

Africa Sustainability Study: Job Creation

Quantifying job creation by private
equity-backed companies in Africa



Foreword

We are delighted to present the inaugural edition of the AVCA Africa Sustainability Study focused on job creation in private equity-backed companies.

As African private equity is maturing and growing in size, sustainable investing and job creation is becoming ever more important. With the private sector providing 90% of all jobs on the continent, private equity firms are an important contributor to economic growth and social mobility on the African continent.

At AVCA, our mission is to champion private investment into Africa, educating and equipping stakeholders within our industry with valuable insights in order to support the investment ecosystem. This report examines how PE firms in Africa support companies and the communities they operate in, and addresses the need for credible data on sustainable investing.

We wish to thank everyone who participated in the survey and the members of AVCA's Sustainability Committee for supporting this important initiative. We look forward to deepening this research and continuing to provide valuable insights into private equity.

Michelle Kathryn Essomé
Chief Executive Officer, AVCA



Foreword

I am pleased that AVCA, under the leadership of Dorothy Kelso, AVCA's Head of Strategy and Research, produced its inaugural *Africa Sustainability Study: Job Creation*. We hope that this will be the first of many Sustainability Studies that demonstrate the impact of Africa's private equity industry on the development of the African continent.

Questions of sustainability and impact which includes ESG, have increasingly become an important due diligence and discussion item for LPs when researching GPs. However, as our African Private Equity Industry was started with significant help from the DFIs, as some of the first LPs in African funds, sustainability and impact have always been in the lexicon of private equity discussions and go hand-in-hand with doing business in Africa. The vast majority of African GPs have done work in these areas and have kept records since their inception. This is one of the many ways that African private equity, as an industry, stands out from other regions.

Globally, the sustainability impact of private equity is often and firstly measured by the number of jobs that an investment has created. For that reason AVCA's newly established Sustainability Committee, working with AVCA, suggested that the focus on jobs be the first Sustainability Study. As part, and on behalf of this committee, I would like to thank those GPs who participated in the study, and would also urge others to submit data to future studies.

With best regards,

Runa Alam
Chair, AVCA Sustainability Committee



Introduction

Job creation is an integral part of sustainable investing (Sustainability) by private equity (PE) firms in Africa. Although there are different definitions of Sustainability, it is broadly accepted to be an investment approach that encompasses not just pure financial returns, but also the creation of long-term value for shareholders and communities by integrating environmental, social and governance (ESG) factors within the life cycle of a PE investment, from deal identification to exit.

The IFC Job Study (2013) highlights how important it is to create jobs because “jobs boost living standards, raise productivity, and foster social cohesion”. As the private sector provides an estimated 90% of all jobs in developing countries, and PE is a growing source of finance for private companies in Africa, PE has an important role to play in fostering job growth on the continent.

Investors in PE funds are increasingly interested in how PE firms incorporate ESG policies into their investment strategies, and PE firms are increasingly collecting the necessary data to help quantify how sustainable their investments are. PE firms tend to measure Sustainability metrics with proprietary in-house frameworks, or via internationally-accepted classifications such as IFC and CDC. Whichever framework is adopted by a PE firm, it tends to track multiple metrics such as financial performance, environmental impact, job creation, labour standards, and gender diversity.

This survey quantifies how many jobs have been created in a selection of PE-backed companies in Africa from 2009 to 2015. Data were obtained from 199 companies, accounting for nearly a quarter (23%) of all PE-backed companies in Africa over the period. Like all samples, the findings of this report are intended to be indicative rather than conclusive.

We would like to thank AVCA's Sustainability Committee for their support and input.

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.

