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# Successes and failures in MIV governance: The case of AfriCap



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## AfriCap Legacy

### *Path breaking initiative*

- One of first vintage of equity MIVs, together with AIM and SCI (post PF)
- Made the case for commercial MF in Africa with two early exits
- AfriCap 1 net IRR: 15%; AfriCap 1 + 2 net IRR +1%
- In total, 21 investments in 16 African countries over 7 years compared with 4-5 by peer MIVs
- Successful recap after five years tripled initial capital
- Developed African leadership of both management and governance



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## Africap Legacy

### *Cautionary tale*

- Over-ambition and instability
- Four chairs, three managers, three structures, four strategies
- At least 12 of 21 investments failed to recover cost
- AfriCap 2 net IRR -10%
- At least 11 of 13 FinTech TA programs cost more than value accretion
- Hopes of nurturing Mecene as an African Omtrix (LAC) or Caspian (India) not realized



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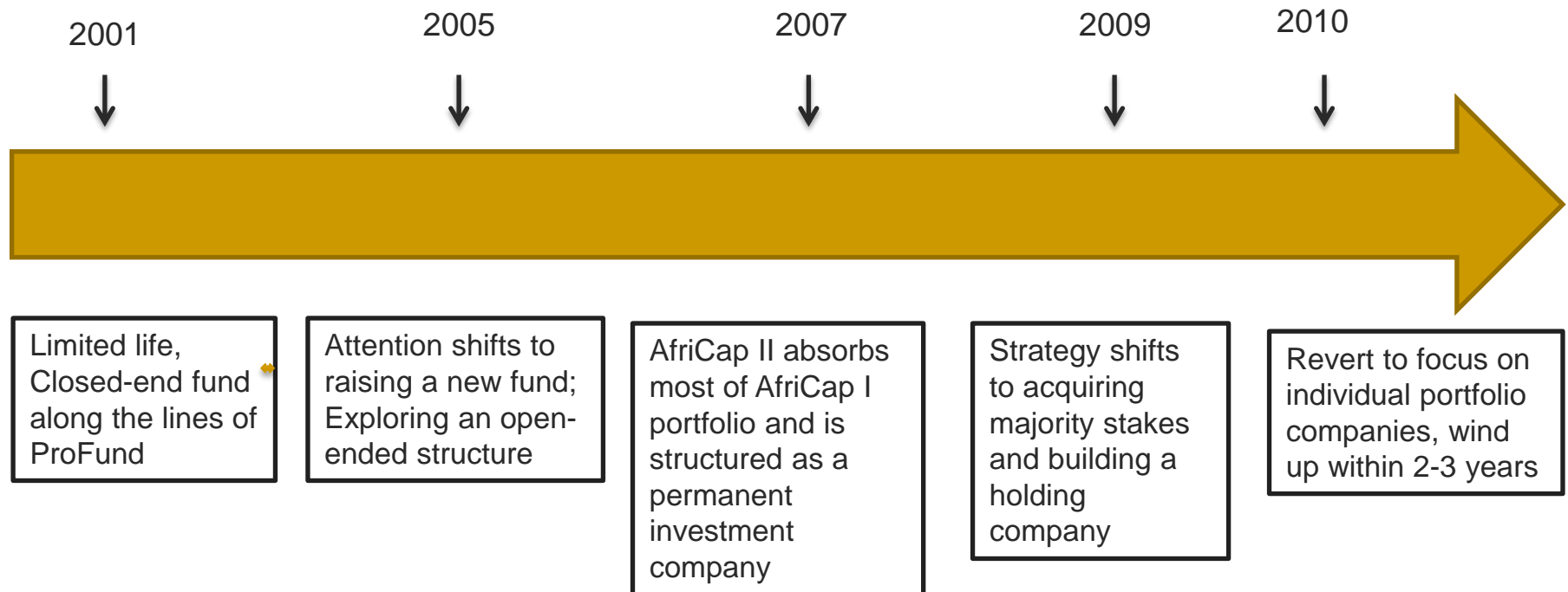
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AfriCap actively explored how best to engage opportunities .

..

