Private Equity
IN AFRICA:

The role of the African Development Bank

A key player in the development of equity markets in Africa

Non-Sovereign Operations & Private Sector Support Department
The African Development Bank’s Commitment to Supporting Private Equity in Africa

The African Development Bank is at the forefront of supporting businesses on the African continent through private equity funds. Private equity provides critical risk capital on the continent, as public equity markets continue to expand their capacity, technology and regulations, among others.

The African Development Bank pursues a strategy that seeks attractive financial returns while ensuring strong additionality and high development impacts. Diversification is placed at the core of the strategy, in terms of geography, sector, Fund sizes, investment stage and the profile of Fund managers.

The Bank’s investment portfolio in private equity has seen significant growth over the past 20 years, making it an important player in the industry and a driver of Africa’s economic prosperity.

To date, the African Development Bank has committed more than $1.8 billion to equity investments¹, which has galvanized domestic and foreign dialogue between private and commercial Limited Partners, Development Finance Institutions (DFIs), General Partners (GPs) and management teams operating on the continent.

This has (i) encouraged sharing of best practices on how to identify and build the capacity of Funds’ management teams, (ii) furthered advisory exchange on how to strengthen the due diligence, valuation, corporate governance, environmental, social and governance compliance and reporting practices of the industry, (iii) supported initiatives that aim to align legal documentation with investors’ interest in African private equity, and (iv) strengthened the profile of the industry on the continent and worldwide.

The African Development Bank applies best market practices to the Funds in which it invests. These include its environmental and social sustainability standards, governance and integrity, development results tracking and reporting, due diligence and Funds’ terms.

Fund managers face constraints in fundraising, origination, trade execution, portfolio performance, exogenous exits and shocks. Therefore, the African Development Bank continues to strengthen its support in light of the critical role that private equity plays in reducing the continent’s financing gap, while achieving a multiplier effect in terms of socio-economic benefits.

"The Bank continues to be a key player in the development of private equity investment as an asset class in Africa. The committed portfolio of equity investments has grown steadily from $71 million in 1997 to $1.8 billion at the end of 2019."
The African Development Bank's Private Equity Funds portfolio:
Sectoral diversification of underlying companies
(in % of total investment cost, as at 31 Dec. 2019)

- Financial Services: 18%
- Agribusiness: 15%
- Transport & Logistics: 11%
- Service Industries: 10%
- Renewable Energy: 7%
- Telecom: 6%
- Consumer Discretionary: 6%
- Services: 6%
- HealthCare: 6%
- Energy/Power: 5%
- Oil & Gas: 4%
- Technology: 4%
- Education: 1%
- Manufacturing: 1%

$1.8 billion: total portfolio commitments
86 investments: 60 funds & 26 direct investments
More than 800 investee companies have been supported through the Bank’s investments Funds.

The Funds’ underlying investments cover a wide array of sectors, as illustrated above. Funds in the portfolio are well balanced between generalist Funds (57% of total paid-in capital) and sector-specific/thematic Funds (43% of total paid-in capital).

The African Development Bank’s Private Equity Funds portfolio:
Geographic diversification of underlying companies
(in % of total investment cost, as at 31 Dec. 2019)

- West Africa: 34.2%
- South Africa: 26.4%
- East Africa: 23.3%
- North Africa: 12.7%
- Central Africa: 3.4%

The portfolio companies of the Funds are well diversified geographically. West Africa, including Nigeria, constitutes the largest geographical exposure, with 34.2% of the total portfolio (based on underlying investment costs). The Southern, East, North and Central Africa regions account for 26.4%, 23.3%, 12.7% and 3.4% of total exposures respectively.

The African Development Bank’s Private Equity Funds portfolio: Diversification by type of fund
(in % of total investment cost, as at 31 Dec. 2019)

- Established Funds: 53%
- VC Funds: 2%
- First Time Funds: 45%

With 45% of the portfolio committed to first-time Funds, the African Development Bank is fully fulfilling its mandate to build capacity on the continent and achieve sound financial returns and development results. The Bank is also keen to support new technologies, largely financed by venture capital (VC). These account for 2% of total exposure and represent the Bank’s first investment in this sector, catalyzing over $250 million with 20 investments to date and a target of 35 by the end of the investment period. These investments contribute to improving logistics, virtual communications, electronic payments and other fintech and new technologies on the African continent.
The African Development Bank requires tracking and reporting on development results generated by the investment activity of the Funds in which it invests. Such information demonstrates the important role of private equity in alleviating the financing constraints of companies, in building the capacity of entrepreneurs and in generating benefits for African populations and governments.

