



FEED THE FUTURE

The U.S. Government's Global Hunger & Food Security Initiative



FEED THE FUTURE BUSINESS DRIVERS FOR FOOD SAFETY

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Capital Mobilization for Senegalese Growing Food Businesses

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Cover Photo: BrightHouse Consultancy. "Senegalese food business production team processes peppers while wearing PPE" (2023).

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Introduction

Feed the Future Business Drivers for Food Safety (BD4FS), funded by the United States Agency for International Development (USAID) and implemented by Food Enterprise Solutions (FES), seeks to strengthen the food safety culture within a country through active engagement with the business community. BD4FS partners with growing food businesses¹ (GFBs) – enterprises that want to grow with food safety as an integral part of their business model – to upgrade their food handling practices, improve food safety, and reduce food loss, ultimately resulting in better market access and improved revenue flow.

Food Enterprise Solutions (FES) recognizes that a major constraint for small-medium food enterprises (SMEs) in Africa is the timely access to affordable financing. Many food SMEs are stymied in their ability to expand their operations, especially to improve their food processing, storage, and transport, due to limited access to capital.

To better understand barriers to financing and to learn where opportunities and synergies exist for food businesses and investors, BD4FS undertook a financial landscape assessment in Senegal in 2021². This assessment identified several underlying factors that limit investment in GFBs. For one, many investors find investing in the perishable food sector too risky and have concerns that loans will not be repaid. This is due, in part, to the lack of regulatory enforcement and the poor product quality and safety as a result. Further, laws surrounding banking and finance are highly rigid, and although the Senegalese government has many support funds for small businesses, few target postharvest food businesses specifically. This adds to the difficulty of accessing formal lending. Due to these challenges, many food professionals have more ease accessing informal financing methods, which are oftentimes less reliable and predictable than formal financial services. BD4FS successfully addresses the lack of formal financing services available to SMEs by increasing the adoption of food safety practices at the SME level and building a culture of food safety. Through support to GFBs, BD4FS reduces their risk of food contamination and demonstrates that local food companies are good investment partners.

Capital Mobilization Strategy

In Senegal, BD4FS accelerates food safety by partnering with local, dynamic food businesses – GFBs – to co-design and implement improved food safety practices. However, a major roadblock to improving food safety and scaling up food processing is the lack of financial resources through capital investment partners and affordable financial services. To address this roadblock, FES partnered with Pangea Global Ventures through BD4FS to launch a strategic endeavor to build momentum around accelerating formal investment in GFBs. In a stepwise process, the GFB investment initiative partnered with select food enterprises—those that met pre-defined criteria³—to build their investment readiness, communicate to investors the opportunity to invest in Senegal GFBs, and connect investors with GFBs to secure new investments for Senegalese enterprises that are leading a culture of food safety.

¹A Growing Food Businesses is a small- to medium-sized enterprise that seeks to expand based on a business model that incorporates food safety practices.

² Thiam, M. & Lamine, A. (2021). *Financial Landscape Analysis for Senegal*. https://pdf.usaid.gov/pdf_docs/PA00XQZ8.pdf

³ Criteria include: an existing food safety management system, an existing local market, a real potential for company growth, and the willingness to comply with technical and food safety specifications

Growing Food Business Selection

BD4FS set out to select GFBs that were a good fit for the investment opportunity and had high potential to attract investors. To identify a preliminary group, BD4FS conducted a financial landscape assessment of the current portfolio of GFBs supported by BD4FS, as well as various other institutions that constituted the relevant financial environment in Senegal. The latter included government enabling offices, commercial banks, local and international non-bank financial institutions, and other entrepreneur support organizations. From a pool of 150 current program GFBs, BD4FS set out to identify enterprises that had a food safety management system, an already existing local market, a real potential for company growth, and the willingness to comply with technical and food safety specifications. To qualify for the program, the GFBs also needed to have a clear growth plan and strong management capacities. By analyzing GFB's business structure, production capacity, market share, innovation in their sector, quality management, and gender and youth participation, BD4FS leadership selected 15 GFBs to participate. Of these 15, five (5) were prepared to commit to the more intense qualification process to make the final list of food enterprise investment candidates.



*Employees with BD4FS staff inspecting product and handling procedures.
Photo Credit: BrightHouse Consulting*

Building Investment Readiness

As part of a GFB partnership, BD4FS works with each business to improve food processing, handling, storage, and transportation practices. This training and capacity building has been shown over the life of the project to increase market access and product sales as well as decrease consumer health risk, therefore building an important aspect of investment readiness. To further prepare the five selected GFBs to become investment-ready, BD4FS took the following steps:

- **Standard business documentation:** As a first step, BD4FS reviewed the financials and business records of all finalists, including their business plans and capital needs.
- **Making the investment case:** BD4FS assisted GFBs in preparing standard documents for investors, particularly regarding markets and competition, financials, and business plans.
- **Gender Considerations:** Though gender of leadership was not a selection criterion, four of the six priority enterprises supported were led by women. Coaching was provided by a professional female coach with an emphasis on leadership in a context in which women may require support that differs from that of male leaders.
- **Additional documentation support:** When two or more investors began the screening and diligence process, the investment initiative complemented the nascent capacities of the GFBs to handle and respond to these requests in a timely fashion.