### Timeline of Fund Structure



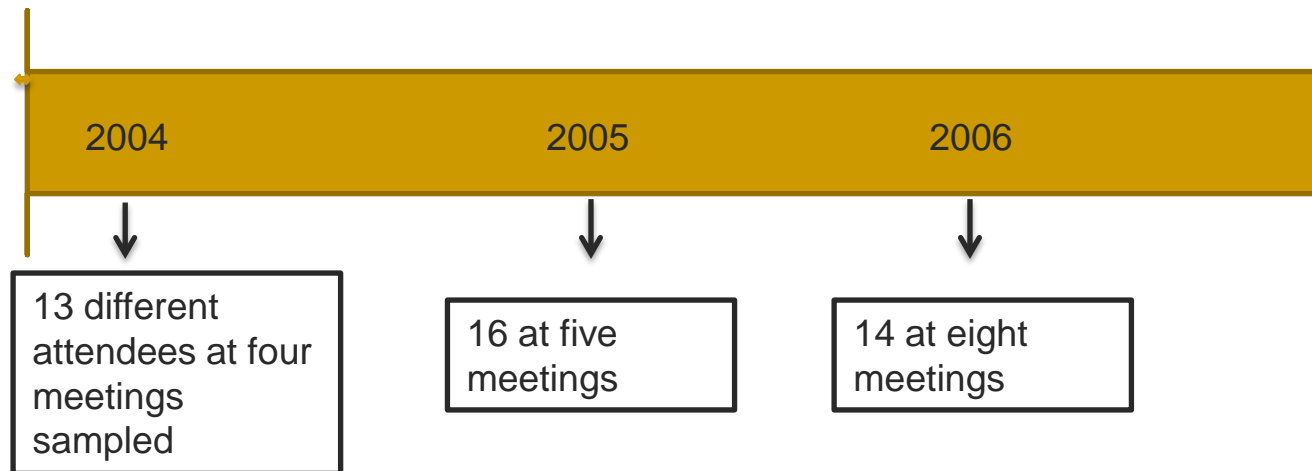


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. . . and directors actively participated.

