



CASE STUDY

# African Development Partners III

## Development Partners International

Geography: **Sub-Saharan Africa**

Size: **USD 800 million (target)**

Impact thesis: **Women's economic empowerment**



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ADP III is Development Partners International's (DPI's) third generation private equity fund, investing in consumer goods, financial services, education, healthcare and agri-business for the emerging African middle class. ADP III was selected as a 'Flagship Fund' of the 2X Challenge, an initiative seeking to support businesses that provide women in emerging economies with access to leadership opportunities, recognising its commitment to women's economic empowerment in its portfolio and within DPI itself. Investments are de-risked through the fund's strong track record and robust screening and reporting protocols.

### Fund manager: **Development Partners International**

**Total assets under management (AUM): USD 1.6 billion**

- Pan-African private equity firm founded in 2007, based in London
- Has invested in 21 growth-stage companies across 29 countries in Africa, in 17 different industries, including consumer goods, financial services, information and communication technology, education, etc.
- DPI's two previous funds, ADP I and II, raised USD 400 million and USD 725 million respectively and made four successful exits
- The DPI team is focused on diversity and local expertise, with 100% of the DPI investing team being African-country nationals, and 45% being women, DPI was co-founded by a woman
- DPI has been a long-standing partner of the 2X Challenge and was recently selected as the Challenge's first 'Flagship Fund', embodying the commitments of the Challenge

## Investment overview

<b>Key Fund limited partners (LPs)</b>	Pension funds: Fund II - Missouri State Employees' Retirement System (MOSERS) and eight others; Fund III: currently fundraising
<b>Other investors</b>	CDC, the UK's development finance institution (DFI); FMO, the Dutch entrepreneurial development bank; DFC, the US DFI; SwedFund, the Swedish DFI; and other DFIs
<b>Instrument type</b>	Private equity (growth capital)
<b>Average investment size in portfolio companies</b>	USD 20-70 million
<b>Time horizon</b>	10-year closed-end fund

## Financial return profile

**Returns:** Market-rate

**Track record:**

- ADP I was benchmarked as a top quartile fund amongst emerging markets private equity funds by Cambridge Associates
- ADP I has made four exits, yielding a net internal rate of returns of around 25%; ADP II has yet to make exits

**Liquidity:**

- 10-year closed-end fund
- To secure exits at the end of fund cycles, DPI cultivates relationships with large corporate buyers during the fund cycle

## Risk profile

**Execution risk:** Strong compliance and due diligence protocols, resulting in investment in larger industrialised companies

**Political risk:** Zero tolerance for corruption policy, high level of local expertise and boots on the ground

**Risk mitigation:**

- International Finance Corporation (IFC) excellence rating
- High levels of reporting and transparency to reduce perceived risks of emerging markets
- UK-based and regulated by the Financial Conduct Authority (FCA)

## Investment thesis

**Commercial fund first, embracing triple impact:**

- The fund focuses primarily on promising commercial opportunities, achieving impact through three dimensions: geography (focus on Africa), sector (essential services for Africa's middle class) and a focus on women's economic empowerment
- The impact focus opens up new financing pools, as the first 2X Flagship Fund, ADP III received growth investment from 2X Challenge DFI members: CDC, FMO, and SwedFund, alongside private capital

**Internal diversity as a strength:**

- Internal diversity is a key asset of the ADP funds – as research led by the IFC suggests that gender-balanced management teams typically demonstrate 10-20% higher returns compared to industry average
- Having a 100% African investment team allows the fund to leverage local expertise and helps to tackle political risk

## Investment selection

### Eligible investments

ADP only invests in companies that meet the 2X Challenge criteria, focusing on the four following dimensions:

1. Entrepreneurship: 51%+ female ownership, female founder
2. Leadership: 20-30% of women in senior leadership
3. Employment: 30-50% of the workforce are women, also considering quality of employment
4. Consumption: Products or services specifically or mostly benefit women

### Due diligence process

- DPI conducts rigorous due diligence on its companies, including financial and operational performance, as well as zero-corruption verifications
- Given the strict parameters it imposes, ADP III mostly invests in large, industrialised businesses with low execution risk
- Environmental, Social and Governance (ESG) due diligence is carried out by a specialist practitioner and forms a significant part of the deal decision process

Sources: i) [www.IFU.dk](http://www.IFU.dk) [accessed: 28/09/20], ii) Convergence, "Danish Climate Investment Fund Case Study", 2017

