African Private Equity and Venture Capital Association

2017 Africa Sustainability Study: ESG, Job Creation and Job Quality

Tracking sustainable investing and employment impact by PE firms in Africa

Foreword

We are thrilled to present the second edition of AVCA's Sustainability Study. In the 2017 edition we assess private equity's contribution to and implementation of Environmental, Social and Governance (ESG) standards, job creation and job quality improvements in Africa.

ESG is becoming increasingly integral in both public and private investments. The private sector - and the manner in which it drives sustainable investment - thus remains a cornerstone for economic growth in Africa.

AVCA's survey encapsulates almost thirty percent of PE-backed companies in Africa (between 2009 and 2016) and GPs with over US$10bn in funds under management, making it an authoritative source of information on the topic. AVCA therefore plays a unique role as a champion and effective change agent for the industry, educating, equipping and connecting members and stakeholders with independent industry research.

We thank all those involved in bringing together such a vital source of data and insight and we are also grateful to the members of AVCA's Sustainability Committee for their support and guidance. We are confident that this study, as part of AVCA's broader research programme, provides relevant and valuable insights into African private equity and we look forward to hearing your comments and thoughts on the findings.

Enitan Obasanjo-Adeleye
Director, Head of Research, AVCA

Foreword

Following last year's inaugural Sustainability Study quantifying job creation, the response to the 2017 study has been very positive. As private equity activity in Africa increases, we are seeing growing interest in the industry's contribution to development in Africa. The level of participation and results in this year's follow up study is a sure sign of both the gathering force of private sector activity on the continent and AVCA's capability to champion the private equity industry.

AVCA's Sustainability Committee, working with AVCA, has continued to focus on ESG best practices and impact. We are now seeing over two thirds of African companies factor ESG into their investment process, and the integration of such factors into due diligence, discussion and doing business in Africa serves only to make the continent stand out from other regions.

By focusing on job growth and the sectors and markets in which increased employment has the most impact, the second edition of the Sustainability Study resonates with the sustainability impact of private equity, measurable through employment data. On behalf of AVCA's Sustainability Committee I therefore thank all those GPs who have contributed to the study. We look forward to this, and all the future editions, bringing added understanding to such a significant area of African Private Equity.

With best regards,

Runa Alam
Chair, AVCA Sustainability Committee

Introduction

The Private Equity (PE) industry in Africa has long recognised the alignment of good Environmental, Social and Governance (ESG) management with superior financial performance. As ESG factors gain prominence in the international investment community, African PE continues to lead the world in sustainable investing, as the findings of this study show.

The UN's 2016 Economic Report on Africa, "Greening Africa's Industrialisation", highlights that sustainable industrial practices would provide greater employment opportunities, and develop more competitive industries. Job creation is an integral element of African PE and has a wide-reaching impact on economic growth, as demonstrated in the 2016 Africa Sustainability Study by AVCA. Due to Africa's rapid urbanisation and growing population, job creation is imperative for sustainable investing.

Private equity firms play a key role in creating an enabling environment for local business development, and supports their growth objectives by implementing best practice ESG policies in portfolio companies. This survey builds on AVCA's inaugural Sustainability Study, released in 2016. In this edition, we quantify how many jobs have been created from a selection of PE-backed companies in Africa between 2009 to 2016, and evaluate the extent of ESG integration in the private equity investment process. The featured data was collated from 284 companies, accounting for 28% of all PE-backed companies in Africa over the period. Please note that the findings of this study are intended to be indicative rather than conclusive.

In brief: The African PE market

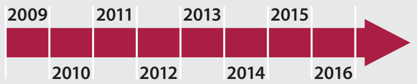
The data below provides an overview of the size of the African PE market. It also shows the amount of capital that has been raised by African PE firms to invest in companies across the continent.

