

GHANA IMPACT INVESTMENT LANDSCAPE

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About GSG

The Global Steering Group for Impact Investment (GSG) is an independent global steering group catalysing impact investment and entrepreneurship to benefit people and the planet. The GSG was established in August 2015 as the successor to—and incorporating the work of—the Social Impact Investment Taskforce under the UK presidency of the G8. The GSG currently represents the National Advisory Boards in 21 countries plus the EU as members. Chaired by Sir Ronald Cohen, the GSG brings together leaders from finance, business and philanthropy to ensure measurable impact is considered in every investment and business decision. Its mission is to harness the energy behind impact investment to deliver impact at scale.

About Intellecap Advisory Services

Intellecap is a pioneer in providing innovative business solutions that help build and scale profitable and sustainable enterprises dedicated to social and environmental change. Intellecap Advisory seeks to build institutional capacity and channel investments into the development sector through consulting services, investment banking services, and knowledge and information services. Its work includes innovative and focused initiatives such as capital advisory services, intermediating impact investment capital, innovation management, strategy design, market research, stakeholder engagement and policy advocacy.

Founded in 2002, the Aavishkaar and Intellecap Group have directed US\$600million of capital to entrepreneurs working on several challenging problems sustainably through equity funds, venture debt vehicle, microfinance lending or investment banking intermediation.

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About Impact Investment and The Impact Economy

To navigate the complexity of achieving a future where no one lives in poverty and the planet thrives, we need a simple unifying principle: that it is the role of all actors in society to examine how their actions affect the people and the planet.

Impact investment optimizes risk, return and impact to benefit people and the planet, by setting specific social and environmental objectives alongside financial ones, and measuring their achievement. Impact management is a critical practice to reach this potential.

As more people and organizations get involved and become more successful in impact investing, there is a cumulative effect. A vibrant and growing impact economy can develop where businesses, investment and activity deliver tangible improvements in outcomes for people and the planet and people have choices. In the impact economy, businesses use their capabilities to optimize both their positive impact on the world and their financial return. Investors use their resources to optimize business impact, adding and creating value beyond what would otherwise be achieved. The momentum of more positive impact being generated enlivens the possibility of an inspiring future.

About the Report

The GSG is working to develop and strengthen the impact investment ecosystems in Africa. It does so by helping to unlock current supply and attract new capital, as well as by sharing knowledge and building capacity of various stakeholders in the impact investment space through the support to the establishment of National Advisory Boards in several countries in Africa. This report, relying on essential work delivered by other key players and GSG's strategic partners (ANDE, CIIN, British Council and others), provides an overview of the state of the impact investment sector in ten countries in Africa, looking at the five pillars of the ecosystem. This report aims to fill a critical information gap by providing investors and other market players with relevant information on the impact investment landscape in those ten countries. It highlights existing opportunities and challenges for the impact investors and entrepreneurs, and will be used to inform the formation of National Advisory Boards and their subsequent national impact investment strategies.

In addition to providing information on impact investing with this study, the GSG is working to strengthen the ownership and engagement of countries around impact investment. The GSG is currently supporting several countries in Africa in the formation of National Advisory Boards (NABs) for impact investing. A NAB is vanguard for impact investment and serves as a national platform for private, public, and civil society actors to work together to create an enabling environment for impact investing. The findings of this report will therefore contribute to enhanced understanding of ecosystems by future NAB members, as well as provide relevant information as the countries develop their strategies.

Executive Summary

Ghana's strengthening economic environment, stable political environment and growing social enterprise sector render the country well suited to the development of an impact investment industry. We have further reason to be optimistic for the future of impact investment in Ghana: it lies in the hands of women and young people. 39% of social enterprises are run by women entrepreneurs, and 43% of the social enterprises are led by people between the ages of 25 and 34.¹ They are also running young enterprises: over half of all social enterprises in Ghana have been set up in the past five years².

Ghana has one of Africa's fastest-growing economies and is one of the only African countries on track to meet the UN's Sustainable Development Goal (SDG) of 7% gross domestic product growth p.a. by 2030 (SDG report). Ghana's president, Nana-kufo-Addo committed to delivering 'Ghana Beyond Aid' – a package of reforms to free the country from IMF rescue packages (the 16th rescue package ended in April 2019). The president has also been praised for curbing inflation: it fell to 9% this year from 17% in 2016³. Ghana gained 'lower middle income' status from the World Bank in 2011 after the country started oil production. Paradoxically, this resulted in a reduction in traditional donor grants^{4,5}, which then increased the need for alternative forms of capital to meet its growing economy. This includes the use of private capital to support public priorities and SDG goals: impact investment is a clear way to make this happen.

