

# FOCUS

## ON SUSTAINABILITY



AGF's Anna Lyudvig speaks with **Rajaa Berrkia**, Sustainability Director, **Mediterrania Capital Partners** about trends around sustainable investing, the firm's approach to sustainable investing as well as recent investments and achievements

**ANNA LYUDVIG (AL): RAJAA, YOU'VE BEEN RECENTLY APPOINTED SUSTAINABILITY DIRECTOR AT MEDITERRANIA CAPITAL PARTNERS**

**RAJAA BERRKIA (RB):** In fact, since 2012 half my time has already been dedicated to sustainability topics. As our objectives and the demand of our LPs in terms of ESG have grown significantly, Mediterrania Capital's strategy has shifted and we have set up a team fully dedicated to sustainability. This team improves our actions at the fund and portfolio levels, regarding social and environmental issues in particular.

**AL: WHAT ARE YOUR DAY-TO-DAY RESPONSIBILITIES**

**RB:** My schedule varies every day depending on whether I am working on an existing portfolio company or a new investment in progress. In general terms, my day-to-day responsibilities consist of helping our portfolio companies to develop a tailor-made corporate social responsibility plan that builds their environmental and social awareness while also reducing costs and improving efficiency, making choices that positively impact African communities and the planet.

A typical day includes monitoring any follow-up corrective action plans resolving non-conformances identified during portfolio company audits. This monitoring is typically done in collaboration with sustainability specialists in the portfolio company. We also assess or propose new initiatives considering factors such as cost-effectiveness, technical feasibility, financing and acceptance to the agreed standards. Any misuse of natural resources, waste management or recycling, or breaches of other labor or environmental policies are investigated if required. Lastly, we keep track of all sustainability KPIs and build reports for the portfolio company, our investors and all stakeholders.

**AL: WHAT TRENDS DO YOU SEE AROUND SUSTAINABLE INVESTING IN AFRICAN PE?**

**RB:** A recent study conducted by AVCA showed that in terms of sustainability, the African Private Equity industry is ahead of the curve compared with other markets. Fund managers in Africa usually allocate more time and effort to identifying and tackling ESG issues

than funds operating in developed markets. This is true even in the case of African funds that are not explicitly impact-focused.

The Development Financial Institutions (DFIs) have done an enormous amount to push for ESG practice implementation in Africa. They are the anchor investors in emerging markets such as Africa and are very strict regarding the ESG standards, which are a prerequisite for their investment in GPs like Mediterrania Capital Partners.

87% of the GPs that participated in AVCA's 2017 Sustainability Study said that they incorporated ESG factors into their investment process for some or all their portfolio companies. In contrast, a 2017 survey by Greenwich Associates found that only 27% of North American institutional investors currently applied ESG principles, while a further 45% planned to do so.

According to AVCA's 2018 Sustainability Study, however, 74% of the GPs said that ESG reporting was part of the reporting discipline and 80% stated that they had assigned a board member responsible for ESG initiatives in their portfolio companies. ESG practices are undoubtedly ingrained in the PE industry in Africa.

**AL: HOW DO YOU APPROACH SUSTAINABLE INVESTING AT MEDITERRANIA CAPITAL PARTNERS?**

**RB:** At Mediterrania Capital Partners, we have always considered ESG factors as part of our investment process. However, we don't base our investment decisions solely on ESG factors. We view ESG as essential to long-term value creation and use it as a fundamental element of our investment and decision-making process. We strongly believe that companies working ethically, sustainably and responsibly tend to be attractive long-term investments.

**AL: WHAT DID THE HISTORY OF SUSTAINABILITY INVESTING TEACH YOU?**

**RB:** What is clear is that making the transition to a more sustainable world is a complex task that we cannot tackle on our own. That's why we are partnering with clients, cooperating with fellow investors and joining forces with DFIs to define and implement the most relevant ESG practices in the most effective way, to reach a wider society. It is



Aziza, Tunisia

all about what we can achieve together.

**AL: HOW DO YOU INTEGRATE ESG INTO YOUR INVESTMENT PROCESS?**

**RB:** ESG is a broad field with many different approaches such as ethical exclusion, impact investing and full ESG integration. At Mediterranean Capital Partners, ESG integration can have an impact on whether we invest in a company, how we manage that investment, and when and to whom we exit it. We don't separate ESG from the rest of our investment process—we assess ESG alongside the financial data and other metrics.

**AL: WHAT PRINCIPLES DRIVE YOUR APPROACH?**

**RB:** The internationally recognized principles of responsible investment (PRI) are fully applied at Mediterranean Capital Partners and we also follow the sustainability frameworks of the IFC, CDC and FMO, which are the most widely used by PE firms in Africa. We have also developed our internal policies, procedures and investment code to ensure that the companies we invest in all live up to stringent environmental, social and governance performance criteria.

**AL: WHAT'S YOUR PERSPECTIVE ON HOW THAT CHANGES CORPORATE STRATEGY?**

**RB:** ESG goals are very important. They articulate the company's vision and strategy and hold it accountable to management, investors and other stakeholders. When taken together, ESG goals provide a collective vision of the future.

