The role of the African Development Bank
A key player in the development of equity markets in Africa
Since 1997, the African Development Bank has been at the forefront of supporting businesses in Africa through private equity funds. Private equity provides critical risk capital on the continent, as public equity markets continue to navigate the challenges of sophistication, depth, technology and regulations, amongst others.

The African Development Bank pursues a strategy that seeks attractive financial returns while ensuring strong additionality and high development impacts. Diversification is at the core of the strategy in terms of geography, sector, fund sizes, fund investment stage and 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 sector and a driver of Africa’s economic prosperity.

To date, the African Development Bank has committed more than $2 billion to equity investments, which has galvanized domestic and foreign dialogue among private and commercial limited partners, development finance institutions, general partners and management teams operating on the continent. This dialogue has encouraged these groups to share best practices in identifying and building the capacity of equity funds’ management teams, and advanced advisory exchange on how to strengthen the due diligence, valuation, corporate governance, environmental, social and governance compliance and reporting practices of the industry. This kind of industry exchange has also supported initiatives that aim to align the legal documentation with investors’ interest in African private equity, and 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 standards, governance and integrity, development results tracking and reporting, due diligence and funds’ terms, consistent with best market practices.

The Bank continues to strengthen its support to fund managers, given the constraints they face in fundraising, origination, trade execution, portfolio performance, exogenous exits and shocks. The Bank plays this role because of the critical role that private equity plays in reducing the continent’s financing gap and achieving a multiplier socio-economic benefits.

The Bank continues to be a key player in developing private equity investment as an asset class in Africa. The committed portfolio of equity investments has grown steadily from $71 million in 1997 to $2 billion at the end of 2020.

\[ This \text{ amount includes direct investments in companies ($636 million) and in private equity funds ($1.3 billion) } \]
Portfolio construction evolves with market conditions and the objective of ensuring diversification is a prerequisite for managing equity risks. The Bank has invested in multi-sector, multi-country funds to build a portfolio base that achieves its portfolio diversification objectives.

The African Development Bank’s private equity funds portfolio: Sectoral diversification of underlying companies

(in % of total investment cost (USD), as at 31 Dec. 2020)

- Financial Services: 18%
- Agribusiness: 17%
- Service Industries: 11%
- Telecom: 9%
- Renewable Energy: 8%
- Energy/Power: 7%
- Consumer Discretionary: 6%
- Health Care: 6%
- Transport & Logistics: 5%
- Services: 5%
- Technology: 3%
- Oil & Gas: 2%
- Education: 2%
- Manufacturing: 0.5%

- $2 billion: total portfolio commitments
- 95 investments: 66 funds & 29 direct investments
- More than 800 investee companies have been supported through the Bank’s investments.

The funds’ underlying investments cover a wide array of sectors as illustrated above. Funds in the portfolio are well balanced between generalist funds (54% of total paid-in capital) and sector-specific/thematic funds (46% of total paid-in capital).
The African Development Bank’s private equity funds portfolio: 
Geographic diversification of underlying companies
(in % of total investment cost (USD), as at 31 Dec 2020)

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Africa</td>
<td>25%</td>
</tr>
<tr>
<td>Southern Africa</td>
<td>25%</td>
</tr>
<tr>
<td>West Africa</td>
<td>18%</td>
</tr>
<tr>
<td>Nigeria</td>
<td>14%</td>
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<tr>
<td>North Africa</td>
<td>13%</td>
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<tr>
<td>Central Africa</td>
<td>4%</td>
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</tbody>
</table>

With 43% of the funds committed to first-time Funds, the African Development Bank fully fulfils its mandate of building capacity on the continent and achieving sound financial returns and development results. The Bank is also keen to support new technologies, financed mainly by venture capital (VC). These account for 1.4% of total exposure and contribute to improving logistics, virtual communications, electronic payments and other Fintech and new technologies on the continent.
The African Development Bank’s Private Equity Funds portfolio and the High 5 priorities

(in % of total investment cost (USD), as at 31 Dec. 2020)

<table>
<thead>
<tr>
<th>Priority</th>
<th>%</th>
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</thead>
<tbody>
<tr>
<td>Improve the quality of life for the people of Africa</td>
<td>28 %</td>
</tr>
<tr>
<td>Integrate Africa</td>
<td>27 %</td>
</tr>
<tr>
<td>Industrialize Africa</td>
<td>18 %</td>
</tr>
<tr>
<td>Feed Africa</td>
<td>15 %</td>
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<tr>
<td>Light up and power Africa</td>
<td>12 %</td>
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</tbody>
</table>

The Bank’s development initiatives are driven by five strategic priority areas, known as the High 5s. All investments in the portfolio cover at least one of the High 5s in order to align with the Bank’s top priorities: Improve the Quality of Life for the People of Africa (28%), Integrate Africa (27%), Industrialize Africa (18%), Feed Africa (15%), Light up and Power Africa (12%).

Highlights of development results:

The African Development Bank requires tracking and reporting on development results generated by the investment activity of the funds in which it invests. Investments in private equity funds contribute to alleviating financing constraints of companies, building the capacity of entrepreneurs and generating benefits for African populations and governments.

The consolidation of development outcome reports by the Bank’s most mature funds showed that underlying investee companies currently directly provide about 143,300 full-time job opportunities, of which 38,000 jobs were created following a capital injection by the funds. Of the total jobs created, 16% benefitted women.

Furthermore, the investments supported the growth of SMEs in their local and regional markets, translating 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.
The African Development Bank’s commitment to growing the African private equity market.

Preliminary proposal for financing requests

To enable the Bank to promptly assess the eligibility of an investment proposal, interested general partners/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. Sponsor’s 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 limited partners

E. Projected fundraising timelines

F. Projected pipeline

G. Expected development results from the projected pipeline

H. Key technical and environmental features

I. Business climate and market prospects, including proposed marketing arrangements
Appraisal process

Once the African Development Bank has expressed an interest in an investment proposal, it will be submitted to undergo the appraisal process. The readiness, including the availability of information for the proposal, is likely to influence the various appraisal stages. 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.

<table>
<thead>
<tr>
<th>PRELIMINARY INVESTIGATION</th>
<th>DUE DILIGENCE</th>
<th>EVALUATION &amp; NEGOTIATION OF TERMS</th>
<th>INVESTMENT RECOMMENDATION &amp; APPROVAL</th>
<th>PORTFOLIO AND DISTRIBUTION MANAGEMENT</th>
</tr>
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<tbody>
<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 investees 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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<td>Review of term sheet and negotiation of key commercial terms</td>
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<td>Oversight on capital deployment, portfolio management and exits</td>
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<td>Disclosure of environmental and social information</td>
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<td>Coordination of advisory committee activities</td>
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<td>The Bank will request a seat on the Fund Advisory Committee</td>
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<td>Supervision visits and appraisals</td>
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<td>Distribution management</td>
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<td>Portfolio performance tracking</td>
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Contacts

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