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CIDA ACDI

Canada Investment Fund for Africa

Mid-Term Review

2005-2008

SYNTHESIS REPORT

MARCH 2012

Canada

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Acknowledgments

This Executive Report consolidates the findings of the *Mid-Term Review of the Canada Investment Fund for Africa,* a joint evaluation conducted by the Canadian International Development Agency (CIDA) and the Department of Foreign Affairs and International Trade (DFAIT).

The Evaluation Directorate would like to thank the Evaluation Team for their hard work and diligence, their professional contribution to this Mid-Term Review and for their collective effort in undertaking this challenging assignment.

We would also like to acknowledge the assistance of the many individuals who made meaningful contributions to the overall evaluation process. This includes our colleagues within CIDA, the Department of Foreign Affairs and International Trade, Finance Canada and Export Development Canada. Their readiness to facilitate the evaluation process, share their perspectives and provide valuable feedback on the evaluation deliverables was highly appreciated.

Our thanks are also extended to the dedicated individuals working with the CIFA Fund Managers, Actis (United Kingdom) and Cordiant Capital Inc. (Montreal), who took the time from their busy schedules to participate in all phases of the evaluation. Their contributions were essential during the planning of the evaluation and to understanding the front-line perspective on the performance of the Canada Investment Fund for Africa.

The Evaluation Team benefited from a wide range of consultations, interviews, meetings and site visits with the CIFA portfolio companies and their representatives who were instrumental in providing a much needed private sector perspective and balance of opinion on the achievements of the Canada Investment Fund for Africa. We would like to express our special appreciation to them for having shared their experiences and opinions, their knowledge of private equity investment in Africa

Caroline Leclerc
Director General
Evaluation Directorate

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List of Abbreviations

CFA	Canada Fund for Africa
CIDA	Canadian International Development Agency
CIFA	Canada Investment Fund for Africa
CSR	Corporate Social Responsibility
DFAIT	Department of Foreign Affairs and International Trade
EDC	Export Development Canada
EITI	Extracting Industries Transparency Initiative
EMPEA	Emerging Markets Private Equity Association
GDP	Gross Domestic Product
HDI	Human Development Index
IFC	International Finance Corporation
IFPT	International Finance Participation Trust
IMF	International Monetary Fund
IP	Investors' Panel
IPO	Initial public offering
IRR	Internal Rate of Return
LLP	Limited liability partnership
LPA	Limited Partnership Agreement
MOU	Memorandum of Understanding
NEPAD	New Partnership for Africa's Development
NGO	Non-governmental organization
ODA	Official Development Assistance
OECD	Organization of Economic Cooperation and Development
OPIC	Overseas Private Investment Corporation
PE	Private equity
PEF	Public/Private Equity Fund
PSU	Program Support Unit
RFP	Request for proposal
SME	Small and medium-sized enterprises
TSX	Toronto Stock Exchange
UNGA	United Nations General Assembly
VC	Venture Capital
WTO	World Trade Organization

Executive Summary

What is the Canada Investment Fund for Africa?

The Canada Investment Fund for Africa (CIFA) represents the largest initiative of the Canada Fund for Africa (CFA) with a budget allocation of $100 million. CIFA and its parent organization CFA fulfil Canada's response to the New Partnerships for Africa's Development (NEPAD) adopted in 2001 at the 37th session of the Assembly of Heads of State and Government and Canada's response to the G8 Africa Action Plan elaborated in 2002 at the G8 Summit in Kananaskis, Alberta.

At both forums, Africans requested increased investment in commercial ventures to promote development and growth and CIFA emerged as a response.

CIFA is designed to operate as a commercially viable and self-sustaining provider of risk capital for private investments in Africa under Limited Partnership management. It is a closed end fund running between June 2005 and December 2013 (with provision to extend to 2015), at which point the investment will be sold and the proceeds returned to the Canadian Government. It pursues three objectives to[1]:

1) Increase private investment in Africa;

2) Encourage foreign direct investment into areas beneficial to African development; and to

3) Further Canadian public and private investment interests in Africa.

Why was this Mid-Term Review Conducted?

The purpose of this mid-term review is to provide independent and evidence-based information on the relevance, performance (i.e., effectiveness and efficiency), and the design and delivery of the initiative in compliance with the CIFA approval documents, which had required a mid-term review once 50% of the CIFA funds had been invested. It is also intended to provide lessons learned regarding the appropriateness of the CIFA model.

Although this report is intended (in part) to support the accountability requirements of the Canadian International Development Agency (CIDA) and the Department of Foreign Affairs and International Trade Canada (DFAIT) within the Government of Canada, the findings are expected to be useful to other Government of Canada departments and agencies (e.g., Department of Finance, Treasury Board Secretariat, and Export Development Canada) and to key stakeholders, such as CIFA Fund Managers Actis LLP (United Kingdom) and Cordiant Capital Inc. (Montreal).

[1] The program is designed to run between June 2005 and December 2013. However, there is an ability to extend the Fund for up to 2 years providing there is an agreement and an economic case.

The mid-term review was conducted jointly by the evaluation services of CIDA and DFAIT.

How was this Review Conducted?

The mid-term review covered activities undertaken under CIFA beginning from the G8 Kananaskis Summit announcement on June 28, 2002 through to December 31, 2008.

Based on the Treasury Board of Canada Secretariat's *Evaluation Policy*, the Organization for Economic and Co-operation and Development (OECD) Development Assistance Committee's *Quality Standards for Development Evaluation*, and CIFA's nature, the following review issues and questions were identified:

Categories	Details
Relevance	• To what extent is CIFA aligned with the Government of Canada's and NEPAD's priorities? • Is a Limited Partnership structure the most appropriate mechanism to implement CIFA? • Is there a satisfactory demand from Canadian and foreign investors for CIFA funding?
Effectiveness	• Is there early evidence that CIFA will generate and sustain its expected intermediate outcomes at the Fund/portfolio level? • What are the direct and indirect impacts of increased investment in Africa? • Were there any positive or negative consequences of CIFA? • How do beneficial developments generated by CIFA compare with other private sector development initiatives?
Efficiency	• What has been the performance of the Government of Canada and Fund Managers in fulfilling the terms of the Limited Partnership Agreement (LPA) and Side Letter?
Design and Delivery	• How effective was the Government of Canada process of Fund Manager selection? • To what extent can the achievement of CIFA objectives be measured?

Two primary lines of evidence were used in the mid-term review, including document, file and literature review; and key informant interviews. A large number (327) of documents and files were reviewed by the review team. Furthermore, five categories of key informants were interviewed. These included CIFA program personnel (18), other Government of Canada officials (10), Fund Managers (10), CIFA-funded companies (9), and prominent experts (25).

What did the Review Find?