919	Number of reported PE deals in Africa, 2011-2016
US$22.7bn	Total value of reported PE deals in Africa, 2011-2016
US$16.5bn	Total value of Africa PE fundraising, 2011-2016

Source: AVCA

Sustainability survey key facts

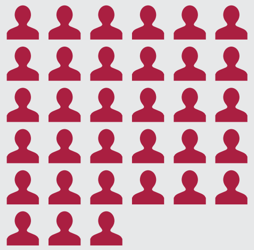
8 years



Time period:
1 January 2009 –
31 December 2016

33

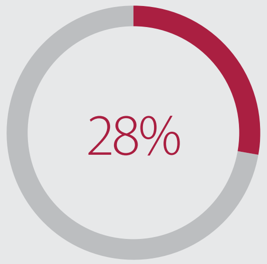
Number of GPs



284

Number of companies

(accounts for 28% of all PE-backed companies over the period)



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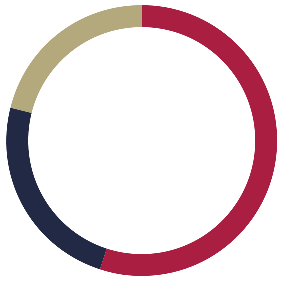
Number of primary countries of operation for companies in the survey

Respondent profile

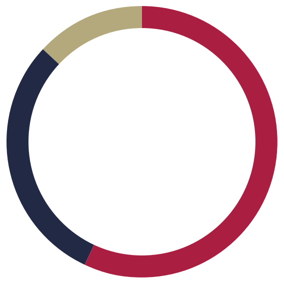
GPs, by geographic focus

Geographic Focus	
Region / Country-specific GPs	55%
Pan African GPs	24%
Sub-Saharan Africa GPs	21%



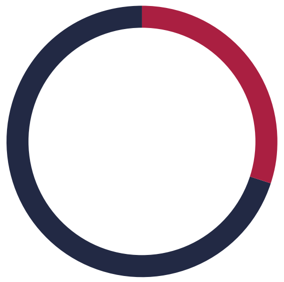
GPs, by size of last fund raised

Size of last fund raised	
Under US$100mn	57%
US$100mn - US$500mn	30%
US$500mn+	13%



GPs, by strategy

Strategy	
Impact-focused GPs	30%
Non-impact-focused GPs	70%



1. ESG Integration

ESG issues are integral to the investment process in African private equity, with PE firms increasingly collecting and reporting the necessary data to quantify their sustainability impact.

60%

of the companies in the study are backed by PE firms which report on ESG to their LPs

50%

of the PE-backed companies had ESG implementation or reporting as a requirement for the LP agreement governing these investments

68%

of the companies in the study had ESG factored into their investment process

80%

of those investee companies had ESG considerations in their processes from the investment's inception

95%

of PE-backed companies in the study with ESG implementation reported using specific frameworks. IFC Performance Standards were most commonly used, followed by CDC and internal/in-house frameworks

IFC	62%
CDC	28%
Internal/ In-house	8%

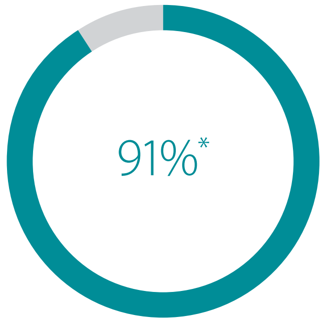
2. Total jobs

The 231 companies that provided job creation data created a net increase in jobs of 20,806, of which 67% were male employees and 33% were female employees. The total number of jobs grew by 17% overall. The number of male employees grew by 18% and female employees by 16%.

Job creation and job growth*

	Total	Male	Female
Number of jobs at investment	120,975	80,659	40,316
Number of new jobs created	+20,806	+14,527	+6,279
Job growth	+17%	+18%	+16%

Share of new jobs created that were permanent



* based on companies that provided permanent job data

* Companies in the sample have differing hold periods between 2009 and 2016

2. Sector

Financials had the highest number of new jobs created (4,470); total jobs in this sector grew by 62%, and the number of female employees grew by 81%.

Job growth, top 5 sectors

	Number of jobs at investment	Number of new jobs created	Total job growth	Female job growth
Financials	7,258	+4,470	+62%	+81%
Energy	1,069	+617	+58%	+70%
Health Care	4,479	+2,549	+57%	+62%
Consumer Discretionary	21,559	+4,900	+23%	+16%
Industrials	25,168	+5,523	+22%	+12%

3. Country

Although there were notable increases in some smaller PE markets such as Burkina Faso, Madagascar, Tunisia and Algeria, though major markets such as Kenya and Ghana also had sizeable job growth rates..

