

Case Study: Letshego

Letshego's story

Letshego is a Botswanan micro-lender founded in 1998. It offers short to medium-term personal loans and vehicle finance to individuals in formal employment. Most loans are for a period of three years and range between USD 30 and USD 12,700. Loan repayments are deducted directly from employees' salaries through their employer's payroll system. In Botswana, 95% of the loan book is from borrowers employed by the state.

The system guarantees Letshego low rates of defaulting and the business has grown rapidly. By 2002, Letshego was listed on the Botswana Stock Exchange and by 2004, Letshego's founder was looking at exiting the business. Kingdom Zephyr was looking to invest in a company that catered to the growing needs of the middle class and had pan-Africa ambitions; it was a perfect match.



In December 2004, Kingdom Zephyr's Pan-African Investment Partners Fund I (PAIP I) acquired 35.5 million shares at BWP 1.65 for a total investment of USD 13.4 million, about 23.8% of Letshego's capital. The IFC and FMO invested alongside Kingdom Zephyr and bought an 11.1% stake in Letshego for USD 6.25 million.

The role played by Private Equity

As part of its investment, Kingdom Zephyr took two seats on the board and helped devise Letshego's international expansion strategy.

At the time Kingdom Zephyr invested in 2004, Letshego operated only in Botswana. Botswana is a small country with a population of just 1.9 million. Expanding in neighboring markets was therefore essential to sustain growth and minimize reliance on a single market. Drawing on their pan-African expertise, Kingdom Zephyr helped Letshego identify new markets and establish strategic partnerships to replicate their business model.

Letshego has pursued a greenfield strategy and set up operations in Uganda (2005), Tanzania (2006), Swaziland (2006), Zambia (2007) and Mozambique (2009). The group also made its first international acquisition in 2008 in the form of Namibian company

Edu loans. Some 37% of Letshego's top-line growth now comes from outside Botswana (its biggest foreign markets to date are Swaziland and Tanzania), and the company plans to maintain its international focus. Kingdom Zephyr also encouraged Letshego to focus its business on lending, leading the company to sell its small, wholly-owned legal insurance subsidiary to Botswana Life.

To fulfill its ambitions to expand, Letshego needed to shed its small company image and grow into a bona-fide multinational. In order to attract the best pool of talent in the region, Kingdom Zephyr encouraged the board to create a remuneration sub-committee that would develop remuneration packages in line with their competitors'. The committee revised remuneration policies across the company and put incentives in place to encourage executives to achieve their hiring and compensation targets. ▶

The Company



Essentials

Company: Letshego Holdings Limited, www.letshego.com

Region: Africa

Countries: Botswana, Uganda, Tanzania, Swaziland, Zambia, Namibia and Mozambique

Sector: Financial services

Business focus: Consumer loans

Size: 389 employees;
BWP 1342.5 million on loan (USD 192.4 million)

Investor: Kingdom Zephyr Africa Management, www.kingdomzephyr.com, a pan-African private equity firm (December 2004)

Co-investors: IFC, FMO (2004);
Development Partners International (DPI, 2010)

Investment: Kingdom Zephyr's Pan-African Investment Partners Fund I (PAIP I) acquired 35.5 million shares at BWP 1.65 for a total investment of USD 13.4 million;
Co-investors IFC and FMO took an additional 11.1% stake in Letshego for USD 6.25 million

Impact Highlights

Letshego is among the top three most profitable domestic companies on the Botswana Stock Exchange

37% of Letshego's top line growth now comes from outside Botswana (the company is present in seven southern and eastern African countries)

Kingdom Zephyr helped Letshego develop an incentive and remuneration package aligned with their competitors' to boost the company's ability to attract high-quality employees in all its markets

Corporate governance at Letshego is benchmarked against international best practice

The group donates 1% of its profit after tax to community initiatives



“Letshego is a textbook success story: it’s operated from a small country yet has demonstrated big ambitions and consistently delivered on its promises to investors.”