The following are the key elements that were learned through the conduct of this mid-term review:

1. The initiative to establish a private equity fund as a key element of the Canada Fund for Africa was well justified by the available evidence that financial market development in Africa was seriously lagging behind. The intention to help stimulate private equity financing was an appropriate initiative at the time.
2. A striking evolution in Africa's financial development has taken place since the initiative was conceived and implemented, including the emergence of a healthy private equity sector, funded by both external and internal investors in Africa. Hence, the case today for new donor supported initiatives in this field is less pressing.
3. The process for identifying the best mechanism for implementing the initiative, namely the private equity Limited Partnership model embodied in CIFA and for selecting the Fund Managers, was well conducted and achieved with dispatch.
4. The objective of leveraging an equal amount of investment in CIFA from other sources was more than achieved. CIFA has been catalytic and innovative on this front.
5. There were difficulties in reaching a common understanding with the Fund Managers on the Government of Canada's broader development objectives for the Fund and the associated reporting and review arrangements. This delayed the start-up of investment activities and has been a source of continuing challenges in the functioning of the oversight system, in which the Government of Canada is the main active player via an Investors Panel, which meets twice a year.
6. The performance of the Fund in terms of the rate of return could not be judged during the mid-term review, given that the average life of the investments was just 2.5 years and the global economy was in a pronounced downturn. Assessing the performance of CIFA in these terms will need to be left to the summative evaluation following the termination of CIFA in 2013.
7. Assessing the impact of CIFA on broader development objectives such as employment and growth, will also need to await the summative evaluation. Nevertheless, there are already indications that the performance and capacities of the portfolio companies have benefited significantly from the corporate requirements of the Fund Managers and their managerial advice and assistance. The commitment of portfolio companies to the implementation of corporate social responsibility codes has also been enhanced.
8. Although the geographical and sectoral allocation of investments has been in line with the agreed criteria, around 70 per cent is invested in companies based in South Africa and Nigeria, where financial sector development is more advanced than elsewhere in sub-Saharan Africa. CIFA has thus not sought to weight its investments to more frontier low-income countries, which might have produced a more risky and management intensive investment portfolio, but also been more critical in terms of development impact.
9. The Canadian partner in the Fund Management team has been able to use its experience with CIFA to expand its private equity activities in Africa, thus adding to the expansion of this strategic sector of development financing.

What was the Key Lesson?

The key lesson is that supporting private equity investment activities as a development effort involves a challenging marriage between the orientations and culture of Fund Management companies and broader development objectives, through effective reporting and oversight arrangements and capacities. This requires significant effort over time, building up the expertise and experience needed in a dedicated unit within the Government of Canada. The CIFA initiative was visionary and relevant when conceived and there is evidence of positive impact. A full appreciation of the development impact of CIFA will only be possible in the summative evaluation to be undertaken following the planned termination of CIFA in 2013.

1.0 Introduction

1.1 Background

In July 2001, the New Partnerships for Africa's Development (NEPAD) was adopted at the 37th session of the Assembly of Heads of State and Government with the aim to provide an overarching vision and policy framework for accelerating economic cooperation and integration among African countries. While it recognized the important principles of peace, security, democracy, good governance, human rights and sound economic management as conditions for sustainable development, it also identified the need for private capital flows to spur economic growth in Africa.

In response to NEPAD and in support of the G8 Africa Action Plan[2], the Government of Canada launched the Canada Fund for Africa (CFA) as a strategic policy initiative at the 2002 G8 Summit hosted by Canada in Kananaskis, Alberta. A commitment of $500 million over five years was announced by the Prime Minister to support strategic and innovative programming that addressed key development challenges in Africa. It was designed to engage a range of new partners, support new programming models in new sectors of intervention, and to foster collaboration among Canadian government departments to deliver development results at a regional and -African level.

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[2] The G8 Africa Action Plan, adopted at the Kananaskis Summit in June 2002, committing $6.0 billion US. There were two main principles of the G8 Africa Action Plan: 1) a commitment to double Official Development Assistance to Africa, and 2) a commitment to develop long-term privileged partnerships with African countries demonstrating adherence to the stated NEPAD commitments toward meeting the basic standards of good governance and democratic behaviour. While there was a recognition that the governance improvement process (including through the African Peer Review Mechanism) would take time, the basic principle was to "reward success, not failure" with increased aid, trade, debt forgiveness and private capital flows.

As part of the implementation of the CFA, the Canada Investment Fund for Africa (CIFA) was created to respond to African requests for increased investment in commercial ventures, which would contribute to development. CIFA consisted of the largest initiative within the CFA with a budget allocation of C$100 million. The Fund was designed to provide risk capital for private investments in Africa to general economic growth, attract investors, and build momentum for increased trade and investment throughout the continent, leading to greater social and economic development. It is being managed under a limited partnership structure by Fund Managers selected through a competitive screening process. Launched in June 2005, CIFA will operate until December 2013 when the Government of Canada investment is expected to be returned with a profit or a loss.[3]

CIFA set out to attract other investors, to add to the Government of Canada's stake of $100 million (US$81m). This fundraising process was initiated in April 2005 and lasted until May 2006. The total capital raised amounted to US$ 211 m, with nine other investors participating alongside the Government of Canada. By the end of 2008, CIFA had invested US $168 million in 15 companies in nine African countries and in two funds directed at small and medium sized enterprises in Western and Southern Africa. By June 2010, the Fund had invested a further US $20 million.

1.2 Why Conduct this Mid-Term Review?

The purpose of this mid-term review is to provide independent and evidence-based information on the relevance, performance (i.e., effectiveness and efficiency), and the design and delivery of the initiative in compliance with the CIFA approval documents, which had required a mid-term review once 50% of the CIFA funds had been invested. It is also intended to provide lessons learned regarding the appropriateness of the CIFA model.

Although this report is intended, in part, to support CIDA and DFAIT's accountability requirements within the Government of Canada, the findings are expected to be useful to other Government of Canada departments and agencies (e.g., Department of Finance, Treasury Board Secretariat, and Export Development Canada) and other key stakeholders, such as CIFA Fund Managers Actis LLP (United Kingdom) and Cordiant Capital Inc. (Montreal).

The mid-term review was conducted jointly by CIDA's and DFAIT's evaluation services.

1.3 Context

Africa is the world's second largest and second most populous continent after Asia. Africa consists of 53 independent countries that have achieved diverse levels of social and economic development. Sub-Saharan Africa is home to 34 of the world's 49 least developed countries. In 2002, Sub-Saharan Africa had the highest proportion of people living in poverty, with 46% of its population- approximately 300 million people- living below the international poverty line of $1

[3] The program is designed to run between June 2005 and December 2013. However, there is an ability to extend the Fund for up to 2 years providing there is an agreement and an economic case.

per day.[4] Progress has since been slow and this portion has declined only marginally to 41% and off-track to achieve the 2015 target of 23.4%.[5]

CIFA was established when private equity flows to Africa were extremely small. Due to the weaknesses in governance, security, and economic policy and infrastructure of most Africa countries, private investors were shying away from the continent. Investors preferred to invest in the more dynamic, less risky and more lucrative emerging markets, particularly Asia and Latin America. According to the Emerging Markets Private Equity Association (EMPEA), there were only a handful of relatively small Private Equity Funds (PEF) operating in Africa at the time.