On the demand side, challenges mostly revolve around education and awareness raising. Similar to nascent impact investment markets elsewhere, significant time and attention must be devoted to explaining the often-confusing financial language and products available. For example, many social entrepreneurs have not heard about equity, whilst others fear the loss of 'leadership' of their business. Many entrepreneurs choose to keep their business informal (90.5% operate informally) which often results in an inability to later obtain investment (even if a business formalises later, it will lack the track record often required by impact investors).

Providing this education is the role of ecosystem support providers such as incubators, technical assistance providers and research organizations. Currently, there are 38 incubators registered in Ghana, supporting approximately 26,000 social enterprises. Strong and well-coordinated support providers would be well placed to overcome the main barriers faced by the demand side.

On the supply side, interest rates in Ghana are prohibitively expensive (around 25%) and require substantial collateral – a near-impossible combination for social enterprises which are mostly small, new and operate solely in their community. In addition, the high cost of conducting due diligence means that making smaller investments cannot always be justified. (It's one of the main reasons expressed by investors for not investing in early stage businesses, but due diligence costs could be reduced by increased coordination and information sharing between investors.)

There is cause for cautious optimism, though; some banks have started to offer new products in the private equity/impact investment space: Ecobank and HFC bank, for example, have established their own funds.

A further, significant opportunity for the growth of impact investment are diaspora remittances (money sent home by a person in a foreign country, recognised as an important contributor to a country's growth and development) – which hit US\$2.2 billion in Ghana in 2017. Traditionally, this money been given to households to use directly, but there is an increased interest in investment⁶. There is potential to tap these remittances, through a diaspora fund, to invest in high-impact and high-growth social enterprises (already successfully being done in Rwanda). Diaspora remittances currently lack structure, organisation or formal recognition; policy change is required before this potential can be fully realised.

The recommendations outlined in this paper are based on extensive secondary research and literature reviews in addition to our primary research: interviews with more than 15 leading impact investment sector professionals in Ghana (fund managers, government and policy makers, entrepreneurs, incubators and accelerators) over a three-month period.

¹ British Council, 2016. The State of Social Enterprise in Ghana

² British Council, 2016. The State of Social Enterprise in Ghana

³ The Economist: Never gonna let you go. June 2019

⁴ World Bank, 2011: 'Ghana Looks to Retool Its Economy as it Reaches Middle-Income Status'

⁵ UNDP Blog 2018: Towards Impact Investing in Ghana

Presentation of the Ghana National Advisory Board (NAB)

Each new country seeking to become a GSG member must demonstrate national leadership and commitment through formation of a National Advisory Board (NAB) or equivalent body. In this regard, a National Impact Dialogue was organised and a National Taskforce was set up with the mandate to establish the Ghana NAB.

The taskforce launched in 2019 a new organization: Impact Investing Ghana (IIGH), as a vehicle to drive impact investing, which would become the Ghana NAB. The IIGH is a community of members and a platform to bring together the entrepreneurs, intermediaries, suppliers of capital (foundations, corporates, investors, financial institutions, etc.), policy makers, market builders, and other stakeholders such as faith-based organizations and civil society organisations (CSOs). The IIGH will facilitate the coordination between actors to foster the development of the impact investing market. It will promote impact investing related news and events, provide tools and resources and connects parties to facilitate learning and investment.

The overall objective of the IIGH is to bring together actors from across sectors committed to developing impact investing. The specific objectives are:

- ▲ Develop a clear and dynamic understanding of the Ghana impact ecosystem;
- ▲ Work to remove obstacles in the impact investing ecosystem in Ghana;
- ▲ Develop opportunities for impact investment in Ghana and across the West Africa region;

FUNCTIONS OF IIGH

- ▲ Create awareness and engagement about impact investment and its potential in Ghana;
- ▲ Nominate and appoint the Board of the NAB according to its constitution;
- ▲ Establish working groups to identify key gaps and associated actions to drive impact; investment;
- ▲ To significantly increase the inflow of impact investment;
- ▲ Inform and influence policy directions and support Government and policy makers to expand the policy toolbox for greater leverage and impact
- ▲ Develop a framework to measure and report on impact investment and its outcomes;

The overall objective of Ghana NAB is to work with other actors from across sectors to identify priorities, raise awareness and advocate for the development of the ecosystem and take other appropriate steps to drive growth in impact investment, and overall enable the creation of more social and environmental benefits for people and planet.