Kofi Bucknor,
Board Member, Letshego
and Managing Partner,
Kingdom Zephyr



► Kingdom Zephyr has also advised Letshego on funding: Letshego is not a deposit taking institution so it must raise the money it then sells on as loans. As well as raising money from investors such as Kingdom Zephyr, the IFC, FMO or DPI, Letshego has borrowed from commercial banks. Their loans are expensive however, and unreliable in times of financial turmoil. A number of banks are also eyeing the consumer loan market, which means they’ll become increasingly reluctant to finance the growth of a competitor.

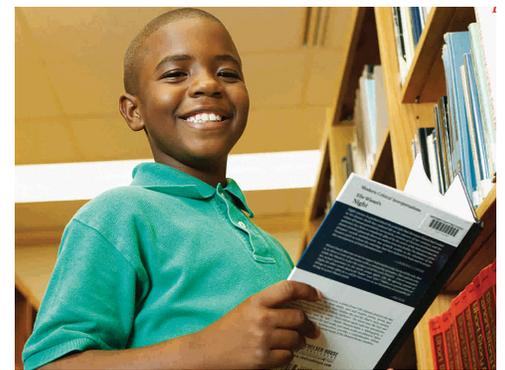
To ensure access to funding doesn’t impede Letshego’s growth, Kingdom Zephyr has encouraged the company to explore alternatives such as the bond market, strategic alliances or even converting the company into a commercial bank that could take deposits.

Letshego is now among the top three most profitable domestic companies on the Botswana Stock Exchange and a leading regional player in the consumer lending sector with a loan book of USD 221 million.

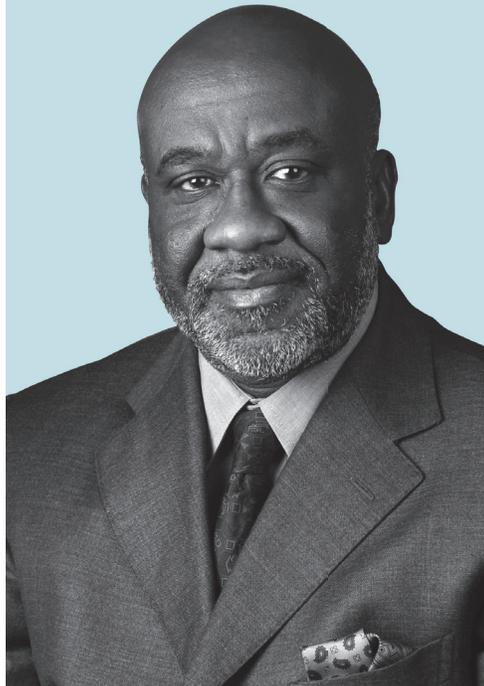
A force for good

Letshego has always aspired to good governance so when Kingdom Zephyr came on board, it encouraged the company to embrace best international practice such as the International Finance Corporation’s corporate governance standards or the King Code of Governance for South Africa.

Letshego is also a committed corporate citizen. The company supports a number of community projects, with a particular focus on education, welfare and poverty alleviation, the environment and HIV-AIDS. In 2009 for instance, Letshego spent just over USD 150,000 on donations, sponsorships and various Corporate Social Responsibility activities, up from USD 144,000 in 2008. Management takes an active role in identifying projects;



beneficiaries include amongst others, Childline Botswana, Lifeline Botswana, Cancer Association and the Lady Khama Charitable Trust. Going forward, the board has agreed on a policy to donate 1% of the group’s profit after tax for social responsibility programs and initiatives.



The Emerging Markets Private Equity Association (EMPEA) is an independent, global industry association that promotes greater understanding of and a more favorable climate for private equity investing in the emerging markets of Africa, Asia, Central/Eastern Europe and Russia/CIS, Latin America, and the Middle East. EMPEA’s 270 members represent a broad array of private equity fund managers, institutional investors, service providers, and other key stakeholders in the industry. Contact us at www.empea.net Email: empea@empea.net Phone: +1 202 333 8171