Nonetheless, during the period of 2002 to 2008, improvements were seen in many African countries mainly due to the adoption of effective economic reforms supported by both multilateral and bilateral institutions, and better governance and conflict resolution. Key drivers to these improvements included:

- Greater stability arising from more widespread democratic government and the implementation of market-oriented policies;
- The dramatic increase in Asia-Africa trade, together with the USA's drive to diversify oil risk by increasing oil imports from the west coast of Africa;
- The restructuring of the South African economy through the introduction of legislation related to the Black Economic Empowerment ("BEE"), leading to a wave of change of control activity;
- The unlocking of other large consumer markets, such as Nigeria and Egypt, through deregulation and liberalisation;
- The rapid rise of the private sector and an increase in the number of well-managed domestic private companies; and
- The significant increase in flows of capital and people from the African diaspora into the continent.

According to the World Bank, real GDP rose by 4.9 percent a year between 2000 and 2008, more than twice the pace observed in the 1980s and 90s. Telecommunications, retailing and construction sectors were booming. Private investment inflows were surging, and Sub-Saharan Africa had become a substantial player in emerging-market banking.[6] Almost 50 percent of the growth in Africa's largest banks came from portfolio momentum – the market's natural increase, underpinning a strong overall market expansion. Today, the financial sector is outgrowing GDP in most of the continent's main markets.

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[4] *The Millennium Development Goals in Africa: Promise and Progress*, UNDP and UNICEF, 2002

[5] *Mutual Review of Development Effectiveness in Africa: Promise and Performance*, a joint report by the Economic Commission for Africa (UNECA) and the Organisation for Economic Cooperation and Development in consultation with the NEPAD Secretariat, 2009

[6] *McKinsey Report on Africa (A Continent on the Move)*, June 2010

The following table illustrates the extent to which development finance in Sub-Saharan Africa changed between 2002 and 2007, demonstrating less reliance on official development assistance and more on domestic revenue and private investment flows.

Table 1: Development Finance for Sub-Saharan Africa (US$ billion nominal)

Source	2002	2003	2004	2005	2006	2007
Domestic Revenue	70.5	92.2	12.5	154.4	181.5	201.8
Private Flows	9.7	16.7	22.2	29.9	30.4	53.3
ODA	18.9	24.5	26.0	32.2	40.0	34.2
TOTAL	**$99.1**	**$133.4**	**$170.7**	**$216.5**	**$251.9**	**$289.3**

Source: Development Finance in Africa. OECD/Economic Commission for Africa, November 2008.

Furthermore, private equity fundraising for Sub-Saharan Africa tripled from approximately $800 million US in 2005 to over $2.2 billion US in 2008, and the trend continued in 2009.[7] Investor appetite changed fundamentally as the 2009 EMPEA/Collier *Capital Emerging Markets Private Equity Survey* reveals; institutional investors' interest in Africa has grown sharply, with 38% of those investors surveyed having invested in Africa compared to 4% in 2006. Africa's share of global private equity investment remains modest but has more than doubled during these years from 3% to 6%.

The number of private equity funds (PEFs) investing in Africa has also increased sharply. Emerging Markets Private Equity Association (EMPEA) has identified at least 37 PEFs that are active in Africa. The great majority are, like CIFA, generalist and Pan-African funds. Funds targeting specific countries, sectors and small and medium-sized enterprises (SMEs) are increasingly numerous, although their size is often quite modest in comparison to generalist and Pan-African funds. An increasing number of PEFs are targeting new countries that had attracted little attention in the past. Nevertheless, South Africa still receives the largest proportion of private equity investments and attracts approximately 70% of all foreign direct-investment in Sub-Saharan Africa.

The outlook remains quite bullish, according to the EMPEA, in spite of the world economic crisis. Development finance institutions continue to play a large role in the region. While official institutions fill current funding gaps, greater private equity development in Africa promises to both attract and absorb new private investors.

[7] *IMF Regional Outlook* – Sub-Saharan Africa, September 2008; *World Bank Global Development Finance*, 2008; *OECD Development Cooperation Report*, January 2008

1.4 CIFA Profile

1.4.1 Expected Results

The Canada Fund for Africa Act, assented to on April 12th, 2002, established the CFA to provide contributions for the economic and social development of Africa in fulfillment of the objectives set out in the NEPAD. The Minister of International Cooperation was designated the Responsible Minister by Order in Council on the same date. While drawing on the full resources of CIDA and of Canada's diplomatic missions and aid infrastructure to fulfill its mandate, the CFA was to remain a unique and distinct program for the duration of its existence. It was administered by a specially designated Secretariat within CIDA's Africa and Middle East Branch, which liaised with the Department of Foreign Affairs and International Trade, and provided oversight for CIFA.

CIFA was created as a commercially viable and self-sustaining provider of risk capital for private investments in Africa to generate growth. It was managed under a limited partnership structure. The Fund covered the period from June 2005 to December 2013, included a budget allocation of $100 million, and pursued three objectives to:[8]

1. Increase public-private investment into Africa;
2. Confer a beneficial development impact on Africa by way of increased foreign direct investment; and to
3. Maximize the beneficial impact of the Fund's activities on Canadian interests, including benefits to Canadian businesses operating in Africa.

The 2002-2008 the CFA Performance Review Plan)—developed to fulfil a Treasury Board Secretariat requirement for a performance measurement framework—outlined the expected results (long-term, intermediate and immediate) and the monitoring and reporting, audit, and evaluation strategies for CFA and its components including CIFA. The long-term outcome identified in the framework was: increased and sustainable development of Africa. Additionally, four intermediate outcomes were identified as part of this framework. These included:

1. Enhanced African capacity to achieve development goals;
2. Expansion of economic growth in Africa;
3. Strengthened institutions and governance in Africa; and
4. Fulfillment of the G8 Africa Action Plan (2002) commitments to NEPAD.

Regarding CIFA, the framework identified the initiative as likely to contribute to the intermediate outcome related to the expansion of economic growth in Africa. Furthermore, it identified a number of outputs and immediate outcomes that CIFA was expected to generate. These are detailed in table 2.

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[8] *Canada Helps Build New Partnership with Africa*, PMO Press Release, June 27, 2002

Table 2: CFA/CIFA Performance Measurement Framework

CIFA Contribution	Performance Indicator	Data Sources	Responsibility
<u>Outputs</u>: Increased opportunities for investment in Africa	• Number of projects financed through CIFA • Number of investment opportunities for Canadians	• CIFA Investment Reports • CIFA Financial Reports • Mid-Term Review • Summative Evaluation	• Fund Managers • CIDA
<u>Immediate Outcomes:</u> Increased opportunities for investments in Africa	• Increased foreign direct investment in Africa	• Reports and/or monitoring • Mid-Term Review • Summative Evaluation	• Program partners • CIDA • CIDA

2.0 Methodology

This section describes the main elements of the methodology used for the mid-term review.

2.1 Scope

The mid-term review covered activities undertaken under CIFA from the G8 Kananaskis Summit announcement on June 28, 2002 through to December 31, 2008.

Based on the Treasury Board of Canada Secretariat's *Evaluation Policy*, the Organization for Economic and Co-operation and Development Assistance Committee's *Quality Standards for Development Evaluation*, and CIFA's nature, the following review issues and questions were identified:

Relevance

1. To what extent is CIFA aligned with the Government of Canada's and NEPAD's priorities?
2. Is a Limited Partnership structure the most appropriate mechanism to implement CIFA?