823

Number of reported PE deals in Africa, 2010-2015

US \$21.6bn

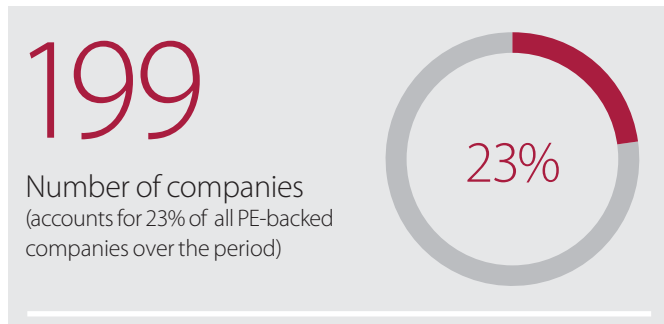
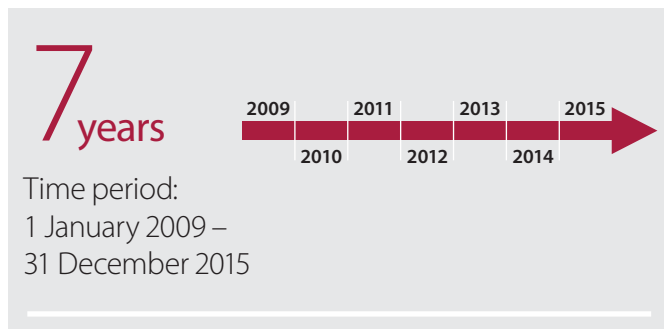
Total value of reported PE deals in Africa, 2010-2015

US \$16.2bn

Total value of Africa PE fundraising, 2010-2015

Source: AVCA

Sustainability survey key facts

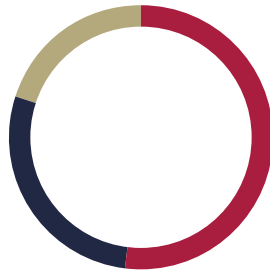


Respondent profile

GPs, by geographic focus

Geographic Focus

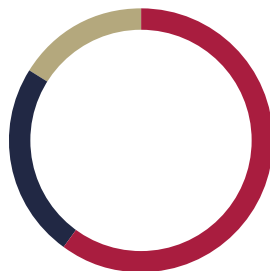
	Region / Country-specific GPs	52%
	Pan African GPs	28%
	Sub-Saharan Africa GPs	20%



GPs, by size of last fund raised

Size of last fund raised

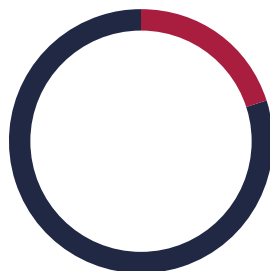
	Under US\$100mn	60%
	US\$100mn - US\$500mn	24%
	US\$500mn+	16%



GPs, by strategy

Strategy

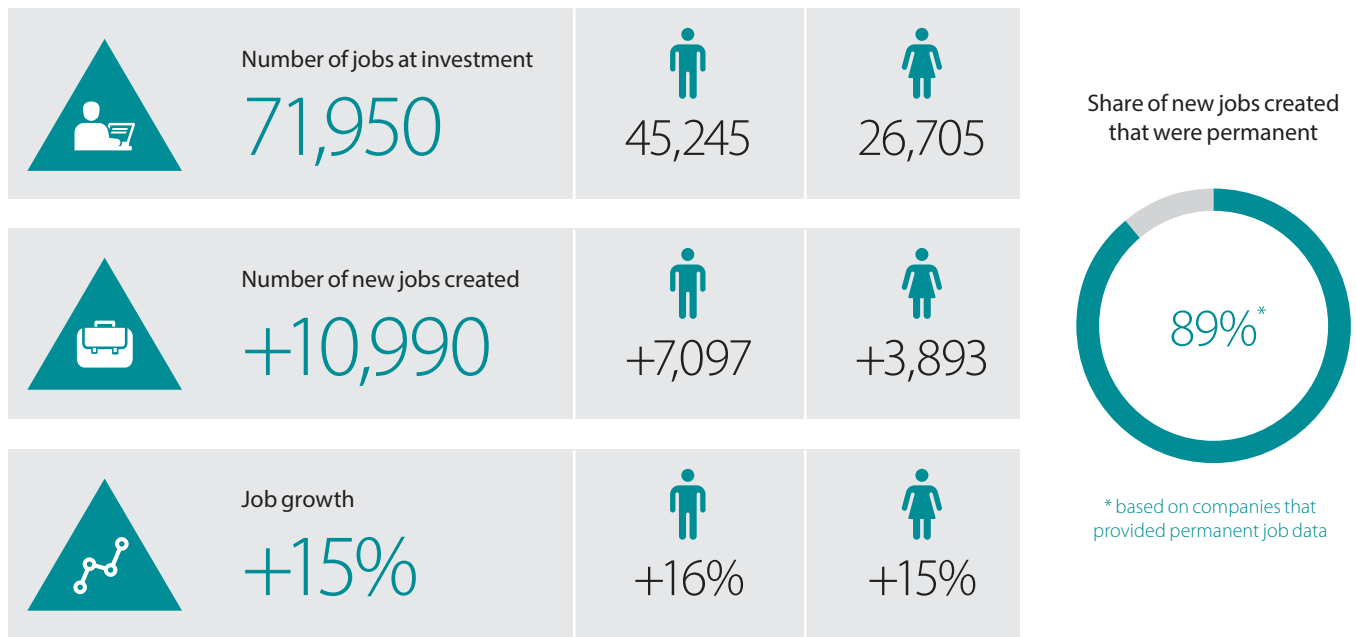
	Impact-focused GPs	20%
	Non-impact-focused GPs	80%