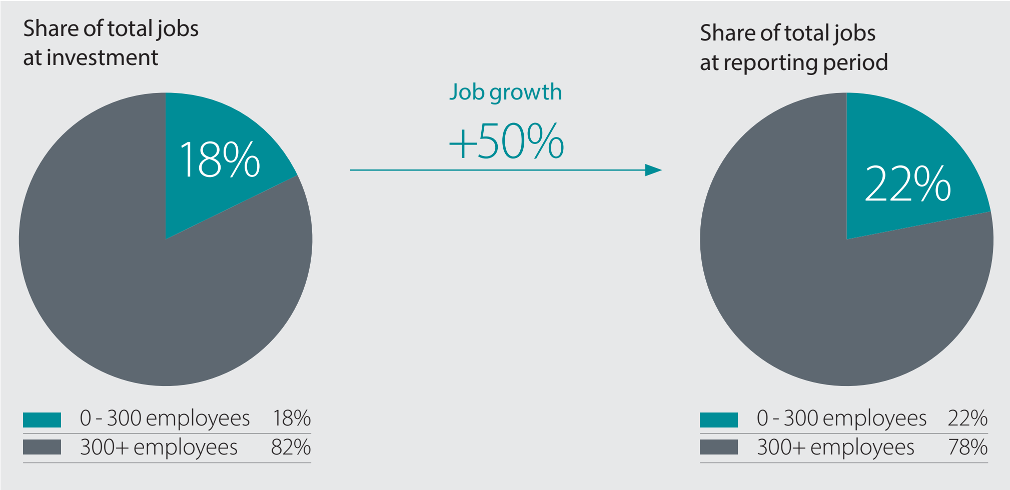
Job growth, top 10 countries

	Number of jobs at investment	Number of new jobs created	Total job growth	Female job growth
1. Ghana	2,220	+2,514	+113%	+154%
2. Burkina Faso	631	+405	+64%	+50%
3. Kenya	4,700	+2,511	+53%	+43%
4. Senegal	423	+195	+46%	+46%
5. Algeria	5,326	+1,952	+37%	+27%
6. Democratic Republic of Congo	1,031	+361	+35%	+48%
7. Tunisia	7,889	+2,749	+35%	+48%
8. Côte d'Ivoire	2,969	+812	+27%	+24%
9. Madagascar	2,916	+568	+19%	<1%
10. Morocco	3,298	+623	+19%	+14%

4. Company size

In smaller companies (defined in the survey as having 300 or fewer employees), the share of total jobs increased from 18% to 22%, and decreased from 82% to 78% in larger companies.

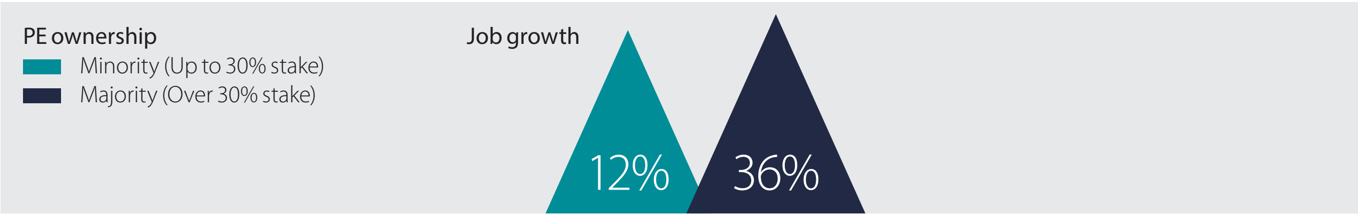
Job growth, by company size



5. Minority versus majority stakes

PE firms in Africa tend to take minority stakes in companies. The survey found that companies with majority ownership by PE firms had nearly triple the growth rates of those with minority ownership, as they were more likely to be smaller, faster growing companies.

Job growth, by PE ownership stake*



*a stake of 30%+ is deemed to offer PE firms effective control

6. Job quality

The majority (80%) of PE-backed portfolio companies were reported to have specific programmes to achieve improvements in job quality.

Examples of job quality initiatives

Leadership & management training
- Mentorship programmes
- Dedicated training workshops for senior management
- Formalised on-the-job training

Strengthening HR functions
- Formalisation of HR policies
- Implementation of performance evaluation, reward and incentivisation schemes
- Review and formalisation of work contracts for all seasonal workers

Environmental, Health and Safety training
- International standards (ISO) compliance certification
- Food standard awareness
- Specialised training for employees in high-risk roles

Team-building activities
- Study tours
- Company off-sites for employees
- Soft-skills training