⁶ Understanding the investment potential of the Ghanaian Diaspora, Results of the Commonwealth Diaspora Investor survey country report

Introduction: The Relevance of Impact Investment in Ghana

Country Context

Ghana's economy is primarily agriculture-focused, with agriculture contributing about 30% to the country's GDP and employing more than 50% of its population.⁷ There has also been a recent discovery of oil in the country (2010), which has significantly contributed to the GDP of Ghana's economy. Ghana observed a slowdown in its economy in 2013, with growth rates decreasing to 14% in 2011 and 7% in 2013.⁸ However, the country's gross domestic product (GDP) bounced back to 8.5 per cent in 2017 compared with 3.7 per cent in 2016.

Under the new government of President Nana Akufo Addo, industrialisation was identified as the key driver of projected GDP growth. The government intends to specifically revitalise

manufacturing through its flagship initiative '**The One District, One Factory**'; by resolving the shortage of energy in the country and by aggressively promoting exports of high-value manufacturing products. The government is also focusing on growing the agricultural sector through various interventions such as '**One Village, One Dam**' and '**Planting for Food and Jobs**', among others.

Impact investment in Ghana is growing. This is predominantly due to a number of successful government interventions aiming to increase the supply of capital in the market. Furthermore, there remains an opportunity for policy makers to work with intermediaries and with those in the demand for capital to further enhance the sector.

TABLE 1:
FACT CHECKS FOR INVESTORS

FACTORS	INDEX SCORE	DESCRIPTION
Population (2018)	29.6 Million ⁹	The population in Ghana has steadily been growing from 22.7 million over the past 10 years.
GINI coefficient (2012)	42.4	Between 1998 and 2012 (latest figures available), Ghana's GINI coefficient changed from 36 index to 42.4 at an annual average rate of 4.22%, showing an increase in inequality in the country
Human Development Index	0.592 (rank 140 in 2017)	Human Development Index in Ghana has been increasing at an average annual rate of 1.06% since 1996, when it was 0.47.
GDP (PPP, 2017)	US\$ 144.5 Billion	Ghana's GDP (PPP, 2017) is US\$ 144.5 Billion. It expanded by 8.5% in 2017 from 3.6% in 2016. While mining and oil sectors experienced growth and resulted in an increase in Ghana's GDP, the growth in non-oil sectors shrank from 5.1% in 2016 to 4.8 in 2017. ¹⁰
Per Capita GDP (2017)	US\$ 1,813	Ghana's Per Capita GDP has nearly doubled in the past two decades.
Financial Access (2017)	58%	Driven by digital banking and smartphones, financial inclusion doubled between 2011 and 2017. According to Global Findex Database, the proportion of adults (15+ years old) with access to formal financial service increased from 41% in 2014 to 58% in 2017.
Mobile Penetration rate (2018)¹¹	119%	The mobile penetration in Ghana stands at 119% with a total of 34.57 million subscribers across the country. ¹² Mobile penetration rate describes the number of active mobile users per 100 people within the population.
Ease Of Doing Business (2018)	114	Ghana recorded an improvement in World Bank's Ease of Doing Business. The country was ranked 114 in 2018 as compared to 120 in 2017.
Inflation Rates (2016)	17.5%	Inflation rates have been gradually increasing in the country since 2011, where it stood at 8.7%.
Corruption Index (2017)	81 ¹³	Ghana is ranked 81st according to the Global Corruption Perception Index (CPI) report.

⁷ <http://taxsummaries.pwc.com/ID/Ghana-Overview>

⁸ United Nations Economic Commission for Africa, 2017

⁹ World Bank Group

¹⁰ Ghana's statistical service report, April 2018

¹¹ <http://ghana.gov.gh/index.php/media-center/news/4470-jumia-annual-mobile-report-2018-launched-in-acra>

¹² Ghana Mobile report by Jumia

¹³ Transparency International

Government Priorities

The government of Ghana has identified some of the key gaps that are slowing the growth of the country and has launched initiatives to overcome those gaps.