3. Is there a satisfactory demand from Canadian and foreign investors for CIFA funding?

Effectiveness

4. Is there early evidence that CIFA will generate and sustain its expected intermediate outcomes at the Fund level/portfolio level?
5. What are the direct and indirect impacts of increased investment in Africa?
6. Were there any positive or negative consequences of CIFA?
7. How do development benefits generated by CIFA compare with other private sector development initiatives?

Efficiency

8. What has been the performance of the Government of Canada and Fund Managers in fulfilling the terms of the LPA and Side Letter?

Design and Delivery

9. How effective was the Government of Canada process of Fund Manager selection?
10. To what extent can the achievement of CIFA objectives be measured?

Two primary lines of evidence were used in the mid-term review. These included document, file and literature review; and key informant interviews.

A large number (327) of documents and files were reviewed by the review team. To ensure confidentiality of the Fund Managers and funded companies, alphanumeric identifiers were used. Furthermore, a document coding structure was developed to facilitate the alignment of the relevant notes, and of the qualitative and quantitative data serving as evidence in relation to the review issues and questions.

Five categories of key informants were interviewed. These included CIFA program personnel, other Government of Canada officials, Fund Managers, CIFA-funded companies, and prominent experts. Many of these interviews were conducted during the two field missions that took place between February 3 and 19 and between April 10 and 20, 2010, while the remaining interviews were conducted in Canada during the months of February to April 2010. During the field missions, a number of site visits were conducted to complete the necessary interviews .

2.2 Sample for Field Missions

A variety of methods was used to sample the CIFA portfolio companies for the field mission site visits, including both purposive and random sampling. Given the distribution of CIFA investment by region/country and income level, South Africa and Nigeria were included on a consensus basis. One country each was drawn to represent the Aureos Funds for West Africa and for Southern Africa. Ghana was selected in consultation with CIDA because of its relatively large number of investments, while Zambia was selected randomly from among the Southern Africa countries. Kenya was also chosen for a field mission site visit for the Actis Regional Office for Eastern and North Africa.

Within South Africa, Nigeria, Zambia and Ghana, two portfolio companies each were selected randomly. However, in the case of South Africa, one of the randomly chosen portfolio companies had to be replaced at the request of the Fund Managers.

One other portfolio company within the group administered by Actis was also drawn randomly; a Rwandan financial institution. One Canada-based portfolio company located in the Democratic Republic of Congo was included, as requested by CIDA, because of the limited availability and appropriateness of the remaining Canada-based portfolio companies.

2.3 Limitations

The CIFA mid-term review was conducted under challenging circumstances from several perspectives because of CIFA's unique public – private partnership and because of the Government of Canada's role as a Limited Partner. The management norms and practices with regard to access to information are significantly different by necessity with greater public access to information in government and less private sector disclosure of any commercially sensitive information

The consequent security requirements and procedures imposed on the review team in the handling of all secondary and primary data was in itself a notable constraint. While this constraint may not have significantly limited the findings, it has limited the ability of CIDA's Evaluation Directorate to subsequently verify the evidence-base of the findings.

The involvement of the key CIFA stakeholders in determining the mid-term review methodology, particularly with regard to sampling CIFA portfolio companies undoubtedly introduced some selection bias. The heightened sensitivity of Fund Managers to the review team's access to and inadvertent disclosure of commercially sensitive information on a portfolio company experiencing financial difficulty resulted in a randomly selected company being dropped from the sampling framework.

Special steps also had to be taken to ensure the independence of the mid-term review since the Fund Managers wanted to participate in face-to-face interviews with portfolio company managers. Therefore, in the first part of the interviews, Fund Managers introduced the reviewers and participated in a generic review of economic conditions; in the second part of the interviews, the portfolio companies were interviewed *in camera* by the reviewers.

The most important constraint faced by the review team was the unavailability of data on some key mid-term review indicators, due to deficiencies in:

- Records and statistics kept on the demand or participation for CIFA funding;
- Data about the private sector partners who made CIFA investments;

- Data relevant to the calculation of management costs in relation to the achievement of results (i.e. cost-effectiveness);
- Quantitative data about benefits to Canadians;
- Statistics kept about portfolio company employment; and
- Information on taxes paid.

There was very limited scope for the review team to remedy these data gaps. There were no readily available alternative secondary data sources or proxy indicator data that could be used, so the evidence-base for the related findings, especially with regard to success/results achievement is admittedly weak.[9] Furthermore, the CIFA Internal Rate of Return (IRR) could not be accurately calculated nor compared to other PEFs due to:

- The limitations of the Fund Managers' reports;
- The lack of statistical series for CIFA;
- The confidentiality of information on the IRR performance;
- A lack of credible industry benchmarks;
- The lack of similar Public/Private Equity Funds for comparison; and
- The risk of drawing invalid conclusions from comparisons with Private Equity Funds with varying amounts of capital, investment strategies, sectoral preferences, and objectives.

3.0 Key Findings

This section presents the results of the review as they relate to the four review issues.

3.1 Relevance

3.1.1 CIFA is Aligned with Government of Canada and NEPAD's Priorities

The evidence gathered from the document review and interviews confirms that CIFA is consistent with the Government of Canada trade, private sector development and economic growth priorities for Africa.[10]

[9] It is worth mentioning that some data was lacking due to the fact that fund managers have never been asked to collect. Data requirements should have been designed before the fund was put in place.
[10] *Proposed Canadian Response to the Report of the UN Commission on Private Sector Development*, CIDA, February 10, 2004; *Report to Parliament (Chapter on Canada's Participation in Regional*

Canada's International Policy Statement, 2005

The *Canada's International Policy Statement* specifically identifies CIFA as an initiative in support of private sector development (PSD), "[T]he Fund will have a minimum targeted aggregate capital of $200 million, half of which has been provided by Canada, and will provide risk capital to support growth-generating private investments."

Consistent with the Government of Canada priorities, the largest proportion (20%) of the CFA funding was provided to the CIFA initiative.

In addition, the Briefing Book for a CIFA Investor Panel meeting, dated April 2006, states that:

- CIFA is fully aligned with, and supports, the goals and objectives of Canada's international development policies;
- It represents an example of public-private partnership and is a new and innovative approach to development that is entirely consistent with CIDA's policy on expanding opportunities through economic growth;
- It is also aligned with key recommendations of the Blair Commission for Africa; and
- CIFA represents an example of horizontal cooperation and collaboration between two government departments to achieve international development results.

While seeking approval for this new initiative, CIDA presented CIFA as a Government of Canada priority that will be reported in CIDA's annual Departmental Performance Report (DPR), which the Minister of International Cooperation presents to Parliament. The DPR reports on CIDA's performance are based on results statements outlined in the Agency's Report on Plans and Priorities (RPP).