**AL: HOW DO YOU EVALUATE INVESTMENT PERFORMANCE IN YOUR ESG PORTFOLIOS?**

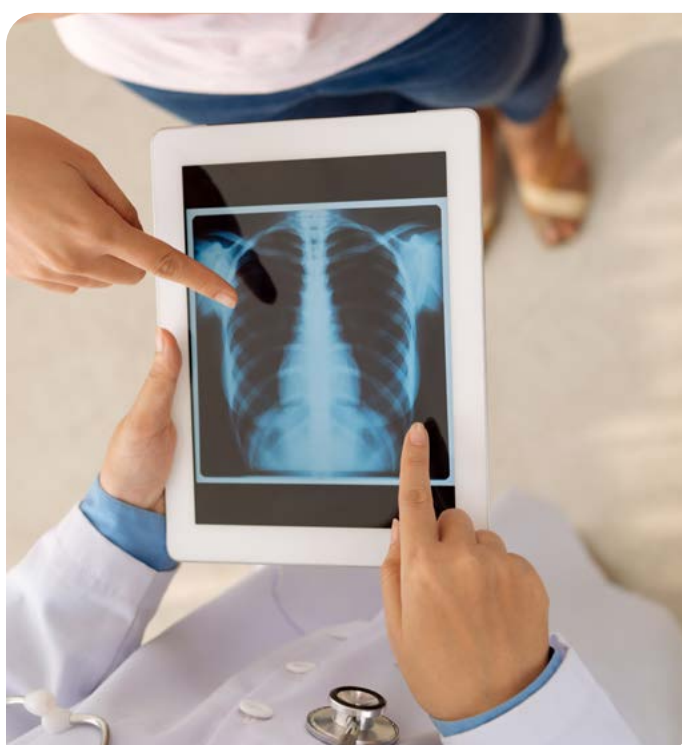
**RB:** We focus on measuring performance on two competing theories of return: social/environmental, and financial. We size the impact by measuring the contribution of our portfolio companies to the SDGs, positively or negatively.

We firstly identify and track high-level impact metrics applicable to all portfolio companies. This enables us to capture the global view of our portfolio's social and environmental impact. But it does not

tell the whole story. It is equally important to highlight the work and unique impact of each one. This is what makes impact investing compelling and rewarding for us. At Mediterranean Capital Partners, we believe that real impact stories are the heart of our impact investing model.

**AL: HOW DO YOU IMPROVE THE ESG FACTORS OF YOUR PORTFOLIO COMPANIES?**

**RB:** Our core mission as PE fund manager is to improve lives through successful investing. That involves us analyzing a variety of long-term dynamics, including regulations, societal shifts, use of natural resources and other prominent ESG factors.



Cairo Scan, Egypt



Groupe Cofina, Ivory Coast

As active owners, we emphasize engagement rather than exclusion. In other words, we discuss a variety of topics with our portfolio companies, including ethical business practices and the impact of their products and operations on society and the environment. In many cases, when an ESG-related concern arose we were able to affect their behavior simply by asking the right questions or offering green alternatives.

**AL: CAN YOU GIVE US SOME EXAMPLES OF YOUR RECENT INVESTMENTS AND ACHIEVEMENTS?**

**RB:** One of our recent investments in financial services pays particular attention to women entrepreneurs. Almost 50% of its clients are female. In order to recognize their significant role and provide them with additional resources enabling them to become stronger business owners, the company acquired a women-oriented microfinance business that was facing some difficulties. A restructuring plan was put in place and it is planning to allocate €22 million of funding to women entrepreneurship.

**AL: HOW HAVE YOUR INVESTORS RESPONDED TO SUSTAINABLE INVESTING?**

**RB:** Our investors' community places a premium on working with PE funds that deliver returns with responsibility. Although African PE industry continues to grow and mature, the role and influence of DFIs in this space is strengthening—in fact, they are becoming more sophisticated in their ESG requirements. Rather than only monitoring our ESG system and capacity, they are increasingly focusing on identifying broader ESG risks and opportunities in today's urbanizing and industrializing African countries.

**AL: HOW NECESSARY IS IT FOR GPS THAT DON'T SPECIALIZE IN ESG STRATEGIES TO CONSIDER THE IMPLICATIONS OF ESG FACTORS ON THEIR PORTFOLIO?**

**RB:** Nowadays, GPS must ensure that the ESG policies of all their portfolio companies are clearly defined and implemented. We do this because as investors, it is our responsibility to ensure that the

companies in which we invest develop specific solutions that maintain their long-term sustainability and have a direct and positive impact on communities and economies.

Additionally, when it's time to exit a portfolio company, potential buyers expect ESG principles to be fully embedded in the company's structure, operations and governance processes. The lack of a proper ESG strategy and mechanisms to monitor it may bring additional risks for the portfolio company, such as environmental, social, labor or governance ones. As a result, PE firms that don't have robust ESG policies across their portfolio may find it more difficult to create liquidity events and, in the long run, investors may become less willing to support these firms.

In the end, robust ESG frameworks create more resilient and, therefore, more valuable companies, so having an ESG approach across their portfolio is entirely in the interest of GPS.

*“PE firms that don't have robust ESG policies across their portfolio may find it more difficult to create liquidity events*

– Rajaa Berrkia

**About Mediterranean Capital Partners**

*Mediterrania Capital Partners is a private equity firm focusing on growth investments in SMEs and mid-cap companies in Africa. With offices in Abidjan, Algiers, Barcelona, Cairo, Casablanca and Valletta, Mediterranean Capital takes a proactive, hands-on approach to implementing the growth strategy of its portfolio companies by driving the Value Creation and ESG processes. In 2019, the group companies and portfolio companies of Mediterranean Capital Partners delivered over €1.5 billion in revenues and employed more than 17,000 people in Africa.*





**MEDITERRANIA**  
CAPITAL PARTNERS

## Creating value and impact in Africa

We invest in consolidated and growing companies with a focus on value creation and sustainable development.

**€1.5 Billion**

Portfolio companies  
total annual  
revenues

**17,000**

Direct jobs  
supported by  
portfolio companies

**€485 Million**

AuM

**100%**

Of portfolio companies offer  
health and pension plans to  
their employees

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