### Director Participation in ICOM Meetings



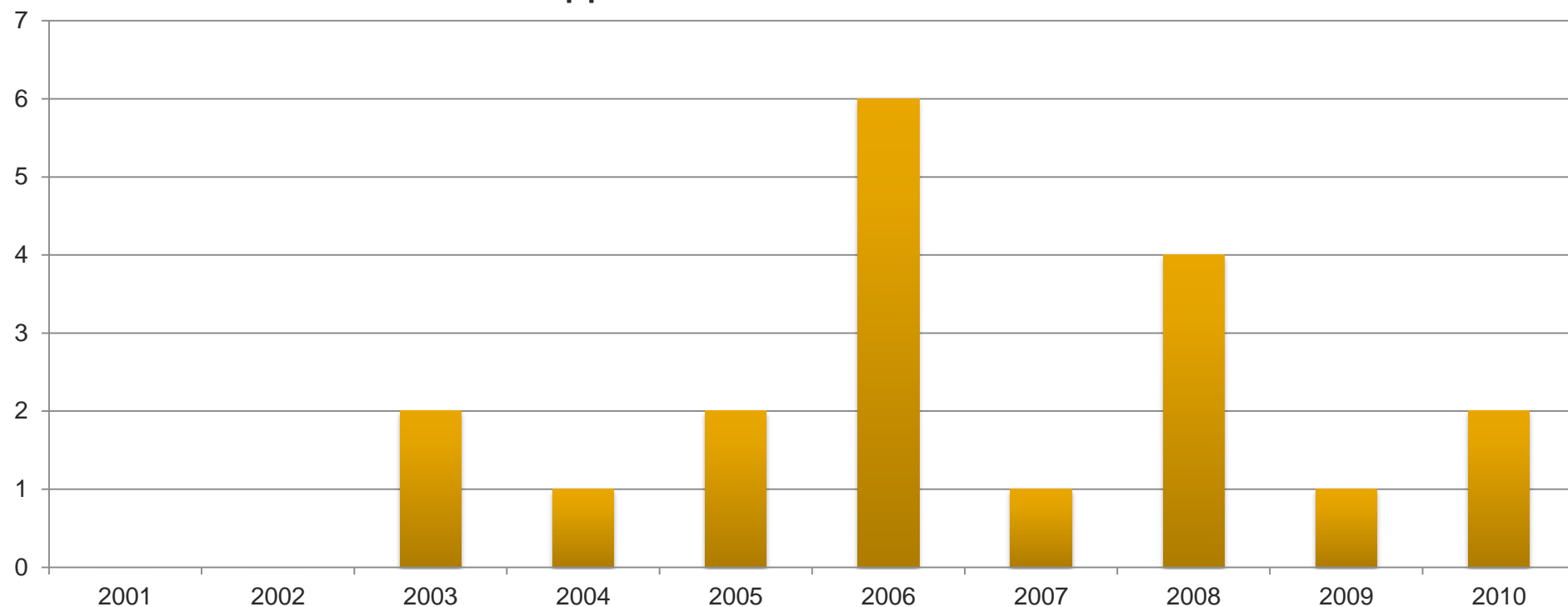


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AfriCap was a pathbreaking and active investor . . .

Number of investments approved



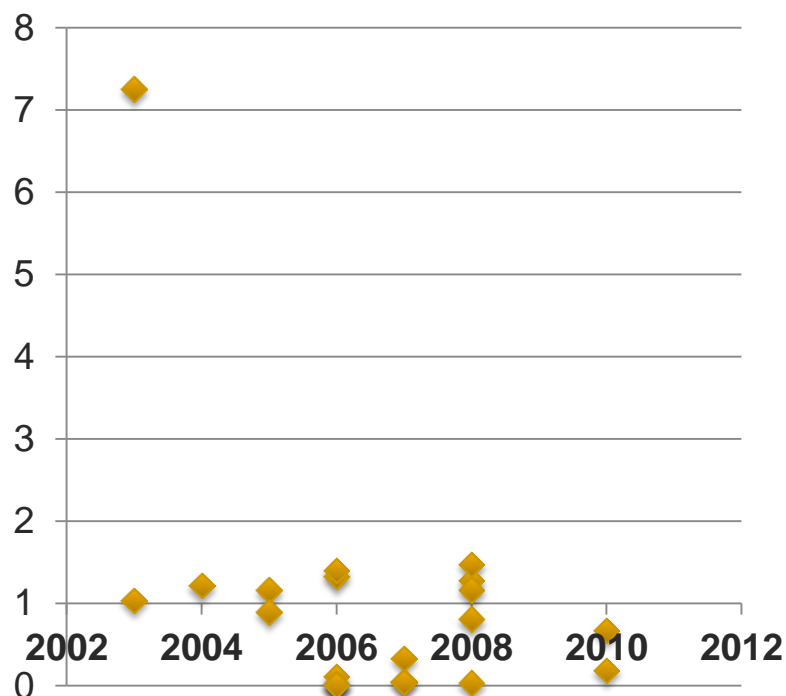


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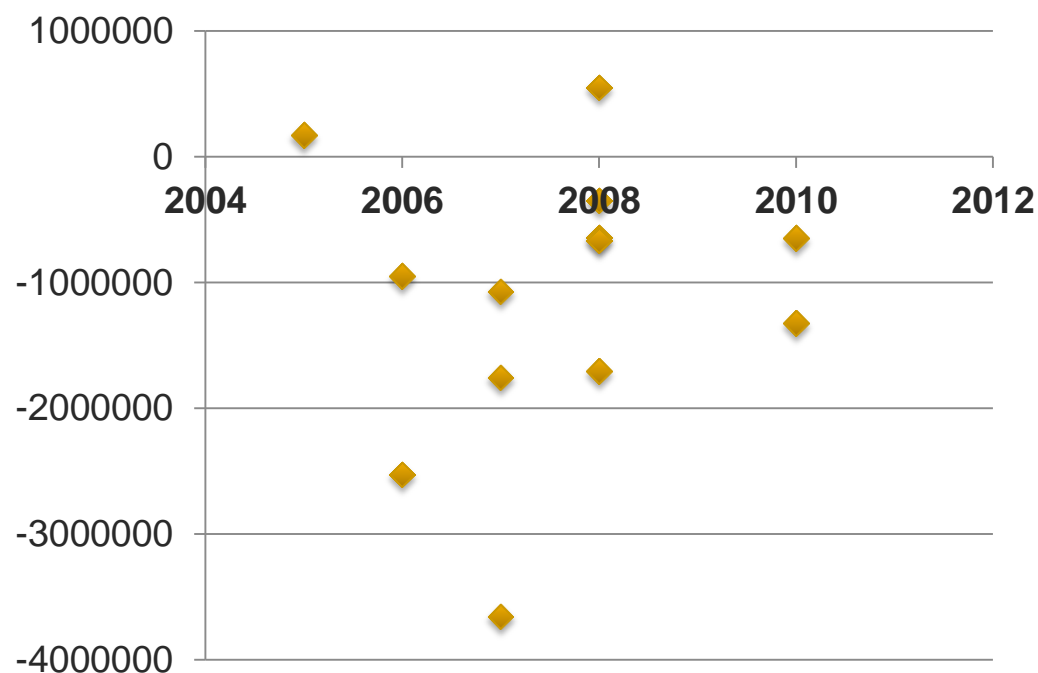
... but overall, portfolio performance was disappointing.