## Impact targeting

### Impact thesis

#### Theory of Change:

- All ADP funds target essential services for the growing African middle class, including food commodities, financial services, pharmaceuticals, IT, etc. They believe impact should not only focus on the bottom-of-the-pyramid consumers, but also economically empower the middle class
- ADP III is intentionally supporting SDGs 5 (Gender Equality) and 10 (Reduced Inequalities) by investing in fast-growing companies that feature women as business owners, leaders, employees and consumers, thus investing in their empowerment and economic growth

**Target stakeholders:** African middle class and women

### Impact outcomes

DPI focuses on external impact frameworks to allow for comparison with other funds, e.g.:

- United Nations Principles for Responsible Investment
- IFC Environmental and Social Performance Standards

They also measure a number of investment-specific metrics:

- Female ownership / leadership / employment / consumers
- Job creation (DPI estimates 5,000 new female jobs created through ADP Fund I)
- Improvement of occupational safety, for example through on-the-ground monitoring and CCTV

## Portfolio investee spotlights

### Letshego (ADP I)

#### Financial service provider - Financial inclusion

Letshego is a financial service provider operating in 11 African countries, based in Botswana. It services 413,000 borrowers and 154,000 dispositors, focusing primarily on outreach to female customers.

Following ADP's exit, Letshego is now among the top three most profitable domestic companies on the Botswana Stock Exchange.

### BioPharm (ADP II)

#### Pharmaceutical company - Healthcare

BioPharm is a leading pharmaceuticals company founded in Algeria, expanding to be the first pan-African pharmaceutical company. It focuses on import, distribution, wholesale and production of over 500 pharmaceutical products.

Through their own production and bulk purchases, BioPharm focuses on reducing costs of accessing medicine for customers.



## Institutional investor spotlight: MOSERS

**Investment: Around USD 40 million**

The Missouri State Employees' Retirement System (MOSERS) has USD 8 billion in AUM. MOSERS has previously invested in both ADP I.

MOSERS targets 6-7% yearly returns over 20 years, based on a mix of US Treasury bonds, global public equities and global private equities (8% of all assets), including a small allocation in emerging markets through DPI and Actis, a global emerging markets investment firm.

## Other similar opportunities in the market

- The 2X Challenge has mobilised USD 4.5 billion for women's economic empowerment, with commitment from DFIs, private investors and other sources of funding
- The 2X Challenge is working with several DFIs around the globe to endorse the 2X criteria:
  - Founding members of the 2X Challenge include FinDev Canada; CDC; DFC; CDP, the Italian investment bank; Proparco, the French DFI; the Japan Bank for International Cooperation (JBIC); Japan International Cooperation Agency (JICA); and KfW, the German development bank.
  - These DFIs were recently joined by others including FMO, the Dutch entrepreneurial bank; SwedFund; FinnFund; and IFU, the Danish Investment Fund for Developing Countries, among others
  - All funds sponsored by any of these DFIs commit to endorsing the 2X criteria as part of their selection criteria
- The 2X Challenge will announce further "Flagship Funds" amongst commercial fund managers in the future



## Key observations for institutional investors

### 1 There are opportunities to invest in emerging markets with managers that execute best-in-class compliance

- DPI focuses on being fully compliant with protocols and standards of other private equity funds in developed markets to reduce risk perceptions of investing in Africa
- Behaving similarly to other private equity companies can build investor trust, as seen in repeat investments in funds I, II and III by the same set of institutional investors

### 2 Evidence is emerging to show that an internal and external gender focus can be profitable

- ADP funds are generating returns in the mid-twenties: DPI has stated that its diverse staff, female co-founder and adoption of the 2X Challenge criteria are a key component of this success
- Beyond ADP, evidence is mounting on the financial benefits of diversity: Harvard Business School professor Paul Gompers and research associate Silpa Kovvali found that private equity and venture capital firms that increased their proportion of female partner hires by 10% saw, on average, a 1.5% improvement in overall fund returns each year

### 3 Large private equity investments supporting women can have successful exits

- As sizable investment opportunities that meet these criteria are widespread in emerging markets, ADP III will target investment tickets between USD 40 million and USD 200 million
- Investments that support women's empowerment can be defined in multiple ways, as seen through the 2X Challenge investment criteria, which focus on women as founders, leaders, employees and consumers