



IDEV

Independent Development Evaluation
African Development Bank

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From knowledge to action...
From action to impact

Independent Evaluation of Bank Group Equity Investments

What did IDEV evaluate?

The evaluation of the African Development Bank's equity investments covers the combined funds and direct investments in the equity portfolio, which represented capital commitments of UA 740 million and disbursements of UA 475 million (64% of capital commitments) on 31 December 2013. The purpose of the evaluation is to 1) assess the relevance and performance of the Bank's equity investments and 2) identify lessons, recommendations and areas for improvement.

What did IDEV find?

Relevance

Relevance is rated satisfactory: The majority of AfDB equity investments (both private equity and direct investments) are aligned with the Bank's industrial objectives and priorities. The investments also adequately support regional diversification, regional integration, Micro, Small and Medium Enterprises (MSMEs), and, to a lesser extent, fragile states (for equity funds).

- Industry analysis of the fund portfolio shows adequate alignment between the actual investee cost basis and the Bank's priorities, particularly with regard to infrastructure. However, a sizeable proportion (14%) of the funds is not clearly aligned with Bank priorities. In addition, all direct investees are financial institutions that directly support the Bank's strategy of developing soft infrastructure.

- The equity funds have invested capital in companies in 35 countries, demonstrating a high degree of regional diversification. However, one quarter of equity investments are concentrated in only two countries: Nigeria and South Africa.
- The Bank's equity investments in infrastructure and in a high number of countries are likely to promote regional integration.
- Actual fund investee cost-basis is adequately aligned with the Bank's objectives of supporting MSMEs.
- Only 10% (UA 27 million) of the total fund investee cost-basis has been invested in companies operating in fragile states, which are less attractive to many private equity managers because their institutional frameworks are less-developed, governance is weaker, and they experience social conflict. However, considering the Bank's low-income country and fragile states country limits for the private sector, the breakdown achieved via funds is higher than the overall private sector department financing.

Financial Performance and Effectiveness

Overall, the performance of the Bank's equity investments is rated moderately satisfactory.



AFRICAN DEVELOPMENT BANK GROUP

- Financial performance is rated satisfactory: the majority of mature funds are in the first quartile compared to their benchmarks. For more recent funds, results were mixed, as the majority are lagging behind their benchmarks.
- Effectiveness is rated moderately unsatisfactory because: 1) a substantial proportion of funds were behind in their plans or did not meet their targets on job creation and tax revenues, two key outcomes, and 2) reliable outcomes data was lacking, particularly on direct investments. That said, it is still too early to make a final assessment of these results and the Bank has sufficient time to catch up on its targets.

The Bank's equity funds performed well with respect to environmental plans. The majority of capital is invested in companies that either had or added environmental mitigation plans.

The Bank has played a catalytic role in mobilizing additional resources for private equity, particularly in sub-Saharan Africa. However, Bank additionality is limited in middle-income countries, who have the potential to raise sufficient funds without Bank assistance.

Risk Management

The overall risk rating of the equity portfolio has not changed on a weighted-average basis. However, subsequent to enhanced models, the fund portfolio's risk rating was downgraded slightly from 5+ to

5, while the direct investment portfolio was upgraded from 5+ to 4+. The ratings of over 80% of investments by value have changed since appraisal, indicating that the Bank's understanding of each investment's risk profile has changed significantly since appraisal.

What did IDEV recommend?

1. Continue investments in private equity funds and further strengthen portfolio oversight and management.
2. Develop and implement a multi-pronged investment strategy that would allow for an approach that responds to the Bank's diverse priorities and strategic objectives.
3. Review the risk capital limit of 15% risk and/or develop and implement an effective exit strategy for some older investments to free up capital.
4. Undertake a detailed, rigorous cash flow projection.
5. Review the Bank's risk management methodology in light of concerns raised by several stakeholders.
6. Develop and implement a results-based management strategy to ensure a streamlined, strengthened monitoring system of equity investments and a rigorous development outcomes tracking system.

About IDEV

Independent Development Evaluation (IDEV) of the African Development Bank carries out independent evaluations of Bank operations, policies and strategies, working across projects, sectors, themes, regions, and countries. By conducting independent evaluations and proactively sharing best practice, IDEV ensures that the Bank and its stakeholders learn from past experience and plan and deliver development activities to the highest possible standards.

What did Management respond?

Management welcomed IDEV's evaluation of the Bank's private equity portfolio, which presented a fairly positive view of the Bank's interventions. The evaluation was timely, as Management was reviewing some Bank systems for building and managing the portfolio, which has reached a level of maturity that makes it possible to draw a number of conclusions on its performance that will inform the Management Framework for Equity currently being prepared. Overall, Management agreed with most of the findings and recommendations of the evaluation, and offered clarifications on issues where it has reservations.

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