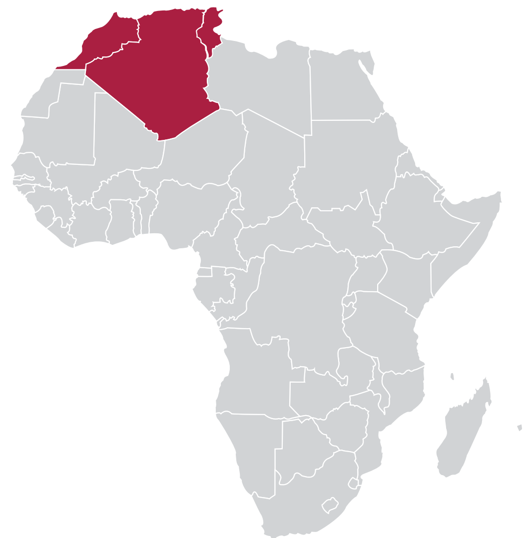
Tracking & measuring workplace quality
- Introduction of performance evaluation tools
- Quarterly reporting on key indicators and yearly evaluations across all portfolio companies
- Implementing comprehensive management information systems

7. Case studies

Case study: BS Invest

About the company

BS Invest is a leading apparel retail group founded in Tunisia in 1997 by the Ben Salem brothers. It distributes 12 brands from six major international groups including Inditex, Waikiki, Etam, Celio and Mango. The portfolio brands include Zara, Zara Home, Bershka, Oysho, Pull & Bear, Massimo Dutti, Celio, Jennyfer, Mango, United Colors of Benetton, Undiz and LC Waikiki. The group currently manages 92 stores in the region and intends to double its size by the end of 2020.



Interview with: Mediterrania Capital Partners

Company: BS Invest

Sector: Consumer Discretionary

Significant countries of operation: Tunisia, Morocco and Algeria

Total number of African countries with operations: 3

Year of first investment: 2015

Status: Currently in GP's portfolio

Key facts:

Job growth: 21%

Total number of new jobs created: 292

Share of female employment: 45%

Investment rationale

- Mediterrania Capital Partners noted the favourable outlook for the regional retail market, arguing that positive economic fundamentals and an expanding middle class should benefit apparel retailing, particularly in Tunisia and Algeria
- They also noted the company's attractive market positioning, with it being the exclusive franchisee of 12 leading international apparel brands in the three markets that it operates in. It also has a strong retail presence across the region
- Finally, Mediterrania emphasised the quality of BS Invest's management team, noting its success in securing and maintaining contracts with internationally renowned brands, and the experience of its directors and brand managers

Role of GP in job creation and job quality

- Mediterrania has enhanced job quality at BS Invest by implementing training programmes, improving working conditions, and introducing governance reporting processes. They have also implemented a capital utilisation concept for all of Ben Salem Group's new investments
- From their first investment in 2015 to 2016, Mediterrania oversaw a growth in total jobs of 21%, driven by the continued expansion of the Group network. Also, the female workforce grew by 9%, helped largely by the salesforce recruiting a high proportion of women

Role of GP in ESG Implementation

- Mediterrania Capital seeks to integrate the consideration of ESG issues throughout the entire investment cycle, from the first screening to divestment
- Before their entry, Mediterrania completed an E&S due diligence review, after which they established a plan with several corrective actions to be completed within a defined timeframe. This plan was integrated into the Shareholder's Agreement, and is overseen by an ESG Officer placed within BS Invest by Mediterrania
- The ESG Officer reports directly to Mediterrania Capital's E&S Officer, and gives an annual presentation to the Board of Directors concerning the progress made on ESG factors
- At divestment, Mediterrania generally seeks to assess the new buyer's intentions related to ESG factors. Indeed, their exit reviews examine the impact that the exited portfolio company will have on employees, local communities and the local environment.
- Mediterrania Capital's commitment to ESG issues is driven by their desire to improve working conditions and the general social environment of the regions that they invest in, which will ultimately enhance corporate profitability

Case study: Shaldag Limited

About the company

Shaldag is an aquaculture company that produces high quality fish products for local consumption. Currently able to produce 2,500 Metric Tons (MT) of fish per annum, it plans to expand capacity to 10,000MT and forward integrate into fish processing in the next 3-5 years.

The farm includes a hatchery, nursery and grow-out section. Working with a reputable international technical partner, Aquaculture Consultancy & Engineering, Verod has completed the construction stage of this greenfield project and is commencing production.

