KEYNOTE INTERVIEW

Leadership and resiliency in times of crisis

Development Partners International's Runa Alam outlines how African governments, investors and businesses are stepping up to meet the challenges created by covid-19

The pandemic has upended everyday norms and expectations around the world. This includes Africa, where some external observers appear to have underestimated the continent's ability to handle the crisis.

"The pandemic is bad for everyone globally," says Runa Alam, chief executive officer and co-founding partner of pan-African investor Development Partners International. "But, based on negative assumptions about developing markets, there is a widespread misperception that if countries like the UK and US are struggling with this pandemic, then the situation in Africa must be dire. However, that is simply not the case. So far, most African governments appear to be coping with the pandemic relatively well and the African populace and African businesses have shown resilience.

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"That said, this pandemic is difficult for every population and government from a health and safety as well as an economic perspective. Certain countries like South Africa are now seeing worsening pandemic and economic conditions." Yet, as Alam discusses, there are several reasons not to be overly pessimistic about Africa's prospects.

Q How has Africa managed to keep infection and mortality rates relatively low?

African governments, with their experience of Ebola and other epidemics, have a close relationship with the African Centres for Disease Control and Prevention and have taken a science-based approach to managing the pandemic. Each country has its own strategy ranging from curfews and limiting international travel to total lockdown, but generally they acted early. Policies were put in place in March before the

Q DPI portfolio company B.TECH is an Egypt-based retailer of household appliances and consumer electronics. How has it navigated the crisis?

Following the imposition of curfews and targeted quarantines in Egypt to slow the spread of the virus, B.TECH moved quickly to protect its people, customers and business.

The company, which operates 92 stores and a leading e-commerce platform, established an internal committee headed by its CEO to coordinate its response. It conducted stress testing of its near- and long-term plans and made sure it had access to liquidity from a diversified range of banks to strengthen its balance sheet. It also worked closely with suppliers to ensure its supply chain remained resilient.

The business put in place enhanced measures to protect staff and customers, including distanced working, mandatory PPE and improved hygiene protocols. It has focused on making everyone safe, both in store and during the delivery of products ordered online.

Like businesses around the world, B.TECH has accelerated technical innovations and digitisation in response to the pandemic. This includes introducing QR barcodes to facilitate access to product information in store and initiating online instalment payments through its MiniCash platform, as well as further development of its online marketplace.

We expect the company to emerge from the crisis with its workforce of 4,200 staff intact, increased market share and strong growth. The business is on track to open a further 11 branches this year.

disease arrived in any strength on the continent.

The fact Africa has a young population, with the median age at 19.7 years old, may also have helped keep the mortality rate comparatively low at approximately 14,000 deaths (by early August). Even with the assumption that there is underreporting and lack of testing, the World Health Organisation reports 816,000 cases continent-wide among a population of 1.3 billion, which is still well below Europe with a population of approximately 740 million, where sadly there have been more than 3.3 million cases and over 213,000 deaths, according to the same organisation.

Many African countries certainly have weaker healthcare systems than Europe, and a higher number of people suffering from underlying health conditions such as malnutrition, AIDS or malaria, while governments are constrained in their ability to fund healthcare. In some areas, population density and poverty mean people are unable to self-isolate or access good hygiene. That works against lowering infection rates and the impact of prevalent co-morbidities is yet to be seen.

While underreporting is always possible, our CEOs believe the prevalence of social media makes any dramatic underreporting unlikely.

Q How has DPI responded to the pandemic?

DPI switched to remote working in March, but in terms of investing, things have not changed. We closed one transaction in late May, signed another transaction in late July and are conducting due diligence on a further two. We look at sectors such as telecommunications, banking, insurance, education, agri-business and pharmaceuticals. Our strategy focuses on sectors that are key to the operations and development of African economies. These sectors are classified as essential/emerging services in African countries so companies within them are allowed to operate even in covid-19 lockdowns.

We are still exiting and engaged in four live processes at valuations based on a normalised EBITDA and multiple basis, as these companies have not witnessed the same trading and performance volatility as their peers in other continents. Almost all businesses in our portfolio have remained operational during this crisis. As of June, a good proportion were up year on year in terms of monthly revenue, and they will continue to perform after the crisis is over.