The Fund was also determined to be consistent with the NEPAD, contributing to a number of its objectives, such as: to place African countries (individually and collectively) on a path of sustainable growth and development; to halt the marginalisation of Africa in the globalisation process, and to fully integrate Africa into the global economy.[11] While it is too early in the CIFA life cycle to make a credible and concluding assessment of the Funds' contribution, several anecdotal examples were identified from interview responses pointing to investment in training and job creation, good management that preserved jobs, good governance that improved sustainability, and the development and sophistication of local capital markets and regulatory frameworks.

Development Banks, CIDA, 2004; *Report to Parliament on Canada's ODA program 2008/2009*, CIDA, 2009

[11] *New Partnership for Africa's Development*, adopted by the African Heads of States at the 37th Summit for the Organization for African Unity, July 2001

While the continued need for investment in infrastructure in Africa continues to be very large, private equity financing in Africa has been growing rapidly. Since many private investors are now entering Africa on its own merits, CIFA, as a source of public-private investment, may no longer create significant added value. This is evident from the fact that in October 2009, the EMPEA reported that fundraising increased from US$800 million in 2005 to US$2.2 billion in 2008. Foreign direct investment in Africa as a whole reached $14.2 billion in 2008*.* Thirty-eight percent (38%) of Limited Partners are now investing in Africa compared with only 4% in 2004.

3.1.2 CIFA's Limited Partnership Structure was the Most Appropriate Mechanism

Given limited knowledge and expertise within the Government of Canada to carry out CIFA's mandate, the Limited Partnership model allowed CIFA to engage qualified Fund Managers, in order for the Fund to attract private sector investments and operate independently. The model was effective in generating significant leveraging of resources. A number of key informants indicated that the Limited Partnership structure, as negotiated, was, however, more effective in achieving the fundraising objective than in pursuing the Government of Canada's developmental and Canadian benefit objectives. However, given the limited period covered by this mid-term review, it is too early to draw clear conclusions. The greatest strength of the Limited Partnership model was its ability to catalyze fundraising from private investors, while its main constraint was the quality of reporting and monitoring reports provided by Fund Managers that affected Government of Canada's accountability to Parliament, and thus to the Canadian People. A number of other strengths and limitations of the Limited Partnership model were identified based on the review.

The other perceived strengths included:

- The Government depends on professional Fund Managers who manage CIFA at arms' length with a target of achieving optimal results;
- The Government is shielded from liabilities for more than its investment;
- The ability to reach a broad spectrum of companies and the capacity to invest and create value in these companies, without the government having to create its own resources to do so;
- The ability to access talent to implement and manage investments that are not found within the Government of Canada;
- The returns that may be generated through good investments typically out-perform those that can be achieved through public market investing; and
- The ability to customize the strategy to pursue through Fund Manager selection.

The other perceived limitations include:

- While the Limited Partnership model limited the Government of Canada's exposure to risks, including reputational risk and financial liability for eventual losses, Government of Canada was well aware that its role as a limited liability partner was to limit its influence in relation to the scope and orientation of the investments;

- While reporting requirements, as approved by Treasury Board, were met, Government of Canada's accountability on development issues is constrained by the quality of reporting and monitoring reports that are provided by the Fund Managers;
- While the typical range for PEF annual management fees is between 2-2.5%, the management fee for CIFA is 2.5% per annum, which is within the range, however at the higher end. It reflects the cost of branding, infrastructure development and the special reporting requirements negotiated with Fund Managers[12]; and
- The long-term nature of the investment, the lack of liquidity and the fact that, under normal circumstances, the capital is tied up for 10 years without the ability to withdraw.

3.1.3 Insufficient Evidence to Determine Satisfactory Demand from Canadian and Foreign Investors for CIFA Funding. It is too early to make clear conclusions.

The demand for CIFA funding from Canadian and foreign investors cannot be reliably determined. Interview responses indicated that one of the Fund Managers did not keep any statistics to track the demand for CIFA funding. From the available information, it was stated that demand from Canadian businesses was very low since CIFA was not conceived to subsidize private sector investment in Africa. Furthermore, the number of initial requests for information cannot be equated with solid demand for CIFA funding.

3.2 Effectiveness

3.2.1 Too soon to Determine if CIFA will Generate and Sustain its Expected Intermediate Outcomes at the Fund/Portfolio Level - However, some Positive Results are being Observed

The performance of most portfolio companies has been negatively affected by the global financial crisis and subsequent economic downturn, particularly in more open markets like South Africa and Nigeria[13]. CIFA's performance as measured by the IRR is difficult to assess at the mid-term in the absence of benchmarks and sufficiently similar PEFs in Africa of which there

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[12] It is worth underlining the difficult operating environment in Africa. Things were being asked of the portfolio companies which had never been done previously before. Time and effort in doing so is consequently higher.

[13] All mining companies were affected since they are listed on a stock exchange. Nigeria was hit by oil prices and the depreciation of the Naira. The Fund Managers ensured that the companies had the required capital to ride out the storm; of course, that meant an increased debt load. They also encouraged various cost reduction measures. Some companies were affected directly by global markets due to a decrease in non-resident nationals remitting capital home. The economic crisis also had an impact on working capital requirements of companies, with CIFA backstopping some of its companies - Impact of the Global Economic Crisis on Africa, World Bank, October 2009

are few. CIFA was showing improvement at year-end December 2009, and is expected to continue as the investments mature and global economic recovery keeps strengthening.

Interpretation of these results should be further contextualized by the fact that many of the challenges faced by CIFA have been circumstantial. CDC attributes much of the fund's poor performance to the credit crunch and the fact that some key investments have been severely impacted upon by both the global economic crisis and rising oil prices.

While it is not possible at this point to come up with an overall rating, CIFA has several positive attributes. According to CDC's assessment, CIFA had a successful start-up, exceeding the initial fund size target of US$150 million by US$61 million. Furthermore, CIFA has realized good diversification in its investment portfolio based on the wide range of industries represented and relatively large regional exposure among both low-income and middle-income target countries. Additionally, CIFA has been successful in attracting private investment, attracting eight private investors who have jointly committed 52.3% of the fund's capital. Overall, CDC determined that, although CIFA's mid-term financial performance has been assessed as below expectations, the fund could rebound given favourable market conditions.

Despite the economic downturn of some of the CIFA portfolio companies, there were positive outcomes that were observed, such as:

- Two companies strengthened their management teams;
- Two other companies benefitted from follow-on investments from CIFA;
- Another company obtained follow-on investment from non-CIFA sources and bought out some debt from some banks;
- One company delivered very strong growth (20% EBITDA);[14]
- CIFA exited one portfolio company at a high return; and
- Another company emerged as one of the best performers in 2009 on a relative basis among its country's institutions in the same sector.

Furthermore, CIFA Fund Managers responded to the global economic crisis with:

- An increased focus on portfolio management and focus to make sure that the portfolio companies had sufficient liquidity/capital; and,
- An increased focus on capital expenditures (Capex) and operating costs.

The portfolio company managers, while investing in inefficiently managed companies and engineering turn arounds, noted that

- All were able to improve their performance;

[14] Earnings before interest, taxes, depreciation and amortization.