1. Total jobs

The 199 companies in the study created a net increase in jobs of 10,990, of which 65% were male employees and 35% were female employees. The total number of jobs grew by 15% overall. The number of male employees grew by 16% and female employees by 15%.

Job creation and job growth*









* Companies in the sample have differing hold periods between 2009 and 2015

2. Sector

Financials had the highest number of new jobs created 6,399; total jobs in this sector grew by 54%, and the number of female employees grew by 62%.

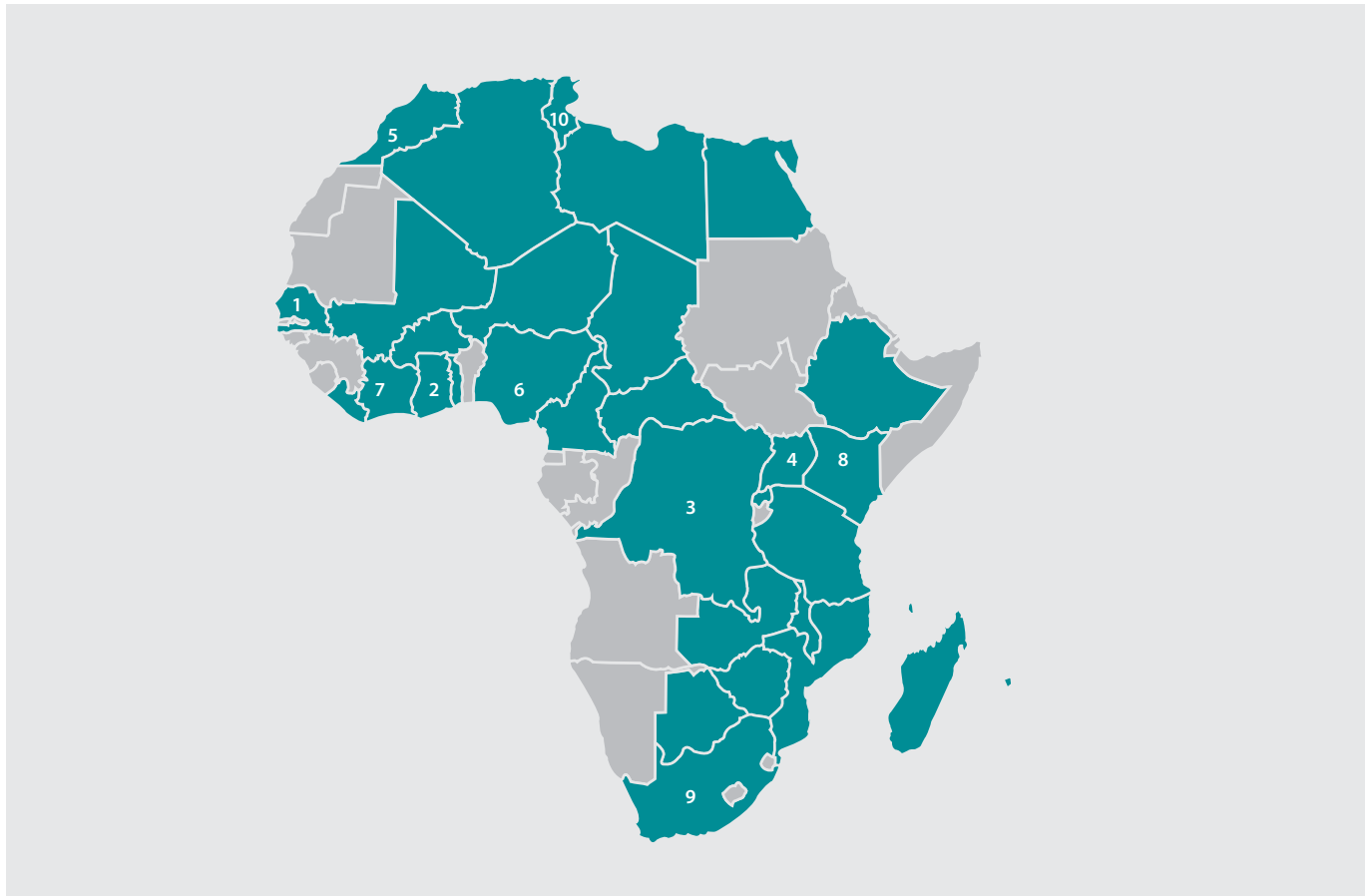
Job growth, top 5 sectors






















	Number of jobs at investment	Number of new jobs created	Total job growth	 Job growth
 Financials	11,955	+6,399	+54%	+62%
 Utilities	167	+51	+31%	+57%
