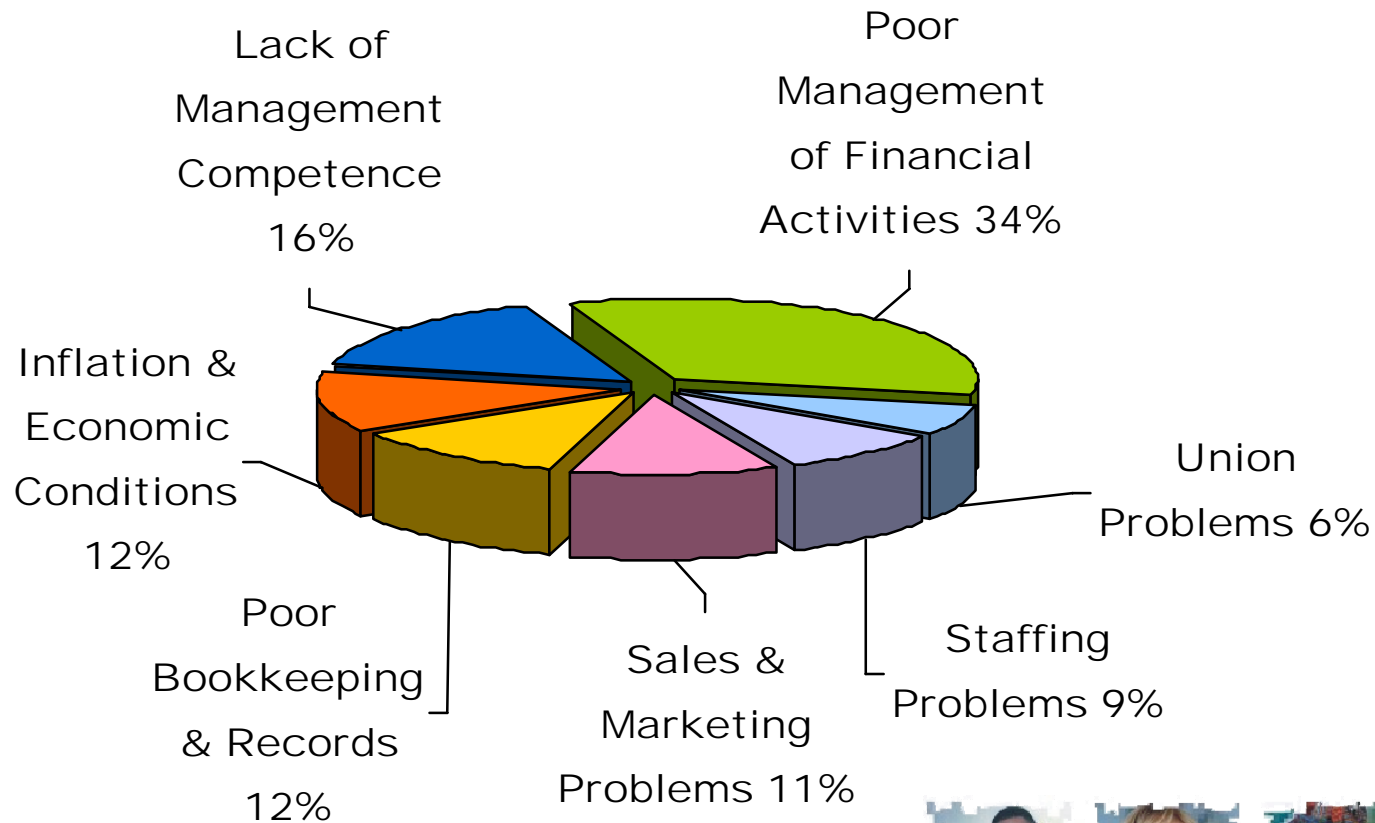
In summary:

- SMEs create more employment
- SMEs require a conducive environment, consisting of:
 - Drivers
 - Infrastructure
 - Governance
 - Human element
- SMEs need non-Financial assistance

Investors can therefore use the human element of SMEs to create employment in the economy



Why do SME businesses fail?*



* Business Partners research; correlated internationally



4 Main elements for the Malagasy & Kenyan models (joint initiatives with IFC)

- Access to Finance
- Access to Information
- Access to Skills and Training (Building human capacity)
- Environment conducive to business



BPI: Access to Finance

- Uses Business Partners' risk financing model
 - Financing based on viability not collateral – extensive due diligence
 - Equity participation for “fair deal” (entrepreneur and investor)
 - Post Investment management – investment team and mentors
- SMEs evaluated for potential
- Operational teams add value through ongoing support



IFC: Access to Information

- Provide information to aspiring entrepreneurs:
 - Internet / web access
 - Information library
 - Information research
- Goal of improving entrepreneurs' knowledge before going into business



BPI & IFC: Capacity Building

- Services rendered:
 - Business advice (pre-investment / start-up)
 - Skills development through training
 - Technical assistance & mentoring (post investment)
- Goal of improving sustainability of entrepreneurial businesses once in operation



IFC: Environment for Business

- Aims to improve business environment (macro):
 - Government policy
 - SME development
 - Linkages
- Goal of improving ease of doing business



Lessons learnt

- Setting up structures – Raising Funds
- Understanding the environment:
 - Regulatory environment
 - Investor requirements
- Entrepreneurial mindset re private equity



Thank You

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