Some of such initiatives are mentioned below:

FOCUS AREA	GAPS	GOVERNMENT FOCUS
Economic Growth and Employment	<p>The government's long-term goal is to, at least, double per capita GDP from US\$1,516 in 2016 to US\$3,500 by 2024. The projected medium-term milestones are US\$2,500 by 2020 and US\$2,700 by 2021.</p> <p>In order to achieve these objectives, the average GDP growth of 1.83% between 2006 and 2018 will need to rise to an average of 7.2% between 2017 and 2024.¹⁴</p> <p>Key gap areas: Low manufacturing output; decline in contribution of crop sub-sector to GDP; weak agriculture and industry linkage; low job creation.</p>	<p>The identified key driver of projected GDP growth is industry. The government intends to specifically revitalise manufacturing through 'The One District, One Factory' initiative; by resolving energy crisis through the increase of oil and gas production from the Jubilee, Tweneboa-Enyenra-Ntomme (TEN) and Sankofa-Gye Nyame fields; and by aggressively promoting exports of high value manufacturing products.</p> <p>The government is also focusing on expanding the agricultural sector through interventions such as 'One Village, One Dam' and 'the Planting for Food and Jobs', among others.</p>
Macroeconomic Situation	<p>Ghana has been experiencing unstable macroeconomic environment with expensive and limited credit for the private sector. For instance, industry averages in 2017: base rate of 25.7%, with over 30% across household and enterprise categories; low savings rate e.g. 7.3% in 2016 compared to Nigeria's 13% and high and volatile rates of inflation with average rate of 8.73% in 2011 rising to 19.2% in 2016.¹⁵</p> <p>Key gap areas: Poor fiscal policy and indiscipline characterised by rigidities in earmarked funds, unsustainable public wage bill and heavy debt burden, along with high debt-service payments and expenditure overruns exacerbated by poor revenue collection.</p>	<p>The country has improved monetary discipline and financial stability through enhanced Central Bank's policy management and establishing Financial Stability Council (FSC) for oversight and vulnerabilities assessment. Also, Section 40 of the Bank of Ghana Act, 2002 (Act 612) has been reinforced to manage currency in circulation and exchange rate ratio.</p> <p>Focusing on sustainable fiscal performance:</p> <ul style="list-style-type: none"> ▲ Increasing revenue collection through tax regime review and reforms e.g. full implementation of Excise Tax Stamp Act 2013 (Act 873). ▲ Effective management of expenditure and debt by strengthening public financial management and procurement legislation. ▲ Improving public sector capacity for economic management among other things by designing and utilising a national macroeconomic model for planning and forecasting.
Industrial Transformation	<p>Contribution of manufacturing sub-sector has fallen over time, most recently dropping from 6.9% in 2011 to 4.6% in 2016.¹⁶</p> <p>Key gap areas: Lack of appropriate financing, unreliable power supply and poor business environment</p>	Flagship One District, One Factory initiative to drive national industrial development agenda at local level and provide industrialisation stimulus through the National Industrial Revitalization Programme , as well as address the structural constraints, energy crisis and institutional bottlenecks

¹⁴ Medium-Term National Development Policy Framework (2018-2021), Government of Ghana