 Information Technology	179	+49	+27%	+48%
 Energy	2,346	+618	+26%	+38%
 Health Care	2,766	+667	+24%	+21%

3. Country

Ghana, Nigeria, South Africa, Morocco and Kenya accounted for the largest increase in new employees. These markets are also some of the largest PE markets in Africa.

Job growth, top 10 countries

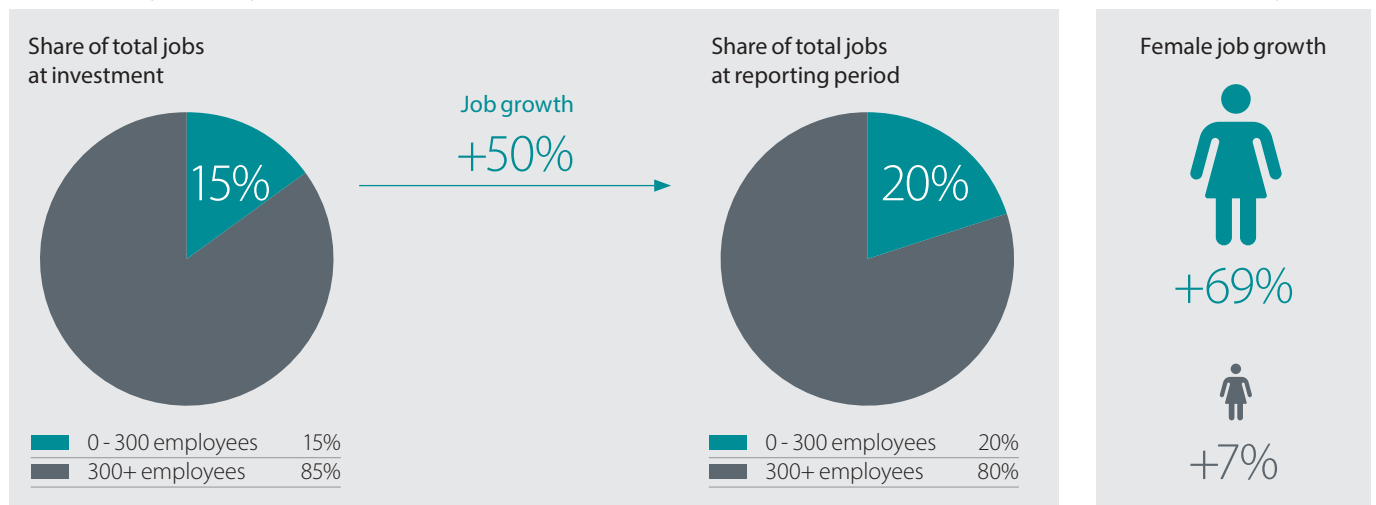


	Number of jobs at investment	Number of new jobs created	Total job growth	 Job growth
1. Senegal	299	+291	 +97%	 +44%
2. Ghana	3,223	+2,441	 +76%	 +76%
3. Democratic Republic of Congo	916	+472	 +52%	 +68%
4. Uganda	2,699	+644	 +24%	 +59%
5. Morocco	3,573	+757	 +21%	 +20%
6. Nigeria	6,263	+1,035	 +17%	 +23%
7. Côte d'Ivoire	3,458	+553	 +16%	 +16%
8. Kenya	5,853	+736	 +13%	 +12%
9. South Africa	6,852	+816	 +12%	 +18%
10. Tunisia	5,977	+287	 +5%	 +1%

