KEYNOTE INTERVIEW

Making the case for Francophone West Africa


Francophone West Africa offers a compelling combination of high growth, attractive demographics, a pegged currency and unified rule of law, say Adiwale Partners' Jean-Marc Savi de Tové and Vissého Gnassounou

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Q Why does Francophone West Africa represent such an attractive private equity opportunity?

Jean-Marc Savi de Tové: This is a region that is not particularly well-known among the international PE market. In our job, whenever there is asymmetry of information, there is the potential for gains to be made. My co-founder Vissého Gnassounou and I are both from Togo and we decided to base our team in Abidjan, Cote d'Ivoire, the economic centre of the region, because we are convinced that Francophone West Africa has a number of characteristics that are attractive to investors and that you simply don't see elsewhere on the continent.

Firstly, this region has been growing exceptionally quickly over the past decade, with 6.8 percent growth expected over 2024-25, according to the International Monetary Fund – faster than the rest of Africa and faster than most of the rest of the world. In fact, Francophone West Africa is the second fastest growing geography globally after Southeast Asia, according to IMF data.

Secondly, the currency used by most of these countries is the CFA franc, which is pegged to the euro, thereby de-risking investments made in either euros or dollars. It provides visibility to investors that are worried by currency fluctuations. Furthermore, the same rule of law – the OHADA set of laws – applies in every country. If an investor from Cote d'Ivoire goes to Senegal to complete a transaction, they know that the laws will be exactly the same.

A common currency and rule of law are conducive to trade, and Francophone West Africa is the second most integrated region in Africa after Southern Africa because of those trade links. Nothing is perfect, of course. There is still some work to be done, particularly with regards to insecurity in the Sahel countries and infrastructure, but when you combine all of the positive features that this region has to offer with Africa's extremely attractive demographics, it is clear that there is a real momentum building.

Q What do you consider to be some of the most attractive investment themes in the region?

JMSdT: We have decided to focus on three main sectors. The first is the consumer sector because of the attractive demographic characteristics present in Africa, which is creating more demand for products and services. Statistics from the African Development Bank show that the African population has increased by more than 2 percent every year for the past 30 years, while its urban populations are expected to increase by an additional 350 million people by 2030. We regard the education and health verticals as sitting within the consumer sector because, in Africa, the first thing that people do when they have a little extra money at their disposal is put their children into better schools and spend more on maintaining and improving their health.

The second sector we really believe in is business services, which represents around 40 percent of GDP in Francophone West African economies. The more companies grow, the more sophisticated local services they require. When I completed my first internship in Lyon, France, in the early 90s, I was working for a business that provides air conditioning services. That business was sending engineers to Togo to maintain air conditioning appliances for the West Africa Development Bank because there was no company locally that had the scale and level of sophistication required to maintain such a building. Today, everyone would laugh if you said we needed to go to a European company in that situation, so we see the growing sophistication of local business service providers as a compelling trend.

Our final area of focus is manufacturing. A lot of manufacturing is taking place in the region in order to produce products that are adapted to local needs, for example in the food or clothing sectors. We are particularly keen on agri-processing which builds on these countries' natural endowments – in other words, that builds on a country's ability to produce superior products for a lower cost than is offered by its neighbours. Meanwhile, we have decided not to target the financial services sector. It is an interesting space but because we are an SME player, our average ticket size of €6 million is too little to offer us access to banks or insurance companies that are looking for larger sums.

Q How would you describe investor appetite for Francophone West Africa and what are the challenges that you face in that regard?

Vissého Gnassounou: One of the weaknesses of Francophone West Africa is that there is not enough focus on equity relative to debt. Local pension funds and insurance companies are investing 80 to 90 percent of their investment capital into government debt. We are actively involved in trying to change that situation because, ultimately, institutional investors need to seek higher adjusted returns.

We are slowly seeing some improvement in terms of investor appetite. We have one US investor, as well as an impact investor, but most of our investors are development finance institutions. There are several cross-border funds operating in these countries, though we are a rare example of a firm specifically set up to target Francophone West Africa. Pan-African players tend to raise money from the countries where they are headquartered, very often in European countries.

Therefore, the next step for us will be to tap into local pension fund and insurance capital. There is certainly plenty of it. The largest pension fund in Cote d'Ivoire invests north of €200 million every year. It is up to us to convince them that investing in an experienced fund such as ours not only offers them greater potential returns but also doesn't come with additional risk due to the diversification we offer.

Q Is the strategy to take local players and turn them into regional players?

JMSdT: Geographical expansion is certainly key. These are small countries. The biggest country in Francophone West Africa is Cote d'Ivoire, which has a GDP of €85 billion. The smallest, meanwhile, is Togo, where we come from, with a GDP of €8 billion. In that context, you can quickly reach your full potential on a local basis, or else the additional cost of acquiring clients becomes too high. It makes sense therefore to export products or services sooner rather than later, or else open up a subsidiary abroad.

This regional expansion strategy also makes sense because it helps you to reduce your overall risk. If there are macroeconomic or political issues in Mali, for example, then Cote d'Ivoire or Senegal will benefit.

Regional expansion is not our only route to value creation, however. We back SMEs and, like every SME in the world, there is always a huge amount of work to be done within these companies. Most of the businesses we invest in are owned by individuals and, understandably, those individuals feel like the businesses are their babies.

Given that we are minority investors, it is our job to ascertain how open those majority owners are going to be to change during the due diligence phase. This is particularly critical as that change almost always involves attracting new talent – new talent that could be more talented than the incumbents, which can be a difficult situation to manage.

Indeed, I would say that the biggest issue in our region by far is that of human resources. The right person being in the right place is key. Those observing from a distance might assume that our biggest challenge is political, but that is simply not the case. The minute you start talking to management teams, you quickly realise that the finance director sat in front of you is more of an account director, for example. The conversation is not strategic or analytical enough. The owner, however, may feel that this is someone they can trust and be reluctant to bring in someone new. Our approach is always collaborative given our minority investor status.

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Other areas of focus when it comes to value creation include driving efficiency. For example, in a previous partnership we backed one of the largest retailers in the region. We obviously don't produce a huge number of products, so there is a heavy reliance on imports. Ensuring that import and stock inventory processes run smoothly can mean the difference between success and failure for a business.

One example of enhancing efficiency in a portfolio company would be our very first investment as Adiwale Partners, which was an investment in an air conditioning and electricity services business called MCT. After receiving the due diligence reports, we realised they were wasting time and resource on tenders where they had a low chance of success.

We helped them collect data and analyse their hit ratio to change their approach so that the company now only dedicates its efforts to tenders that it was likely to win. That has had a profound effect, with MCT having tripled in size over the past three years while EBITDA has more than quadrupled. The growth in Cote d'Ivoire and the Africa Cup of Nations have also helped.

Finally, I would point to governance. We typically find that the companies we work with are keen to get governance right, but they don't necessarily understand everything that is required. We try to put ourselves in the shoes of a company secretary. We also always create a strategic committee to go through every major operational or finance issue ahead of a board meeting so it is as productive as possible. ■

Jean-Marc Savi de Tové and Vissého Gnassounou are co-founders at Adiwale Partners