
Case study: Special Consideration Award

This award recognises nominees that did not win in their respective categories but are contributing materially to the development of the impact investing market.

XSML Capital

Founding date	2008
Geography	Central Africa
Sector	Investment Management
SDGs	Direct: 8 [decent work and economic growth], and 10 [reduced inequalities] Indirect: 5 [gender equality], 13 [climate action], and 17 [partners for the goals]
Web	https://xsmcapital.com

Background

XSML Capital partners entrepreneurs in frontier markets in Africa to drive growth. It provides expertise, networks and bespoke financing, geared to nurture local talent. African entrepreneurs struggle to access affordable growth capital and this often prevents them from scaling their businesses and holds back the continent's economic development.

Since 2010, XSML (eXtra, Small, Medium, Large) has been investing in SMEs in challenging markets. It has invested in more than 70 enterprises and covered assets of \$159m. Its investment teams in Angola, DRC and Uganda help to grow small businesses to become medium and large enterprises by providing tailored financing and expertise. In these markets, it is often the only investor that focuses on companies across sectors needing investments from ranging from \$300,00 to R10m.

XSML builds extensive market knowledge, scouts out the best opportunities and stays close to its investments. This generates attractive returns for its investors, who are leading development banks and dedicated impact investors. XSML provides debt, equity and mezzanine finance, enabling it to customise its financing. It maintains strict ESG standards and has a focus on gender equality.

Originality of design and meeting unfilled needs

XSML Capital intends to scale small businesses towards medium and large enterprises in challenging markets by providing tailored financing and expertise. It provides mezzanine financing to its SME clients which is well suited for SMEs in Africa because it allows for better downside risk protection than private equity, while achieving attractive risk-adjusted returns.

Theory of change

Context	Inputs	Outputs	Outcomes	Impact
Challenges: <ul style="list-style-type: none"> Lack of growth capital Lack of knowledge and skills Limited (inter) national networks. Limited infrastructure 	SME partnerships: <ul style="list-style-type: none"> Investments (growth capital) Mentoring Networks & people Technical assistance 	Empowered SMEs: <ul style="list-style-type: none"> Better products and services SME revenue growth Job creation Embedded ESG practices 	Strong economies: <ul style="list-style-type: none"> Sustainable private sector development More efficient value chains Increased tax generation Gender equality 	Inclusive growth: <ul style="list-style-type: none"> SDG 8: Decent work & economic growth SDG 10: Reduced inequalities

Impact thesis

XSML Capital combines best practices, standardised tools and indicators and collects feedback from investors in designing its impact management and monitoring strategy. SME entrepreneurs in Africa face a range of challenges, the key ones being lack of access to growth capital as well as to knowledge and networks. This prevents them from scaling their business, creating jobs and contributing to inclusive, sustainable developments in their markets.

XSML provides mezzanine financing to its SME clients. This type of financing is well suited for SMEs in Africa, because it allows for better downside risk protection than private equity, while achieving attractive risk-adjusted returns.

XSML offers mostly flexible debt and self-liquidating instruments in US dollar or equivalent against interest rates in line with local banks. It offers grace periods on interest and principal, with tenures of between four and seven years.

SDG linkages



XSML Capital targets SDG 8 (decent work and economic growth) and SDG 10 (reduced inequalities), while SDG 5 (gender equality), SDG 13 (climate action) and SDG 17 (partnerships for the global goals) are its cross-cutting SDGs that serve as a lens for any investment. On climate change, the organisation works to reduce the footprint of XSML itself and supports portfolio companies to follow suit (SDG 13). XSML Capital also measures SDG 17 (partnerships for the goals) as the company focuses on building the ecosystem for its portfolio companies with the support of partners.

Impact

In measuring its outcomes and impact, XSML Capital aligns its data collection and indicators to leading international standards. XSML Capital core indicators include:

- The number of decent jobs supporters.
- The number of decent jobs created.
- Tax revenue generators.

XSML Capital is currently testing the joint impact model that helps calculate the number of indirect jobs sustained through its investments.

It addresses the gap in financing, providing expertise, networks and bespoke financing in frontier markets geared to nurturing local talent and fostering SME growth to drive economic development and contribute to inclusive economic growth and reduced inequalities.

XSML Capital currently doesn't track environmental outcomes as it invests across sectors.

Financial performance

During the past 12 years the company has built a strong track record, raising three funds that have invested in more than 70 companies. It achieved a 17.4% blended internal rate of return on fully exited investments, and Fund I (Central Africa SME Fund) achieved a multiple on invested capital of 1.4 times, returning capital to its investors during the investment period.

Potential for replicability

XSML Capital continues to expand and execute successful investments in new markets. It emphasises that stakeholders have duplicated their business model in other markets.

XSML focuses on small and medium-sized businesses, and it is sector agnostic. However, its business model can be taken across geographies and is also applicable to more thematic sectors.

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