4. Company size

In smaller companies (defined by the survey as having 300 or fewer employees), the share of total jobs increased from 15% to 20%, and decreased from 85% to 80% in larger companies.

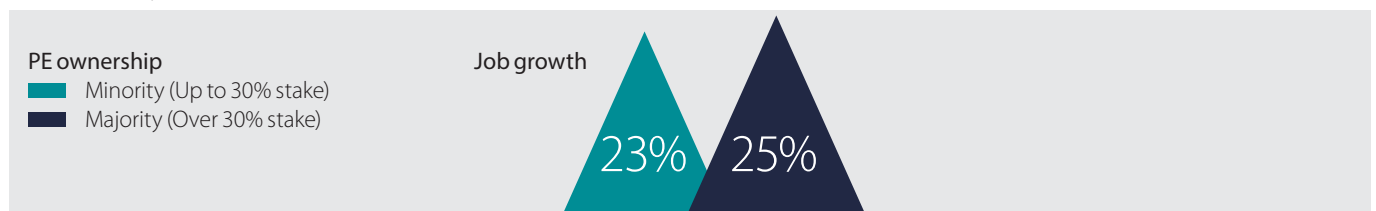
Job growth, by company size



5. Minority versus majority stakes

PE firms in Africa tend to take minority stakes in companies. The survey found similar job growth rates for majority and minority stakes, probably because, for minority positions, PE firms secure protection rights prior to investment that give them significant influence over major decisions.

Job growth, by PE ownership stake*



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

6. Job quality

The majority of PE firms implemented specific initiatives to improve job quality for workers.

Examples of job quality initiatives

- Leadership & management training**
 - Dedicated training workshops for senior management
 - Formalised on-the-job training
- Strengthening HR functions**
 - Implementation of performance evaluation, reward and incentivisation schemes
 - Review and formalisation of work contracts for all seasonal workers
- Environmental, Health and Safety training**
 - Food standard awareness
 - Specialised training for employees in high-risk roles
- Team-building activities**
 - Company off-sites for employees
 - Soft-skills training
- Tracking & measuring workplace quality**
 - Quarterly reporting on key indicators and yearly evaluations across all portfolio companies
 - Implementing comprehensive management information systems

7. Case studies

Case study: Agricare

Interview with: Injaro Agricultural Capital Holdings Ltd (Injaro)

Company: Agricare

Sector: Consumer Discretionary

Significant countries of operation within Africa: Ghana

Total number of African countries with operations: 1

Year of first investment: 2015

Status: Currently in GP's portfolio

Key facts

Job growth: 50%

Total number of new jobs created: 15

Share of female employment: 9%

Share of permanent jobs: 85%



About the company

- Agricare was established in 1968 as a wholly-owned international subsidiary of Pfizer Corporation of New York, U.S.A. (Pfizer). In 1991, Pfizer fully divested its total shareholdings to local private institutional and individual investors

Investment rationale

- Although Agricare had built a strong brand and reputation over 45 years in Ghana as an established feed manufacturer and distributor, it had not been operating at a significant level for a number of years and was in financial distress
- In 2015, Injaro partnered with Agricare as they saw the opportunity to back a management team with extensive animal nutrition expertise, leverage the proven demand for Agricare's products, and gain market share by replacing expensive imported feed. Agricare has now restarted operations in Ghana and aims to re-establish itself in Togo and Burkina Faso

Role of GP in job creation and job quality

- Injaro worked with management to drive operational change strategy, including increased procurement of maize and soybean from local small holder farmers, and improved supply of feed to smallholder livestock and poultry farmers through a distribution network of sales agents. Agricare quickly recruited 15 additional staff members to adequately achieve the company's ambitious production, finance and marketing goals
- Injaro is implementing a range of initiatives to improve job quality, employee retention and productivity. These include the revision of salary and wage levels, provision of safety equipment and clothing, implementation of standard procurement and operating procedures, and training programs associated with GlobalGap, HACCP and ISO 22000 certification