- One reported two negative side effects in that:
    1. The investment increased the level of debt assumed by the company, which made it difficult for the company to pursue acquisition opportunities; and
    2. That the management incentive structure created short-term thinking rather than long-term thinking due to bonus incentives tied to exit from the company by the Fund Managers;
- As for decreases in investment income, overall statistics are not available; however:
    1. In the case of one company, the decision to go rural became a problem when gas costs increased, which resulted in a general slowdown, but there were also management issues;
    2. Declines at another company seemed to be attributable to technological issues; and
    3. Another company reported that in June 2009 it had a US$3.7 million capital shortfall (negative number) because of the mismanagement of the previous management team; nevertheless, the company reached a break-even point in December 2009.

While mitigating the long-term effects on performance, Fund Managers continue to advocate corporate social responsibility (CSR) and compliance with local taxation laws and regulations. Most of the 15 CIFA portfolio companies demonstrate commitment to CSR. The Fund Managers pointed out that although they do not impose a CSR policy on their portfolio companies, some companies nevertheless demonstrate CSR practices particularly, if they plan to sell to another strategic investor. Company respondents reported that almost all performance indicators decreased after 2007, but the situation is stabilizing again.

As for compliance with local taxation laws and regulations, it is not possible at this stage to quantify the effect, which CIFA is having on tax remittances and government revenue, given the limited information provided by the Fund Managers on taxes paid before the CIFA investments and the taxes paid now. That said, under the codes of conduct to which the portfolio companies adhere, the Fund Managers are committed to ensure that portfolio companies respect the local taxation laws and regulations and refrain from tax evasion. The Fund Managers have helped to formalize the financial record keeping of the portfolio companies, as well as corporate governance. There is little tolerance for tax avoidance as many portfolio companies found that this route would increase taxes or "other informal" payments in the end. For example, one bank has instituted bank accounts for all employees to receive salaries. While Nigeria remains a largely cash-driven economy, this is the first step for the Central Bank and the government to have an idea of capital float. In general, CIFA is seen as helping to ensure that businesses are both profitable and pay taxes, and this is a positive indication for optimism regarding government tax revenue. Moreover, the review team did observe an increase in tax remittances by a number of CIFA portfolio companies. However, this cannot be considered a firm conclusion due to the mixed quality and the incomplete nature of the information available in the reports provided by the Fund Managers.

3.2.2 Some Direct and Indirect Impacts of Increased Investment in Africa

From CIFA's inception until the end of 2008, the revenue generating companies comprising CIFA's investment portfolio generated an increase in investment turnover from US$ 2 240 million to US$ 3 014 million, representing a 35% increase.[15] Furthermore, seven of the 11 revenue-generating companies demonstrated an increase in investment (investments in pre-revenue companies as well as investments in SMEs were excluded from this analysis.)

Using 2008 financial data from the portfolio companies, it was determined that the direct increase in formal employment attributed to CIFA through equity shares resulted in substantial gains in household income, company profits and savings and tax revenues with a total value added of US$ 91 million. Overall, CIFA's portfolio companies demonstrated a modest increase in total employment. Total employment of the portfolio companies increased from 33 323 to 34 242 people, representing a 3% rate of increase. In total, six of the 15 portfolio companies demonstrated an increase in employment. From this result, CDC determined that the total number of jobs directly attributable to CIFA investments was 2 782. However, because these results were obtained by multiplying employment gains demonstrated by each company by CIFA's equity share, this estimate is only a proximate representation.

Furthermore, using economic input-output tables, CDC estimated that CIFA investments resulted in indirect value added gains for portfolio company suppliers of US$ 58 million and induced value added gains of US$ 68 million. Finally, the total estimated value added impact for the private sector economy of target countries was estimated to be US$ 217 million. However, these findings are limited for three reasons: a) the concerns of estimating direct employment through equity share; b) the inability to capture the economic impact of informal employment; and c) the unknown quality, validity and timeliness of economic input-output tables available for the target countries in question.

Finally, CDC rates CIFA's impact on private sector development in target countries as satisfactory. Although indicators such as within-country procurement, the weighted average amount spent on training per employee and improved corporate governance suggest positive results, CDC expressed concern over the lack of an established successor fund for CIFA investments. Furthermore, because nearly 80% of CIFA investments are concentrated in three target countries, CDC suggested that the geographic spread of any positive contributions to private sector development is likely to be limited.

3.2.3 CIFA Contributed to Some Positive Development Outcomes

While there is insufficient information to draw any conclusions on the achievement of development outcomes, there is anecdotal information regarding: additionalities; deepening

[15] *Annual Review Report for Year End December 31, 2008,* CDC

capital markets; use of new technologies and skills development; employment gains and losses; and growth in exports.

Additionalities

The CIFA model assured a certain measure of additionality by strengthening the ability of African countries to attract private sector investment and by fostering portfolio company access to needed capital both initially and later as they became well placed to attract investment on their own. In that regard, CIFA has added value, and is achieving those goals. It was catalytic and innovative. In the views of an external expert, this catalytic impact was CIFA's greatest success. There were also examples of qualitative additionality, such as the ones described in the highlight box below.

Based on Fund Managers' interview responses, there are also additional benefits accrued to Cordiant because of its CIFA involvement. Investing in shares of companies that had already been listed on the TSX did not add value, since these companies were already channelling investments into Africa. Since CIFA was established, the conditions for economic growth have also changed and private investors are now increasingly investing in Africa on their own. Nevertheless, CIFA was the right model at the time of its establishment to add value by involving qualified Fund Managers and attracting private sector investors to Africa.

Qualitative Additionalities

- CIFA helped to educate two portfolio banks on how to lend and apply credit risk assessment tools, which ultimately helped to improve bank governance;
- A bank, one of the portfolio companies in CIFA, indicated that Actis [CIFA] brought in specialists and consultants to improve lending methods and cash management. The Bank benefitted from training that would otherwise not have been available to improve their business practices;
- The ability for the banks to improve their lending and cash management process helped improve government revenues through taxes remitted by way of corporate taxes paid by banks as their businesses grew and prospered and by way of income taxes paid by customers of the banks that were required to disclose income that otherwise would not have been disclosed;
- There was more accountability (in what was traditionally a cash society with little record keeping) due to the requirement to demonstrate an ability to repay loans and have financial statements to apply for loans; and
- The ability of the government to track income was a way for them to also increase tax revenues.

Deepening of Capital Markets

The review team identified evidence in three CIFA portfolio companies of deepening of capital markets. From 2005-2007 about $6.4 billion in private equity capital was invested in Africa. The Fund invested about $170 million during that time, i.e. about 3%. For all publicly traded companies the Fund Managers' stake is about 5%. One benefitting bank did the first syndicated loan for $20 million to expand the telecom sector. For some quoted investments, CIFA brought additional liquidity, although they were all already listed on the TSX. Local portfolio companies are seen as the spearhead of the movement for capital market deepening to the extent that they press governments for changes. The emergence of local business communities is an important side effect of private equity fund investment, which acts as a catalyst for capital market deepening. In markets where there is a stock exchange, local enterprises sometime find it easier and more advantageous to list on the exchange than accept equity financing. Some feel that listing allows them to retain more independence and control over their enterprises.