The consolidation of development outcome reports by the Bank’s most mature Funds (29) demonstrated that underlying investee companies currently provide about 143,300 full-time direct job opportunities, of which 38,000 jobs were created following the capital injection by the Funds. Of the total jobs created, at least 16% benefited women.

The Funds’ investments in their investee companies supported their growth in their local and regional markets. Such growth translated to an increase of 38% in annual sales revenues. This growth in the volume of operations had a positive spillover effect on the fiscal revenues of African governments, with a 16% increase in the total annual tax amount paid by investee companies.

**Highlights of development results:**

The African Development Bank is committed to maintaining the growth of private equity investments as an asset class in Africa. The Bank is investing in projects that adequately respond to the needs of its five priority areas, the High5s, for the continent: Light up and Power Africa; Feed Africa; Industrialize Africa; Integrate Africa; and Improve the Quality of Life for the People of Africa.

To enable the Bank to promptly assess the eligibility of an investment proposal, interested GPs/Fund Managers should submit a preliminary proposal including the following information:

A. Description of the Fund’s investment thesis (sector, geography, ticket sizes, etc.);
B. Proposed governance structure: management team, investment committee, special advisors;
C. Sponsors’ bios, track record, prior exit strategy and relevant investment experience;
D. Financing plan, indicating the commitment amount expected from the African Development Bank and the interest indicated from other potential LPs;
E. Projected fundraising timelines;
F. Projected pipeline;
G. Expected development results from projected pipeline;
H. Key technical and environmental features;
I. Business climate, market prospects, including proposed marketing arrangements.

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2 Industrialize Africa appears low as agribusiness falls under Feed Africa, power generation falls under Light up and Power Africa and other industrialization investments fall under Integrate Africa or Improve the quality of life for the People of Africa.
Appraisal process

Once the African Development Bank has expressed an interest in an investment proposal, it will be submitted for appraisal. The availability of information on the proposal is likely to influence the timing of the various stages of appraisal. It is typically expected to complete the investment cycle within six to 12 months.

## Indicative Investment Process

Selection and monitoring of investments are carried out in a systematic manner.

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<tr>
<td>- Screening and analysis of a broad range of opportunities to determine alignment with the Bank’s Equity Investment Framework as well as sector and country strategies</td>
<td>- Review of private placement or investment memorandum of fund (with emphasis on fund structure, investment strategy, fund manager track record, team expertise, terms, etc.) to ensure alignment with the Bank’s equity investment framework</td>
<td>- Detailed data review and discussions with sponsor and management teams to confirm: fund legal structure, fund manager track record, fund strategy, investment, portfolio and exit management, commercial viability, associated risks and controls, potential development outcomes, environmental and social impacts, etc.</td>
<td>- Investment committee discussion and approval/Bank Board approval</td>
<td>- Tracking of completion of conditions of subscription</td>
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<td>- Early assessment of commercial viability and development impact to ensure that quality-at-entry requirements are met</td>
<td>- Preliminary integrity due diligence checks</td>
<td>- Conduct meetings and site visits with potential investors or portfolio companies</td>
<td>- Appointment of local counsel</td>
<td>- Initiation of the first and subsequent disbursements</td>
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<td>- Based on the foregoing, establishment of a shortlist of opportunities for further assessment</td>
<td>- Engagement with project sponsor and fund management team to provide clarifications based on the preliminary assessment</td>
<td>- Engagement with fund administrators and fund auditors to understand controls around cash, valuations and operations</td>
<td>- Signing of legal documents</td>
<td>- Establishment of monitoring programs for funds at inception, based on specific risks identified at entry</td>
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2. **DUE DILIGENCE**
3. **EVALUATION & NEGOTIATION OF TERMS**
4. **INVESTMENT RECOMMENDATION & APPROVAL**
5. **PORTFOLIO AND DISTRIBUTION MANAGEMENT**

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Contacts

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