- Communication between GFBs and investors: BD4FS assisted GFBs in learning how to engage with investors so that they are better prepared for future engagements.

The table below describes each GFB, their current product portfolio, and their growth plans.

Table 1

Company	Products	Growth Plan
Le Lionceau.	Baby foods made from locally available ingredients (fruits, vegetables, meats). Le Lionceau is one of the only enterprises in Senegal to produce traditional baby foods for local tastes at a market level scale.	Le Lionceau plans to build a new factory with more space to better meet safety requirements and to respond to the increase in the local and sub-regional demand for its product.
Fruitales	A variety of fruits juices, jams, syrups, pepper purees and spices. Fruitales supplies its products to a few supermarkets around Dakar, such as Auchan, Senegal's largest supermarket chain.	Fruitales plans to expand its market reach, increase production, and relocate its production facility to a new industrial zone near the new Dakar airport.
Bay Seddo	Sells fresh vegetables, and is planning to start providing semi-prepared, frozen vegetables to supermarkets and other retail outlets.	Bay Seddo is the first and largest in this niche in Senegal, and positions itself as an aggregator between investors, producers and the market.
Esteval	Fruit and vegetable juices, jams and purees, as well as cereal products.	Esteval plans to further expand their production facilities and tap new lucrative markets outside of Senegal.
Senegal Progresse	Provides fruits and vegetables to the largest supermarket chains in Dakar.	Senegal Progresse works directly with farmers, and plans to become a brand known for their quality and customer service.

Securing Investments

Once the preparation and capacity-building process had progressed significantly, BD4FS provided additional support to GFBs for documentation and communication between GFBs and investors. When two or more investors began the screening and diligence process and requested additional documents and information, the investment initiative complemented the nascent capacities of the GFBs to handle and respond to these requests in a timely fashion. BD4FS also assisted GFBs in learning how to engage with investors so that they may be better prepared for future engagements.

Results

As a result of BD4FS' work to improve GFB's investment readiness and connect investors for capital mobilization, four GFBs secured debt financing and equity investments ranging in size from USD **\$325,000** to **\$4.8 Million** to grow their businesses. In total, the investments amounted to USD **\$5.8 Million**. These investments were made across enterprise level; the GFBs that secured investments ranged in yearly revenue from \$167,000 to USD 1.7 Million, illustrating that SMEs in the food sector are good candidates for capital investment.



Fruitales owner demonstrating machinery. Photo Credit: BrightHouse Consulting

BD4FS analysis of the financing acquired shows that the primary intended purposes are acquiring new production sites, cold chain equipment, and purchasing good quality raw materials. These purposes will contribute to improving the quality of current products and expanding into new markets. In addition, one of the main requests of these companies after acquiring these funds is continued assistance from BD4FS to enter these new markets, especially Europe and the USA. Most buyers in these markets require compliance with sanitary standards and/or certification, which can be costly and will require additional training and infrastructure. Therefore, these investments will not only enable companies to meet unmet market demands regionally, but also to enter new international markets. Le Lionceau,

Fruitales, Senegal Progresse and Bay Seddo will use their investments to acquire new premises, production equipment, cold chain equipment (cold rooms, isothermal trucks, etc.), and new certification, which will help to improve sanitary quality and increase their production capacity and better respond to strong market demand. This demonstrates the link between financing and the awareness of business leaders of the need to put the food safety culture at the center of their business models.

Challenges

A large part of the investment funding will be used by GFBs to improve infrastructure, cold chain, and automation to improve production processes. As energy costs are high in Senegal, new improvements will generate higher operating costs. Therefore, to ensure a return on investment, it will be necessary to propose alternative solutions such as solar energy and to target investors who encourage innovation and are sensitive to environmental and climate change. Additionally, to help ensure a return on investments, GFBs will need to expand into new markets. BD4FS will continue to advise GFBs on how to increase market access to grow their products' reach.

Benefits to the SME Financial Ecosystem

While BD4FS efforts were focused on assisting selected GFBs to qualify for and secure investment, there were overall benefits that accrued to the food system. Many of the investors that BD4FS approached had never made an investment in Senegal. As a result of the activity, several investors have continued to request

information and meetings with Senegalese GFBs, having seen the quality of entrepreneurship and the compelling business models presented by Senegalese business leaders. In addition to Senegalese GFBs in general, there is also increased attention to GFBs that improve food safety practices and reduce food loss. None of the 17 prioritized impact investors cite food safety as a component of their investment thesis. Yet today, these investors have studied numerous business models that place high importance on food safety, supported by FES and the expertise offered by its team. Although expertise on food safety and its risks may remain limited among investors, future conversations with investors like MCE Social Finance, Elea, and Just Capital Quotient should address these risks to increase the odds of successful deal closure.

Next Steps

Through this initial round of facilitating capital investments for GFBs, BD4FS has demonstrated that SMEs are viable candidates for investment, particularly those that prioritize food safety as part of their business plans. BD4FS plans to continue engaging with GFBs that fit the criteria defined previously to build investment readiness and gain financing. Current GFB partners, as well as companies not partnered with BD4FS, but are interested in joining, will be eligible to participate in the next round of investment coaching. To meet the interest from GFBs in gaining financing, the BD4FS team will also continue investor outreach to facilitate investments and continue the investment matchmaking process.