¹⁵ Bank of Ghana, World Bank Data

¹⁶ See Note 4

FOCUS AREA	GAPS	GOVERNMENT FOCUS
Agriculture and Rural Development	<p>Persistent under-performance and erratic growth of the agricultural sector registering 3.8% average annual growth rate between 2006 and 2016, compared to 6.8% GDP average growth rate in the same period.</p> <p>Key gap areas: Poor markets and marketing systems, high cost of production, poor farm-level practices including storage and dependence on erratic rainfall, and high cost of irrigation among others</p>	<p>The government is targeting increased food production and income through the initiative of 'Planting for Food and Jobs'. In addition, through the initiative of 'One Village, One Dam', the government seeks to ensure all-year-round farming, especially in the north; and through subsidy programs on retail prices of seeds, fertilisers and other agrochemicals, in addition to encouraging national entrepreneurship and innovation program. Furthermore, the government seeks to promote application of science, technology and innovation, production efficiency and yield, post-harvest management, public investment, agribusiness among the youth and poultry and livestock for income and food security.</p>
Fisheries and Aquaculture Development	<p>In 2015, post-harvest loss of fish was over 26% for both marine and artisanal categories.¹⁷</p> <p>The production of 419,330.79 tonnes in 2016 left a deficit of 702,004.21 tonnes, which was met through import to top the annual requirement of 1,121,335 tonnes.¹⁸</p> <p>In 2016, out of the total fish production, marine outputs accounted for 70%, while inland and aquaculture accounted for 20% and 10%, respectively.</p> <p>Key gap areas: Over-exploitation of fisheries, poor fishing craft, low private sector investment, insufficient control and compliance with regulations, high cost of aquaculture inputs, among others.</p>	<p>The government seeks to structurally transform fish production in Ghana where aquaculture output is expected to outpace inland output by 2025. Nonetheless, marine output is expected to dominate production.</p> <p>To support the sub-sector, the government intends to focus on establishing aquaculture parks; implementing Aquaculture for Food and Jobs and Youth in Aquaculture Development programs.</p>
Tourism and Creative Arts Development	<p>Ghana is ranked 120th out of 141 countries in Travel and Tourism Competitiveness Index (TTCI); 126th in prioritisation of travel and tourism, and 128th in visa regime flexibility trailing leading tourism destinations in Africa such as South Africa, Mauritius and Kenya.</p> <p>Key gap areas: inflexible visa regime; poor tourism and creative arts infrastructure; high hotel rates; low skills development in customer and other services; and lack of an effective legal, regulatory and institutional regime for the creative industry, among others.</p>	<p>The government focus is on diversifying and expanding tourism and creating a competitive creative arts industry through implementation of the Marine Drive project; transforming the country into a major Meetings, Incentives, Conferences and Exhibitions (MICE) center; and strengthening the National Creative Arts Council, the Copyright Office and related agencies, and the National Commission on Culture through implementation of the Creative Arts Council Law.</p>

¹⁷ National Development Planning Council 2015 Annual Progress Report

¹⁸ Government of Ghana, Medium-Term National Development Policy Framework (2018-2021)

The Landscape of Impact Investment in Ghana

Demand for Capital

Most social enterprises operating in Ghana are in their early stages of growth and target very small market segments (typically in villages, sub-regions or townships), thus will require significant support to scale up.

Social entrepreneurship is a relatively new phenomenon in Ghana. According to the British Council¹⁹, over 90% of the social enterprises began operating from 2004 or later, with almost half of them initiating their operations post 2013. Social enterprises are mostly concentrated in the cities with the rural communities being the least served in terms of impact and the SEs services.

A social enterprise seeks to maximise its profits while maximising benefits to the society and the environment. **Demand for capital** includes capital demand from both for-profit and not-for-profit 'social enterprises' at various stages of growth.

The Social enterprise sector in Ghana is heavily dominated by young people and women: 39% of the Ghanaian social enterprises are run by women entrepreneurs, and 43% of all social enterprises are led by people between the ages of 25 to 34.²⁰ In addition, over half of all social enterprises in Ghana have been set up in the past five years.²¹ It is reasonable to assume that this young industry is set to grow and develop over the next decade.

Owing to the nascent of the impact investment sector in Ghana, only 44% of social enterprises have accessed forms of non-returnable capital (grants, donations and support from family and friends), and very few have secured either equity (9%) or any form of loan (14%).²²

BOX 1:

COWTRIBE PROVIDING VACCINATION TO LIVESTOCK FARMERS IN REMOTE AND RURAL AREAS

Sector: Agriculture & livestock

Enterprise: Cowtribe

Model: Last Mile animal vaccine delivery

Investment Managers: Draper Richards Kaplan Foundation

Capital Invested: USD \$300,000

Year: 2018

CHALLENGE

African farmers lose over US\$3 billion in income annually to livestock diseases.²³ The founder of Cowtribe realised that most livestock farmers live in rural and remote areas, outside of areas that are served by most vaccination or veterinary service providers. This results in over 70 % of livestock vaccines manufactured getting wasted and never reaching the farmers.²⁴

ENTERPRISE SOLUTION

Draper Richards Kaplan Foundation invested US \$300,000 in Cowtribe, an enterprise that sources and aggregates genuine and affordable vaccinations from large suppliers, and works through a network of qualified agents to deliver them to farmers in rural areas of Ghana. Cowtribe offers a mobile-based platform for farmers through which they can access veterinary services by making appointments with veterinarians, receive alerts on disease outbreaks and vaccinations via SMS and voice messaging as well as request veterinary drugs for purchase directly from visiting vets.