Interview with: Verod Capital Management

Company: Shaldag Limited

Sector: Consumer Staples

Significant countries of operation: Nigeria

Total number of African countries with operations: 1

Year of first investment: 2014

Status: Currently in GP's portfolio

Key facts:

Job growth: 40%

Total number of new jobs created: 14

Share of female employment: 29%

Share of permanent jobs: 63%

Investment rationale

- The rationale was to address the deficit in fish supply in Nigeria, which currently expends over US$1bn in foreign exchange annually on fish importation. Shaldag aims to substitute a portion of this import with quality local production to an under-served market with an increasing consumer appetite for fish. A market review in 2014 established that the macroeconomic environment of depressed imports and Nigeria's low fish consumption per capita meant a local fish production facility would offer significant growth potential that would also be conducive for future expansion into neighbouring African countries

Role of GP in job creation and job quality

- Verod was instrumental in hiring all staff and technical partners for this project. It outsourced and managed the construction phase and is hiring key staff as it enters the production phase of the project. Verod and the newly engaged management team have implemented several best practice initiatives to improve health, safety and job quality for its employees, including stringent human resources policies that meet local and international labour and occupational health and safety standards
- Shaldag currently employs 14 permanent staff and promotes an active policy to meet its employment demands from hiring within the local community where possible. For construction, workers from the local community where actively sought and have since been placed on retainers to recall for future assignments
- Verod has earmarked a female workforce recruitment target of at least 35% at the production stage, highlighting its credentials as a committed equal opportunities employer

Role of GP in ESG Implementation

- After an Environmental Impact Assessment Study and other approvals, Verod engaged external ESG consultants for a comprehensive ESG Due Diligence review. It identified specific remedial action plans to implement and monitor throughout the lifespan of the investment. A robust social and environmental management system was devised to manage and monitor ESG related risks throughout the project's lifecycle. It also recruited an HR and Compliance Manager and provided training to all staff to support ESG implementation on portfolio level. Verod's designated ESG Manager works closely with Shaldag's ESG officer to ensure proper implementation of the findings. This approach led to a 100% safety record during construction without disruption to employees, the local community and surrounding ecosystems
- Shaldag is the first aquaculture company in Nigeria to use recirculating aquaculture technology for the entire fish production cycle. Although more capital intensive than the traditional production method, it allows Shaldag to conserve natural resources and ensure the long-term environmental sustainability of the project. It also enables monitoring of the culture environment of the fish, facilitating the production and sale of high quality fish products to end consumers
- To reduce business dependency on the currently unsustainable energy system (due to the relatively higher cost of energy in Nigeria), Shaldag is installing a solar energy solution which would result in a 30% reduction in annual CO_2 emissions. It also has a waste-water treatment facility to reduce effluent released from the farm by roughly 50%, and has implemented a Natural Resources Conservation Plan to protect the local wildlife and ecosystem

8. Survey methodology

AVCA surveyed 33 PE fund managers in Africa between January 2017 and March 2017 via a questionnaire. The survey collated data on job creation in PE-backed companies that had a first investment between 1 January 2009 and 31 December 2016. Companies in the sample have differing hold periods between 2009 and 2016. Job data was recorded both at initial investment and at the latest-available reporting period.

General Partners (GPs) that responded to the survey were a diverse mix of pan-African, regional, and country funds. Respondents ranged from organisations with less than US$20mn funds under management to those with over US$1bn.

Respondents provided data on 284 PE-backed companies operating across the continent. This accounted for 28% of all PE-backed companies invested in from 2009-2016, ensuring that a good coverage of data was obtained. However, as the sample does not include all PE-backed companies over the period, our findings may not be fully representative.

We are grateful to all survey respondents and to AVCA's Sustainability Committee for their time and input.

Survey definitions and abbreviations

- Environmental, Social and Governance is abbreviated to "ESG"
- General Partner is abbreviated to "GP"
- Private Equity (abbreviated to "PE") encompasses private equity and venture capital
- Sectors for transactions are based on Global Industry Classification Standard classifications

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About AVCA

AVCA: Enabling private investment in Africa

The African Private Equity and Venture Capital Association is the pan-African industry body which promotes and enables private investment in Africa.

AVCA plays an important role as a champion and effective change agent for the industry, educating, equipping and connecting members and stakeholders with independent industry research, best practice training programmes and exceptional networking opportunities.

With a global and growing member base, AVCA members span private equity and venture capital firms, institutional investors, foundations and endowments, pension funds, international development finance institutions, professional service firms, academia, and other associations.

This diverse membership is united by a common purpose: to be part of the Africa growth story.

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