African Private Equity and Venture Capital Association

MEDITERRANIA CAPITAL PARTNERS

MEMBER PROFILE

Rajaa Berrkia
Director of Sustainability

Mediterrania Capital Partners is a regional private equity firm focused on growth investments for SMEs in North Africa and Sub-Saharan countries.

With offices in Abidjan, Algiers, Barcelona, Cairo, Casablanca and Valletta, Mediterrania Capital Partners takes an intensely proactive, hands-on approach to implementing its growth strategy by leading the governance of the companies and driving the key internal value creation and ESG processes. The partners of Mediterrania Capital have extensive experience in managing companies spanning commercial experience, strategy formulation, finance, and operations.

In full alignment with key shareholders, Mediterrania Capital Partners builds partnerships with leading entrepreneurs with the objective to nurture lasting value creation through investments in innovation and growth. The firm invests in consolidated and growing African SMEs with an annual turnover of €20 million to €300 million and expansion strategies into North and Sub-Saharan African markets.

The mission of the company is to make portfolio companies successful and strong in the long-run and deliver superior returns to its investors, while having a social and economic impact in the Africa region.

Mediterrania Capital Partners is a regulated financial investment manager licensed by the Malta Financial Services Authority (MFSA), the Financial Services Commission (FSC) in Mauritius and the CNMV (Comisión Nacional del Mercado de Valores) in Spain.

AVCA speaks with Rajaa Berrkia, Director of Sustainability at Mediterrania Capital Partners, to learn more about the firm's unique ESG and sustainability approach, as well as the impact the COVID-19 pandemic is having on ESG targets in the private equity industry in Africa.

MEDITERRANIA CAPITAL PARTNERS

NAME OF FIRM
Mediterrania Capital Partners

FIRM TYPE
General Partner

PROFESSIONALS FOCUSED ON AFRICA
20

Q: Could you talk us through Mediterrania's ESG team and approach?

At Mediterrania Capital Partners, ESG factors have an impact on whether we make an investment, how we manage it, and our exit strategy. We do not separate ESG from the rest of our investment process — we assess ESG alongside financial and other data. We strongly believe that companies working ethically, sustainably and responsibly tend to be attractive long-term investments.

We have always considered ESG factors at various points in our investment process. We factor in ESG criteria when defining the investment universe (exclusions), consider ESG-related risks and opportunities as supplementary information in investment selection and portfolio construction (integration) and build sustainability through dialogue and engagement with portfolio companies. Lastly, we provide detailed quarterly ESG reports to enhance portfolio transparency for our clients.

We don't base our investment decisions solely on ESG factors, however. We view ESG as essential to long-term value creation and a fundamental element of our investment and decision-making process.

As our objectives and the demand of our LPs in terms of ESG impact have grown significantly, our strategy has shifted and we recently set up a dedicated sustainability team. This team improves our actions at the fund and portfolio levels, particularly regarding social and environmental issues.

Q: What key ESG trends have you witnessed in Africa over the last few years?

There is more ESG demand and more ESG data. A recent AVCA study 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 those managing funds 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.

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, 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.

Q: To what extent has ESG become a priority for PE firms in Africa?

ESG issues have clearly moved from niche to mainstream, with the PE sector playing a vital role in supporting sustainable development in Africa. PE houses and investors alike are taking that responsibility seriously and driving genuine change.

Most large investors have implemented ESG strategies that they use to guide their investment decisions — in other words, where to place their funds. Consequently, PE firms are increasingly improving their ESG engagement and reporting, both to their board and publicly. More and more PE firms now have an in-house team dedicated to responsible investment. Also, businesses are themselves recognising that they must take further steps in this area. It is no longer a matter of complying with regulatory pressure but instead helping to improve their financial performance.

Q: The COVID-19 pandemic has had a clear, detrimental impact on economies across the continent. To what end does this impact ESG targets in PE in Africa?

The pandemic has severely affected the global economy and shown how vulnerable current systems are when dealing with external shocks. It has shown that African countries urgently need to implement the SDGs in order to build a society ready for the future.

COVID-19 has pushed businesses to rethink their strategy and spending on various fronts. This may mean that action on energy and sustainability has been deprioritised at a time when continued momentum on climate change remains particularly critical. However, teleworking and virtual meetings are showing these businesses that they can reduce travel, with satellite images revealing the resulting dramatic decline in air pollution.

The crisis has exposed a lack of adaptability and resilience in many companies. It must be seen as a dry run for the sustainability agenda and an opportunity for companies to see how they can tackle a growing range of ESG challenges. Boards and executives will no longer be forgiven for underpreparing for various climate change scenarios.

This is an opportunity to fix our systems, bridge the poverty gap, invest in public health care and tweak the implementation of the SDGs to build more sustainable, resilient and inclusive societies.

Our main objective moving forward is to continue to expand and accelerate investments that benefit African communities and economies while providing strong returns for our investors.

Q: What ESG objectives has Mediterrania set itself over the next few years? How do you plan to achieve these?

Our main objective moving forward is to continue to expand and accelerate investments that benefit African communities and economies while providing strong returns for our investors.

All DFI investments have greater expectations and seek a positive development impact. A truly collaborative engagement (from PE firms and businesses alike) can bring the local market into motion. We aim to catalyse change and clear the swamp that has developed as a result of decades of inertia around archaic investment approaches across the continent.

Q: What is the next frontier in sustainability within the PE industry?

We can now see ESG genuinely driving returns, and enhanced ESG practices can potentially enhance exit multiples. It is therefore vital for PE houses and investors alike to recognise that although responsible investment may seem challenging, there are many solutions and frameworks that can be applied to achieve positive outcomes.

ESG is even likely to rise to the forefront of all decision-making in the PE industry and become standard practice.

Q: How has the AVCA membership benefited you?

As well as giving us access to exclusive networking opportunities and market data, our membership of the AVCA increases our visibility in the market through our presence in the association's meetings and partnering in conferences or workshops as speakers or panellists.

Q: Would you be able to give an example of how your ESG approach had added value to one of your portfolio companies?

One of our portfolio companies, an industrial food manufacturer, needs heating and electrical power as well as refrigeration. This has a significant environmental impact, generating carbon dioxide emissions from the energy used in the manufacturing processes and the environmental control of buildings as well as from the refrigeration equipment.

As part of its energy efficiency strategy, the company has acquired a trigeneration system with a total capacity of 4,500 KW that provides electrical power, heating and cooling simultaneously for the entire premises. The heat produced by the system is also used to produce steam and hot water for onsite use. This technology has enabled the company to reduce its fuel and energy costs and refrigerant leakage, reducing its energy expenditure by 55% and significantly reducing its GHG emissions by up to 40% in 2019.

Want to learn more about Mediterrania Capital Partners? Click here to explore AVCA's 2020 Member Directory.

CONTACT AVCA

37 North Row
3rd Floor
London W1K 6DH

E avca@avca-africa.org
W www.avca-africa.org
T +44 (0)20 3874 7008

African Private Equity and
Venture Capital Association