IMPACT

So far, Cowtribe has served more than 30,000 farmers in over 120 villages, processing over 9,000 vaccine requests worth over US\$100,000 in revenue.²⁵ It, currently, has its operations in four regions in Ghana, but is aiming to cover whole country in next 18 months

¹⁹ British Council, 2016, The State of Social Enterprise in Ghana

²⁰ British Council, 2016, The State of Social Enterprise in Ghana

²¹ British Council, 2016, The State of Social Enterprise in Ghana

²² British Council, 2016, The State of Social Enterprise in Ghana

²³ <http://disrupt-africa.com/2018/08/ghanaian-agri-tech-startup-cowtribe-planning-nationwide-coverage/>

²⁴ <http://disrupt-africa.com/2018/08/ghanaian-agri-tech-startup-cowtribe-planning-nationwide-coverage/>

²⁵ <https://howafrica.com/cowtribe-how-ghanaian-agri-tech-startup-raised-300k-funding/>

BARRIERS TO GROWTH OF SOCIAL ENTERPRISES

Below are key barriers hindering growth of social enterprises in the country, organised in order of relevance:

▲ Lack of enough impact capital in the market, and at the right ticket sizes: Between 2005 and 2015, the average deal size of investments made by DFI investors was US\$ 27.9 million while the average deal size for private impact investors was US\$ 900,000.²⁶ The majority of the social enterprises (SEs) in Ghana are still in their early stages of growth, they require small ticket-size financing. Such small scale impact capital is not available; therefore their financing need is usually catered to by microfinance institutions, for funds up to US\$ 5,000. There are also slightly mature SMEs with capital requirements in the range of US\$5,000 to US\$ 500,000. However, capital at that ticket size is also scarce in the country. A sector that is particularly more affected by this challenge is the agricultural sector. In Ghana, just like in other African countries, agriculture is dominated by smallholders. However, for the investment to be financially viable, investors prefer to make larger ticket size investments (upwards of US \$500,000) and work with larger enterprises in agriculture sector. As a result, they mostly end up investing in big enterprises processing or distributing farm produce, as they are able to absorb such capital, rather than smaller enterprises or farmers' programs.

“

We were initially targeting deals of US\$500,000 but had to increase the ticket size to above US\$2 million due to the high costs of operation and the total capital that we were looking to deploy in the country.

”

INVESTOR

Ghana

Some players in the market are attempting to solve the problem by mobilising angel investors to invest small ticket size capital in early stage businesses. For instance, the Venture Capital Trust Fund (VCTF) set up a Ghana Angel Investors Network (GAIN); GAIN has 36 HNWIs. In addition, it also recently set up a lady angel investment network focused on Gender-lens investing. Other key players such as British Council are also looking to set up an angel investors' network.

▲ Lack of understanding of equity as an instrument by promoters of social enterprises: Many enterprises in Ghana prefer grant or debt capital over equity capital as they fear that giving equity may result in losing control of their business. Most investors and other ecosystem support players interviewed as part of this research, felt that this fear arise from the fact that many social enterprises do not clearly understand the concept of equity while others do not have a know-how to compute valuation of their businesses. Deal negotiation becomes a challenge when investors are trying to inject capital in such enterprises. Factors, such as these, further results in stifling the entrepreneurs' access to available funding.

▲ Instability of local currency makes it difficult for social enterprises to raise foreign debt:

Social enterprises, raising debt from international funds, need to repay their debt in hard currencies such as USD/Euro while their earnings are in local currency. In the past few years, the Ghanaian currency (Cedis) has been exposed to many shocks and fluctuations. It depreciated by 15.6% in 2015, 7.9% in 2016 and 4.9% in 2017.²⁷ The new leadership in Ghana has been taking measures such as monitoring the foreign currency leakages, reduction in budgetary deficits and increased focus on local manufacturing, to stabilise the currency. Even though this may have resulted in lowering of depreciation rate, the currency is still suffering from instability. The frequent depreciation of local currency makes it difficult for enterprises to repay their foreign currency debt. Moreover, this results in the cost of raising international-dollar dominant- debt higher, and stifles the growth of local enterprises.

“

We have to cancel a deal in 2014-15 because of rapid fluctuations in the currency and thus, resulting in ambiguity in the valuation of the company in terms of dollar value.

”

INVESTOR

Ghana

▲ Cost of capital is high in Ghana and therefore, prohibitive for social enterprises:

Cost of capital in Ghana is very high. Most businesses (especially social enterprises) cannot meet investors' target investment hurdles, let alone repay. This is a huge impediment for social enterprises, irrespective of the maturity of the underlying investment instrument. Even in cases where interest rates are subsidised by grants from the public sector or grant makers, many of the Non-Banking Financial Institutions (NBFI) on-lenders still charge investee companies high rates, despite binding agreements against this practice.