Use of New Technologies and Skills Development

Six of the fifteen CIFA portfolio companies reported the use of new and more efficient technologies. As new skills were required, several companies set up training programs to educate and improve worker skills. One portfolio company invests in a training "university" with bursary programs, established leadership in bringing skilled trades people into the industry. Another company invests in training, employment equity and dedicates a percentage of net profit to training. Aureos arranged a management-training program for portfolio companies. One company encourages employees to return to school. Overall training improved and increased with the CIFA investments.

Employment Gains and Loses

Fund Managers reported both job creation and job loss as a result of CIFA's investments in the portfolio companies: job creation related mostly to skilled jobs that were required as the portfolio company improved its productivity and efficiency; and, job loss occurred as a result of the economic downturn or when portfolio companies moved into other more profitable activities that required a different skill mix. In the latter scenario, some training was offered to help workers adapt to new requirements. Several benefitting companies gave evidence of job creation in their firms, directly resulting from CIFA, which ranged from small numbers below ten to over a hundred. However, clear conclusions cannot be drawn due to the inadequacy of the data contained in the development results section of the quarterly reports. In particular, there is no way of attributing specific results to CIFA due to the lack of benchmarks or statistical data indicating which job gains resulted from a given investment.

Growth in Exports

Interviews with portfolio company managers, external experts and the Fund Managers revealed evidence of portfolio companies achieving some growth in exports subsequent to CIFA investment, such as:

- While some companies exported before the CIFA investment, others benefitted from the investment to grow exports, in one case from 0% to 40%;
- CIFA helped other portfolio companies increase export activities and encouraged export to neighbouring countries;
- One company expanded into Africa and grew the export division from 0% to 17% of their business (approximately US$ 850,000 – 1 million).[16]

However, for the most part, many of the portfolio companies addressed local markets and serviced a local need. Given the sizes of the portfolio companies, the scale of operations were typically not significant enough to generate export opportunities.

3.3 Efficiency

3.3.1 Fund Managers' Performance: Weak Branding and Reporting, but Good Communication

The performance of the Fund Managers in fulfilling the terms and conditions of the Side Letter is addressed in terms of branding, reporting and communication. The management fee for the Fund Managers in regards to these activities is 2.5%, which is within the typical range for PEF management fees (2-2.5%), however, at the higher end.

Branding

The CIFA Terms and Conditions approved by the Treasury Board define CIFA Branding as: "Consistent with a commercially focused private equity fund for Africa, Actis and Cordiant will use their commercially reasonable efforts to create a brand and identity for CIFA which is both distinctively Canadian and which has an identity distinct from other funds managed by Actis and its affiliates."

While the Government of Canada had insisted that CIFA be set up and branded as its own initiative, the investments in the individual portfolio companies were in most cases presented as Actis investments in the Actis press releases[17] and in the Actis Managers' website.[18] CIFA's portfolio was usually referred to as Actis' portfolio. While the establishment of a CIFA website[19] was useful, a detailed review of its contents revealed that it offered only limited information to people with real interest in financing development in Africa. Private sector investors in CIFA were generally not proactive in branding.

It was noted, however, that the Canadian Fund Manager Cordiant contributed to publicizing and branding CIFA through two CIFA launching ceremonies in Toronto and Accra. Nevertheless,

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[16] Equivalent for 6-7 million Rand, as of December 8, 2010.

[17] These press releases were posted on the Actis website.

[18] www.act.is and www.cordiantcap,com

[19] This CIFA website (www.cifafund.ca) was set up by the Fund Managers in fulfilment of a commitment made to the Government of Canada in the Side Letter relative to branding.

there are indications that the Government of Canada did not negotiate adequate arrangements to ensure proper branding by Fund Managers for the entire duration of the Fund.

Reporting

Fund Managers filed the required reports regularly, however the reports were of insufficient quality[20] regarding the information they contained, particularly on development impacts and Canadian benefits. There was also a lack of explanation about quarter-to-quarter changes. However, many interviewees were of the opinion that some of the development impacts and Canadian benefits are broader in nature and could therefore not be reported. While the routine quarterly reports are usually filed in a timely manner, documents and reports prepared for the IP[21] meetings are often released only one day before the meeting, which does not provide the Government of Canada sufficient time to brief its representatives.

Monitoring by CIDA and DFAIT programme personnel included review of reports, quarterly meetings with Cordiant, visits to some of the investment companies and participation in bi-annual IP meetings. Funds for CIFA monitoring were always available and were managed by the CIDA/Africa Branch, in recent years.

Communication

As for communications between the Government of Canada and the Fund Managers, their extent and quality vary. Both DFAIT and CIDA submit questions to the Fund Managers orally and in writing concerning the financial performance of CIFA and individual portfolio companies, as well as various issues arising from the quarterly financial reports. In addition, the Government of Canada conducted informal meetings with Cordiant to review the progress of CIFA, including Canadian benefits. Five out of nine CIFA program officials rated communication with the Fund Managers as ‘excellent’, and four as ‘good’, an indication of satisfaction on the Government of Canada side with the communications. However, the Fund Managers did identify the high level of turnover among CIFA staff as a challenge for communication, since this entails the loss of corporate knowledge and memory. Continuity in maintaining the relationships with the Fund Managers is desirable. The Fund Managers also recognized that there was always very positive, ongoing dialogue. Overall, the Fund Managers were able to maintain good relations and communications with the Government of Canada representatives even though their performance on meeting the branding and reporting requirements of the Side Letter was inadequate.

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20 Derived from triangulation of a document review by the evaluation team, as well as a summary of responses from three senior Group 1 officials responsible for monitoring.

21 Based on more than 16 report-related comments by Group 1 interviewees (CIFA Program personnel).

3.3.2 Good Performance from Government of Canada Considering its Lack of Experience with PEFs

Key informant interviews indicated that the Government of Canada was constrained by its lack of experience with PEF and the involvement of a large number of parties with different agendas.[22] Furthermore, the Fund Managers considered the Government of Canada to be a supportive Limited Partner, yet still holding Actis and Cordiant accountable for the success of CIFA.

Among the limited partners, the Government of Canada was the most active participant in the IP. While the Government of Canada is using the IP to the maximum, its usefulness is limited both by its formal terms of reference and the very late submission of documents prepared by Fund Managers in advance of the twice-yearly meetings. There were also some occasions when the Fund Managers informed the IP that they rejected opportunities to invest due to ethical considerations. Nevertheless, they affirmed that the Government of Canada's presence helped to ensure that the investment selection parameters were applied.

3.4 Design and Delivery

3.4.1 Mixed Results Regarding Government of Canada's Process for the Selection of Fund Manager

In retrospect, the quality of advice about Fund Manager selection, which the Government of Canada had received, was mixed. [23] Advice was strong on the selection process, but less so on selection criteria and the assessment of both the *Expressions of Interest* and *Bids* received. Four broad criteria were used in the selection of Fund Managers:

- Qualifications of managers;
- Performance of managers and their track record;
- Experience of managers in operating a private-public PEF; and
- Manager's knowledge of Africa along with a local presence.

