

MANUFACTURING AFRICA



Manufacturing Africa aims to reduce poverty in Africa by attracting £1.2 billion of foreign direct investment into manufacturing and creating 90,000 jobs over 7 years (2019-2026). The programme is funded by the UK government through the Foreign, Commonwealth & Development Office (FCDO).



Manufacturing Africa Partners with Norfund in Covid Response Deal

Norfund is the Norwegian Investment Fund for developing countries whose mission is to create jobs and to improve lives by investing in businesses that drive sustainable development. The investment fund focuses on strengthening the private sector in developing countries.

Norfund is considering investing in an industrial chemical manufacturing company in Ethiopia. The target company produces raw materials that are used in the manufacture of soaps, detergent, shampoos and shower gels. Demand for the company's products is therefore dependent on that of soaps and detergents.

There are several factors driving demand for locally manufactured soap as follows:

A

Growing urbanisation rates as most urban dwellers are consumers of soaps and detergents unlike rural dwellers.

B

The emphasis on regular handwashing because of the Covid 19 pandemic

C

Generally increasing disposable income levels

D

The existence of a 35% import tariff on finished products as a deterrent to importation.

E

The low access to forex restricting importation in Ethiopia



SNAPSHOT OF ETHIOPIAN SOAP & DETERGENTS SECTOR

\$ 300 million size of the soaps & detergents market in Ethiopia

44% of soap and detergents used in Ethiopia are locally produced

9% current growth of the soap and detergents sector

12.5% projected growth of local manufacturing of consumer goods due to import tariff

THE CHALLENGE



To meet the increasing demand for locally manufactured goods, the company seeks to raise USD 12 million for the expansion of its existing production facilities in Ethiopia and an additional USD 15-20 million to buy-out stakes held by a private equity fund.



Prior to injecting the requested USD 12 million into the expansion of the target company and several million into the share buy-out, Norfund reached out to MA for commercial due diligence support on the viability of the deal.

The main challenge that Norfund was facing was the lack of market data that was not available and required specific expertise to obtain.

MA SUPPORT

MA supported Norfund's investment deal by conducting commercial due diligence whose scope included the following:



a market study covering market sizing, a competitive landscape survey and sustainability of the target company's competitive advantage



analysis of forex related risks in Ethiopia

In addition to providing standard due diligence support, the added value of MA support was the input from subject matter experts who brought in key insights into the business case.

IMPACT

The data generated by MA supported the business case and was instrumental in decision making especially since Norfund has limited experience in Ethiopia. It allowed the deal to progress to the legal evaluation phase which is currently ongoing. Given the high likelihood of the deal succeeding, production volumes are expected to triple for two major inputs and double for a third input.

Indirect Impact



Jobs

The project will create **50 additional** employment opportunities, **22 of whom are to be women.**



Complexity and productivity

The company supplies to international companies and as such requires high levels of technical personnel and capital assets.



Import substitution

The company currently supplies raw materials to large and medium sized domestic and international manufacturers of soaps, detergent, paper, cement, shampoos and shower gels that would otherwise have to import these raw materials.



Environmental & Social improvements to the company

Norfund's investment will improve the Environmental, social and corporate governance (ESG) performance by upgrading the existing production facilities to latest standards.



Technology transfer

Norfund's involvement in the company will bring international technical expertise to the development and growth of the business.



First mover and transformation

The company represents the only major domestic producer of these chemical inputs to mass market products



Catalysing domestic supply chains

Given the difficulties of accessing forex in Ethiopia and absence of other domestic manufacturers in the segment, availability of raw materials domestically is an important lever that improves capacity utilisation and operational performance of manufacturing companies.

“The MA project management process was well structured, interactive, collaborative and was overall a value adding experience. The due diligence report generated by MA was detailed and emphasized elements that helped with the decision-making.”

Donald Kariuki, Senior Associate, Agribusiness & Manufacturing, Norfund



This programme is funded by UK aid from the UK government; however, the views expressed do not necessarily express the UK government's official policies.

CONTACT US

Christoph Zipfel, Manufacturing Africa Team Leader

Email: info@manufacturingafrica.org