²⁶ Global Impact Investing Network (GIIN). December 2015. The Landscape for Impact Investing in West Africa

²⁷ <http://presidency.gov.gh/index.php/briefing-room/news-style-2/823-facts-cedi-performance-under-nana-akufo-addo-is-the-best-since-2012>

BOX 2:

CURRENCY MISMATCH (i.e. CURRENCY OF BORROWING AND CURRENCY OF EARNING) RESULTS IN HIGHER DEFAULT RATES AND INSTABILITY IN THE SECTOR

Foreign currency lending in developing countries, which have frequent shocks and fluctuations in their currencies, results in higher default rates and ultimately instability of the sector as it is highly dependent on foreign dominant loans.

TCX is the currency hedging fund which promotes the local currency financing and, in turn, reduces the currency risks associated with borrowing in foreign currencies. TCX majorly works with Development Financial Institutions (DFIs) in developing countries by providing them with currency hedging instruments to safeguard their investments in those countries. Over the past 10 years, (between 2007 and 2017), it has converted **US \$4 Billion** of development finance into local currency.

TCX IN GHANA:

Micro Finance Institutions (MFIs) in Ghana, which are key lenders to micro, small and medium sized enterprises in the country, prefer to borrow only in their own currency. This is primarily attributed to the fact that local currency is quite unstable and also that their onward lending is in the local currency. Although borrowing in their local currency hedges MFIs' currency risks, it leaves their funders, i.e. DFIs, risk exposed. TCX hedges these currency risks for DFIs and promotes the inflow of much needed development capital in the country. So far, it has hedged **US \$74 Million** in loan that was provided to MFIs by DFIs in Ghana.²⁸

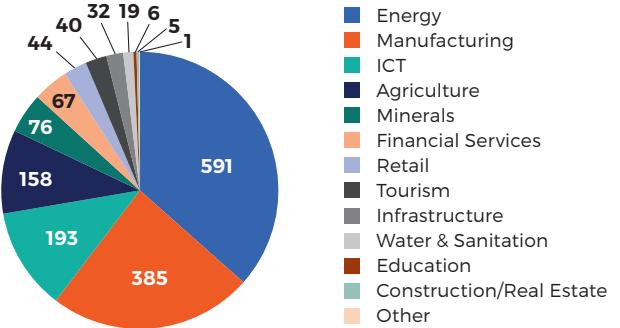
Supply of Capital

Ghana is second most attractive country for impact investors after Nigeria in West African region.

During the ten-year period between 2005 and 2015, the volume of impact capital deployed in the country was US\$ 1.69 Billion.²⁹ Development Financial Institutions (DFIs) investment, accounted for more than 90% of the total capital deployed amounting to US\$ 1.615 Billion while private impact investments amounted to US\$ 75 Million.³⁰ Of the total DFI capital deployed between 2005 and 2015, the energy sector represented the large majority (40%), followed by manufacturing (26%), ICT (13%) and agriculture (11%).³¹ This is in sharp contrast to the investments made by the private impact sector, where 40% of the capital deployed was focused on the financial services sector.³²

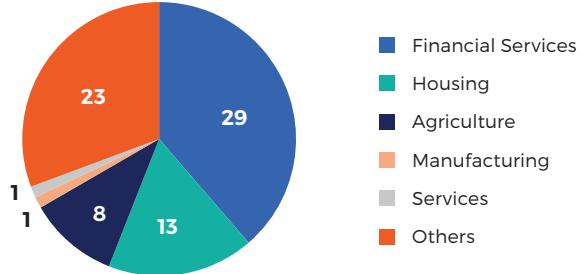
Supply of Capital for impact investment sectors includes capital from foundations, Development Finance Institutions (DFIs), institutional investors, private equity funds/venture capital funds, early stage impact funds, angel investors.

SECTORAL DISTRIBUTION OF INVESTMENTS BY DFIS (USD MILLION) (2005-2015)



Source: Global Impact Investing Network (GIIN), December 2015,
The Landscape for Impact Investing in West Africa

SECTORAL DISTRIBUTION OF INVESTMENTS BY PRIVATE / NON-DFI IMPACT INVESTORS (USD MILLION) (2005-2015)



Source: Global Impact Investing Network (GIIN), December 2015,
The Landscape for Impact Investing in West Africa

The majority of impact capital deployed in the country is in form of debt

Between 2005 and 2015, while private impact investors balanced their portfolios more evenly between debt (56% of total capital deployed and 82% of deals) and equity (37% of capital deployed), DFIs focused almost exclusively on debt and debt guarantees (70% of capital deployed and 75% of deals) for investments in Ghana.³³ The reason for high use of debt by Ghanaian impact investors, in comparison to the region, could be the result of strong perception among Ghanaian enterprises that equity deals imply loss of business control.

