PRIVATE EQUITY
IN AFRICA:
the role of the African Development Bank
A Key player in the development of Equity Markets in Africa

Non-Sovereign Operation & Private Sector Support Department
AFRICAN DEVELOPMENT BANK GROUP
The African Development Bank’s Commitment to Supporting Private Equity in Africa

The African Development Bank pursues a strategy that seeks attractive financial returns while ensuring strong additionality and high development impact. Diversification is placed at the core of the strategy, in terms of geography, sector, fund size, fund investment stage and fund manager profile. The Bank’s investment portfolio in private equity has seen a significant growth over the past few 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 US$ 1.7 billion in equity investments, which has galvanized domestic and foreign dialogue between private and commercial Limited Partners (LPs), Development Finance Institutions (DFIs) investing in Africa, the General Partners (GPs) and management teams operating on the continent.

This has (i) encouraged sharing of best practices on how to identify and build capacity of the Fund Management teams, (ii) furthered advisory exchange on how to strengthen the due diligence, valuation, compliance and reporting practices of the industry, (iii) supported initiatives aimed at aligning the legal documentations with investors’ interest in African Private Equity, and (iv) strengthened the profile of the industry on the continent and worldwide.

The African Development Bank brings its standards and policy requirements to the funds in which it invests. These include its environmental and social sustainability standard, governance and integrity, development results tracking and reporting, due diligence, and fund terms, consistent with best market practice.

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 USD 71 million in 1997 to USD 1.7 billion as at the end of 2018.

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1 This amount includes Direct Investments (USD 518 million) and Private Equity Funds (USD 1.2 billion)
The African Development Bank investing in Private Equity: portfolio overview

Portfolio building has evolved with market conditions and the objective of ensuring diversification as a prerequisite for managing equity risks. The Bank has invested in multi-sector, multi-country funds to build a portfolio base that achieves portfolio diversification objectives.

**African Development Bank funds portfolio sectoral decomposition**
(% of cost of investee companies in UA mln, as at 31 Dec. 2018)

- **Agribusiness**: 16%
- **Financial Services**: 11%
- **Industries**: 10%
- **Energy/Power**: 7%
- **Telecom**: 6%
- **Consumer Discretionary**: 5%
- **Health Care**: 5%
- **Technology**: 4%
- **Oil & Gas**: 2%
- **Renewable Energy**: 2%
- **Education**: 1%

| USD 1.7 billion: | Total Portfolio commitment |
| 82 Investments: | 53 Funds & 25 Direct Investments |
| More than 700 investee companies have been supported through the Bank’s investments Funds. |

**African Development Bank Funds geographic diversification**
(% of cost of investee companies in UA mln, as at 31 Dec. 2018)

- **West Africa**: 38%
- **Southern Africa**: 29%
- **East Africa**: 21%
- **Northern Africa**: 11%
- **Central Africa**: 2%

The Funds’ portfolio is relatively well diversified geographically: with 38% of the total portfolio, West Africa, including Nigeria, constitutes the largest geographical exposure of the Funds’ portfolio (based on underlying investment costs). East, Southern, North and Central Africa regions account for 21%, 29%, 11% and 2% of total exposure respectively.

**Funds’ portfolio by High 5s**
(% of cost of investee companies in UA mln, as at 31 Dec. 2018)

- **Improve quality of life for the people of Africa**: 33.49%
- **Integrate Africa**: 26.58%
- **Industrialize Africa**: 9.94%
- **Light up and Power Africa**: 9.94%
- **Feed Africa**: 12.20%
- **Light up and power Africa**: 15.78%

All investments in the portfolio cover at least one of the High 5s resulting in a relatively good coverage of the Bank’s top priorities: Improve the quality of life for the people of Africa (33%), Integrate Africa (29%), Light up and Power Africa (16%), Feed Africa (12%) and Industrialize Africa (10%).

**Highlight of development results:**

The African Development Bank requires tracking and reporting on development results generated by the investment activity of its funds. Such information demonstrates the important role of private equity in alleviating financing constraints of companies, building capacity of entrepreneurs, but also in generating benefits for African populations and African governments.

The consolidation of development outcomes reports by the Bank’s most mature Funds (25) has shown that about 116,600 jobs are currently sustained by portfolio companies. Among these, about 38,200 jobs were created following the capital injection by funds. Women have benefitted from 20% of the newly created jobs with the proportion being higher in sectors such as agriculture, healthcare and financial services.
The investment of funds in the investee companies significantly boosted their growth in their local and regional markets, resulting in an average annual increase of 38% in sales revenues. This growth in the volume of operations, has in turn had a positive effect on the fiscal revenues of African governments, with an average increase of 16% of the total amount of taxes paid by investee companies.

The African Development Bank’s commitment to growing the African Private Equity Market.

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 High 5’s”) 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.

Assessment process

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. The description of the Fund/investment’s thesis (sector, geography, ticket sizes, etc.);
B. Proposed governance structure: management team, investment committee, special advisors;
C. Sponsor’s bios, track record, prior exit strategy and relevant investment experience;
D. Financing plan, indicating the expected amount of the African Development Bank’s financing and the proposed financing from other 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.

Appraisal process

Once the African Development Bank has expressed an interest in an investment proposal, it will be subject to the following appraisal process. The readiness of the proposal is likely to influence the timing of the various stages. However, we typically expect to complete our investment cycle within 6 to 12 months:
Selection and monitoring of investments are carried out in a systematic manner.

**Deal Flow Generation**
- Preliminary Investigation
  - Screen and analyse a broad range of opportunities
  - Early assessment of viability and development impact

**Initial Screening and Preliminary Assessment**
- Detailed Due Diligence
  - Fund strategy
  - Fund terms
  - Fund manager
  - Fund comparison
  - Portfolio quality
  - Investment process reporting
  - Reference checks

**Due Diligence**
- Evaluation and Negotiation
  - Structuring of business or legal provision, if required
  - Secure board position in funds
  - Disclosure of environmental and social information
  - Team comments

**Negotiation of Terms**
- Investment Recommendations and Approval
  - Investment committee discussion and approval / Board Approval
  - Appointment of local counsel
  - Signing of legal documents
  - Disbursement of funds based on conditions

**Portfolio and Distribution Management**
- Post Investigation
  - Fund administration
  - Investment monitoring
  - Ensure proper valuation methods
  - Manage distributions

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### Indicative Investment Process

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