Case study: Java House

Interview with: Emerging Capital Partners (ECP)

Company: Java House

Sector: Consumer Discretionary

Significant countries of operation within Africa: Kenya and Uganda

Total number of African countries with operations: 2

Year of first investment: 2012

Status: Currently in GP's portfolio

Key facts

Job Growth: 112%

Total number of new jobs created: 838

Share of female employment: 43%

Share of permanent jobs: 100%



About the company

- The first Java House, a coffee shop with a breakfast, lunch, and dinner offering, opened in Adams Arcade in Nairobi in 1999. At the end of 2012, it had 18 stores

Investment rationale

- Java House's diverse offering ranging from a simple coffee to a more elaborate meal, and its comfortable dining environment, is an attractive feature for the many Kenyans who desire a sit-down experience outside of the home
- Based on Kenya's growing domestic market, and consumers' increasing interest in international-quality products and services at a good value, ECP saw significant growth potential in Java House
- As of December 2015, the Java House group had 45 stores, including seven Planet Yogurts, a self-serve frozen yogurt shop, one 360 Degrees, an artisanal pizzeria, and had expanded into Uganda. Java House continues to grow, and seeks to offer its customers quality coffee and food, in a comfortable and friendly environment

Role of GP in job creation and job quality

- ECP worked with Java House to significantly grow the business, increasing the number of stores by 150% from 2012 to 2015. This expansion contributed to a substantial growth in employment
- ECP worked with Java House to review and strengthen various company processes. For example, ECP supported Java House in the establishment of a new human resource policy covering a broad range of areas such as general conduct, health and safety at work, and staff training and development. Through the staff development programme, many employees from its stores have been trained and mentored to become managers
- In addition, ECP also worked with Java House to increase its environmental efficiency. As part of this initiative, fresh produce is sourced from local suppliers, which supports local farmers and reduces transportation of goods

Case study: Letshego

Interview with: Development Partners International (DPI)

Company: Letshego Financial Services (Letshego)

Sector: Financials

Significant countries of operation within Africa: Botswana, Namibia, Mozambique, Tanzania, Kenya, Uganda, Rwanda, Swaziland, Lesotho, and Nigeria

Total number of African countries with operations: 10

Year of first investment: 2010

Status: Currently in GP's portfolio

Key facts

Job growth: 249%

Total number of new jobs created: 1,198

Share of female employment: 60%

Share of permanent jobs: 95%



About the company

- Letshego was the first consumer lending company to be established in Botswana, in 1998. The company was set up to provide unsecured loans to formally employed clients, who previously struggled to access finance

Investment rationale

- By 2010, Letshego was the market leader in Botswana with a 70% market share of the consumer finance market, and it had expanded into 4 neighbouring countries. DPI invested in Letshego to provide growth capital for further expansion into other African countries based on a replicable and risk-mitigated business model, and to support the strategic ambitions of the company

Role of GP in job creation and job quality

- Through its representation on the board of Letshego, and work with management, DPI endorsed a high-growth strategy for the company. Letshego broadened its customer offering to include payroll deduction loans and banking services in certain countries, and increased its distribution footprint by adding additional customer access points / branches resulting in increased staff numbers. It also supplemented its distribution footprint through alternative channels by employing commission-based sales agents
- In addition, DPI referred the acquisition of Micro Africa Limited, an East African microfinance business, enabling Letshego to diversify its product offering to include loans to micro and small enterprises, resulting in increased customer growth and employment across its countries of operation
- At investment, DPI requested that Letshego develop an Environmental and Social Management system. A component of this focused on improving labour and working conditions, with initiatives such as the independent benchmarking of remuneration to ensure staff retention, relevant training for employees, and implementation of medical schemes for staff

8. Survey methodology

AVCA surveyed 25 PE fund managers in Africa between January 2016 and March 2016 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 2015. Companies in the sample have differing hold periods between 2009 and 2015. 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 199 PE-backed companies operating across the continent. This accounted for 23% of all PE-backed companies invested in from 2009-2015, 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.

AVCA

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