Q How has DPI adjusted at the portfolio level?

From the beginning, we wanted our team and portfolio companies to carefully prepare for changes in this environment. All our management teams set up a covid-19 taskforce, mostly based around the executive committee, which we communicated with constantly early on. We also compiled, kept updated, and made publicly available a covid-19 response and recovery checklist that formed the basis of discussions with management, many of whom had already devised their own plans.

First on the checklist, which enables us to monitor activity across our portfolio, is health and safety. From early March, we ensured companies' employees and customers observed customised protocol, including social distancing, correct personal protective equipment, use of hand sanitiser and masks, and enforcement of restricted access and split shifts. Fortunately, so far, we have recorded only a small number of infections, less than 1 percent of the 42,000 people employed across our portfolio. These measures have also had a clear commercial benefit by enabling management teams and staff to continue to run their businesses. Our two sustainability managers, who spearhead our environmental, social and governance strategy, sit front and centre of this approach. They are an important resource to our businesses and having that expertise in house has been an advantage.

Q What else is on the checklist?

Back in March, nobody knew how long the shutdown would last or which companies would be negatively affected. We asked our management teams to look at their balance sheets and liquidity positions and undertake scenario planning for lower or no revenue and cashflow levels over 13 weeks to 12 months. Most of our businesses have the skillset to do this, and we were able to expedite the process for some with tools, templates, and advice.

Fortunately, virtually all our companies have strong balance sheets because we only invest in profitable, large businesses with excellent management teams. We had begun last year to advise our companies to "batten down the hatches" in expectation of more challenging conditions in 2020 – ensuring strong balance sheets with responsible levels of gearing, checking for FX vulnerability, providing options for consumers under duress to trade down and so on. That has paid off.

The third priority was to address the supply chain. Unlike Europe and the US, generally businesses in Africa don't operate a just-in-time supply chain because it can take time for imports to arrive due to port congestion. In this crisis, it helped that companies stock up on inventory. Supply chains have not been materially disrupted anywhere in the portfolio to date. Today, any small supply chain kinks have been ironed out.

Q Have you shared this list beyond your portfolio?

Yes, we decided when we were developing it that we also had an obligation to share our expertise and knowledge with other companies. We made the list available on our website and have participated in webinars organised by industry associations and community groups to talk their members through it. We also continue to update it as we receive new information on the virus and develop new ways of thinking.

Q How are companies preparing for post-covid?

During a crisis, companies often think about the cost of survival without factoring in the cost of recovery. As part of their scenario planning, we asked our businesses to assess their working capital requirements for a time when economies opened again, such as the cost of purchasing more stock or paying for operational changes. As of July, African economies are slowly opening. Our businesses operate in approximately 30 markets and one can already see sales rising. We view continued operations as an obligation, not only to employees and owners, but also to the markets our companies serve. Our pharmaceutical business, for instance, has a duty to produce medicines and sanitisers for the benefit of its communities.

In some markets, we are observing that other companies outside our portfolio have not or will not survive. It is imperative for our portfolio companies to grow product supply, in some instances through acquisitions of companies that would not otherwise survive, to fill the gap in essential products in food, banking, pharmaceuticals, etc.

Q Over the longer term, how will the pandemic impact Africa's business environment?

At the operational level, covid-19-specific changes will last until there is a widely distributed vaccine. Then there are new trends in the marketplace to consider. In Africa, like everywhere else, the pandemic has accelerated the adoption of new technology and the move online. One DPI portfolio company, a microfinance business, went from 5 percent online sales to 30 percent within a month using simple tools such as processing loans and loan extensions over WhatsApp. Another of our businesses, a food service company, partnered with a larger delivery business to meet soaring demand for home delivery. We supported them extensively to build and scale this relationship, including a website rebuild over a weekend to meet demand.

Following another global trend, consumer spending in Africa has changed. Some of this is related to lockdowns, some is because income levels have fallen as people have lost jobs and are restricting spending to non-discretionary items such as food and medicines. Our companies operate in those spaces. They have had to adjust by introducing new, "affordable value" products and goods at lower price points. For example, our food company has introduced products that are cheaper and still give value. It has also changed how customers shop, for instance by drive-through or home delivery rather than entering the store. ■