The selection process nevertheless moved speedily and effectively as it allowed the establishment of a short list of well-qualified candidates and the eventual selection of highly competent managers. While the selection of Fund Managers proceeded in an effective and timely manner after the 2002 Kananaskis G8 Summit, there was almost a two-year delay in launching CIFA; a process that is normally concluded within six months. Much of the delay was because of abnormally long negotiations with Fund Managers.

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[22] Due to the fact that the CIDA/DAFAIT had never done any direct equity investment or worked with PEF.

[23] Advice was provided by International Financial Consulting Ltd. and by an outside a blue-ribbon team of PEF and financial experts assembled by CCC.

3.4.2 No Clear Structure to Measure Achievement of Objectives

While the Government of Canada had developed a comprehensive Performance Measurement Strategy (PMS), it could not be implemented as planned. The Government of Canada could not agree with Fund Managers on a report template that adequately addressed PMS indicators for all three CIFA objectives. While the financial reports are useful, they also might have been improved, had the reporting been less frequent but more analytical. In particular, greater consistency in the financial reports would have helped, as would historical financials, actual financials and comparison to budget for the investments.

In the context of the CIFA mid-term review, the PMS used by the Fund Managers was insufficient to measure return on investment for immature funds. The problem is that the existing PMS neither provides for a baseline against which CIFA-related development impacts can be measured, nor does it require Fund Managers to isolate, in their development reports, those impacts that can be attributed exclusively or mainly to CIFA investments.

4.0 Conclusions

Based on the identified findings, the review concludes that:

- CIFA was an appropriate instrument at the time of its creation. The design of CIFA was done with proper consultations, and appropriately aligned with Government of Canada international development assistance policies and NEPAD sector priorities. Due diligence was exercised in examining options and alternatives prior to selecting a limited partnership structure. The Government of Canada’s role as a limited liability partner limited its influence on Fund Managers during negotiations and thereafter.
- Given limited knowledge and expertise within the Government of Canada to carry out CIFA’s mandate, the Limited Partnership model allowed CIFA to engage qualified Fund Managers, so the Fund could attract private sector investments and operate independently. The greatest strength of the Limited Partnership model was its ability to catalyze fundraising from private investors. The Government of Canada’s accountability to Parliament, and thus to the Canadian people, is constrained by the quality of reporting and monitoring reports that the Fund Managers provide.
- The CIFA model assured a certain measure of additionality by strengthening the ability of African countries to attract private sector investment. CIFA has added value, and in achieving its goals, was catalytic and innovative. This catalytic impact was CIFA's greatest success. Recognising that the establishment of a unique and innovative public-private equity fund would take time and incur start-up costs, the Fund realized management efficiencies once it was fully invested and additionalities were factored into the analysis.

Fund Managers had difficulty meeting their branding obligations outlined in the LPA and the Government of Canada Side Letter.

- The Fund's performance as measured by the IRR is difficult to assess at the mid-term in the absence of benchmarks and the limited number of similar public/private equity funds in Africa. While the negative 21% IRR at year-end December 2008 is somewhat lower than the comparative data available, the Fund was showing improvement at year-end December 2009, and this is expected to continue as the investments mature and global economic recovery keeps strengthening.
- The performance of most portfolio companies has been negatively affected by the global financial crisis and subsequent economic downturn, particularly in more open markets like South Africa and Nigeria. Fund Managers are taking measures to mitigate the long-term effects on performance while continuing to advocate corporate social responsibility and compliance with local taxation laws and regulations.
- While there is anecdotal information on the achievement of development outcomes, any conclusions with regards to CIFA's contribution to deepening capital markets, use of new technologies and skills development, or employment gains and losses must await the summative evaluation.
- At the time of this mid-term review, it was too early to conclude what impact CIFA has made on economic growth, development and employment in Africa, and the intended impact is catalytic in nature rather than statistically visible.

5.0 Lessons

The following are key lessons that were identified during the mid-term review regarding the implementation of such an initiative:

- Negotiations with qualified Fund Managers can be difficult, especially when seeking to adequately strike a balance between the expectations for commercial and development results;
- Branding CIFA as a unique Canadian Fund was designed to give Canada greater visibility internationally. This comes at a higher prices than relying on the fund-of-funds approach and is not consistent with the interest of Fund Managers to market their own brand;
- The Government of Canada designed the Fund to be managed by competent Fund Managers and to operate independently at arm's length as a limited liability partnership so that it could attract third party investors. This approach was effective in leveraging resources from third party investors that more than doubled the size of the Fund.

- While the Limited Partnership model limits Government of Canada's exposure to risks, including reputational risk and financial liability for eventual losses, such a model also comes with a loss of decision-making control. It limits the ability to modify terms and conditions during the life of the Fund, restricts influence over the Fund Manager implementation of the investment strategy, and reduces the ability to obtain detailed information on results achieved that were not specifically included in the agreed upon reporting obligations.
- To ensure that Government of Canada has sufficient information for future investments of similar nature, the articulation of the expected results, the definition of related performance indicators, and the data collection systems to be put into place need to be improved. Reporting requirements must be understood and accepted by all parties involved and associated resource requirements must be provided to fulfill the obligations. In future negotiations, the Government of Canada could explore the option to include in the LPA and/or Side Letter, provisions for ongoing oversight by the Government of Canada/Investment Panel of the quality of reporting by the Fund Manager, and provisions for a mid-term review and/or summative evaluation.
- A meaningful assessment of IRR results should be deferred until after the exit of the Fund.
- When the achievement of development results is an important objective, the intent of investment policies and the geographic restrictions should be coherent and mutually reinforcing. However, it must also be recognised that such an approach may lead to terms and conditions that are less attractive to third party investors.
- Currency exchange rate fluctuations should be taken into consideration when establishing IRR targets to ensure that the underlying assumptions for holding Fund Managers accountable for the achievement of expected results are made explicit in advance.

Additional lessons were identified during the mid-term review that could be useful for the summative evaluation in 2013:

- The availability of data, the management of commercially sensitive information were constraints to the mid-term review. Mitigation measures should be taken into consideration at the planning stage of the summative evaluation to improve the availability of data and cooperation of Fund Managers.
- This review was based on a limited number of indicators, including the assessment of IRR. Consideration should be given to a greater diversity of indicators to avoid the constraints encountered throughout the process of this mid-term review.
- The Limited Partnership model has its own legal framework and operational logic, in which partners have, on purpose, very limited accountability to better share risks among them. From a legal standpoint, CIFA cannot be analysed through a grant or contribution logic, more familiar to CIDA's operations. In effect, the Government of Canada has made a catalytic investment which has the potential to provide a healthy return to Canadian taxpayers on the sale of the equity stakes in 2013 (or 2015 if the extension is exercised). It

does not count as ODA, but it is making a contribution to the development of the corporate sector and corporate financing modalities in Africa.

- Throughout the design and implementation phases of CIFA, and in the mid-term review process, the nature of its distinct legal and financial framework has frequently been confounded with CIDA's more commonly used mechanisms to promote development. The distinct model of promoting and investing in a private equity fund needs to be more clearly in view when the final summative evaluation in undertaken.