### Money Multiples by Year of Investment



Note: Realized proceeds plus most recent FMV divided by cost of investment. Gross basis; no adjustment for fees and expenses.

### Value Accretion net of TA Cost



Note: Cash out minus cash in and cost of TA



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## Major Board Responsibilities

1. Define and uphold the social mission and purpose
2. Develop and approve strategic direction (with management); monitor
3. Foster effective organizational planning, including succession planning
4. Ensure that risk is managed effectively; assume fiduciary responsibility
5. Oversee management performance, including selection, support, evaluation, and compensation of the CEO
6. Ensure adequate resources to achieve the mission, including assistance in raising of equity and debt
7. Ensure that the organization changes to meet emerging conditions; particularly in times of distress, temporarily assume management responsibilities
8. Uphold the ethical standards of the organization, with transparency and avoidance of conflicts of interest

Source: CMEF 2012 Governance Guidance Note, <http://fiecouncil.com/>





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## How did AfriCap's governance support or undermine its performance?

- 1) Were the "best practices" recommended by the guidelines appropriate, sufficient and largely followed by Africap?
- 2) Were there gaps or mis-guidance in the best practices that contributed to any performance shortfall that Africap realized?
- 3) Were the Guidelines complete and complied with, but stuff happens?



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# AfriCap's Governance: Key Learnings

## Achievements:

1. AfriCap fulfilled the goals of its DFI and foundation creators – move first, be creative, break new ground
2. Board members were clearly committed to AfriCap's success, engaged and in many case, generous with their time and expertise.

## Key learnings:

1. Set stable strategic priorities: financial / social
2. Match goals with adequacy of resources
3. Address leadership challenges, especially if there is no dominant shareholder
4. Create feedback loop: measure performance to plan and take necessary action



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Corporate governance in MIVs, relationship between - Board,  
Investment Committee and Fund Manager

**HANY ASSAAD**  
**Avanz Capital**



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# The role and vision of DFIs in MIVs: What role should they play in the MIV

**Emile Groot**  
**Independent Consultant**



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# Fintech at AfriCap: advantages and disadvantages of an independent TA program for an equity fund

**IRA LIEBERMAN**  
**LIPAM International**



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## AfriCap Governance—Fintech Africa

- Fintech Africa an affiliated company based in Johannesburg South Africa to provide technical assistance (TA) to AfriCap investees
- Fintech independent management team and board of directors. AfriCap's Board chair on Fintech's board
- Fintech raised \$8.5 million dollars to support AfriCap investees—Gates Foundation, EIB, Dutch Government/ FMO and Luxembourg Government were the funders
- Team managing director, 3 IT staff, a training director, director secondments (recruiting senior staff for MFIs for 1-2 year assignments—CEOs, CFOs, IT director, etc.) and an administrators to manage contracts with the MFIs and the suppliers of services constituted the team.
- Grants for TA co-funded 60% Fintech and 40% investees; training course development and training 100% Fintech but local costs paid for by MFIs
- \$8.5 million less admin costs disbursed to MFIs over 4-5 years.





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## AfriCap Governance--Fintech Africa

- Issues:
- Is it a good idea to have an independent TA company affiliated with a private equity fund?
- Tensions with AfriCap management on appropriate interventions (eg. IT)
- Transparency—investment agreements had agreement to deliver TA that Fintech was unaware of
- Reporting– performance of MFIs , initially difficult to secure this important information
- TA support in some cases only as good as the MFIs, weak/ start-up MFIs made TA much less effective
- Impact very hard to evaluate



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