²⁸ The development impact of local currency solutions. An evaluation of 10 years TCX

²⁹ Global Impact Investing Network (GIIN), December 2015, The Landscape for Impact Investing in West Africa

³⁰ Global Impact Investing Network (GIIN), December 2015, The Landscape for Impact Investing in West Africa

³¹ Global Impact Investing Network (GIIN), December 2015, The Landscape for Impact Investing in West Africa

³² Global Impact Investing Network (GIIN), December 2015, The Landscape for Impact Investing in West Africa

³³ Global Impact Investing Network (GIIN), December 2015, The Landscape for Impact Investing in West Africa

“

I prefer debt over equity for my business's growth/expansion as bringing in equity investors will result in loss of control over my own business. These equity investors will want me to run my business their way.

”

SOCIAL ENTERPRISE

Ghana

Impact investors in Ghana are exploring innovative structures to exit their investments

In the absence of viable exits options through national stock/capital markets, some investors in country are using innovative exit strategies, such as listing on international stock exchanges. For instance, Emerging Capital Partners (ECP) had invested into Ecobank. ECP, finding few suitable exit alternatives in Ghana, exited through multiple listings on the Nigerian stock exchange, the Ghana stock exchange and the regional stock exchange Bourse Régionale des Valeurs Mobilières ("BRVM"). The fund exited profitably at US\$ 35.9 Million from its initial investment of US\$ 11.8 Million into the bank, profiting more than a 3x return.

BARRIERS TO SUPPLY OF CAPITAL

Below are key barriers hindering the increased flow of impact capital in the market, organised in order of relevance:

▲ Unavailability of investment-ready (high growth) enterprises to invest in:

Stakeholders, interviewed as a part of this research, cited that most social enterprises operating in Ghana are small in size and operate at a regional or national level, with only very few who have expanded internationally.³⁴ These regional or national enterprises may be seeking very small ticket size financing (US\$ 5,000- US\$ 500,000) but require high investments from investors for conducting due diligence. Thus, such deals are not attractive enough and financially viable for investors to invest in.

Furthermore, the interviewed impact investors noted that, while there are number of ecosystem support players in the market, most of them offer very short technical assistance programs, boot camps or co-working spaces which does not assist much in improving the capacity of these enterprises. There is need for many more "high-touch" and long-term advisory support so as to adequately prepare social enterprises for investment.

▲ Informal businesses: There are a huge number of informal businesses in Ghana. Of the 638,234 businesses that exist in Ghana, only 9.5% are formalised while the other 90.5% operate informally.³⁵ This presents an additional challenge for impact investors, who typically rely on the existence of formal organisations to invest their capital.

▲ Minimum investments limits for foreign investors: Ghana has minimum investments limits for any foreign capital/investments coming in the country. These minimum investments requirements are as follows: US\$200,000 for developing a joint venture with a Chanaian partner, US\$ 500,000 for 100% foreign ownership and US\$1 million for trading activity. The rest of the countries in West Africa and even those which are members of the Economic

Community of West African States (ECOWAS) do not have these requirements, which could result in discouraging some impact investors, particularly small fund size, to invest in Ghana and move to other countries.

BOX 3:

PEG PROVIDING LOANS FOR SOLAR HOME SYSTEMS, AND, IN TURN, IMPROVING ACCESS TO ENERGY FOR REMOTE HOUSEHOLDS

Sector: Renewable Energy

Enterprise: PEG

Model: Loans for Pay-as-you-go solar home systems

Investment Managers: Investisseurs & Partenaires, ENGIE Rassembleurs d'Énergies, the Impact Assets Emerging Market Climate Fund, DEG and Sunfunder

Capital Invested: US \$3,200,000³⁶

CHALLENGE

A big number of Ghana's rural population which consists of farmers and fishermen, is not connected to the grid. This excluded population currently spends up to 30% of their income on poor quality fuels such as kerosene, candles or batteries, which create indoor air pollution and results in more deaths than Malaria each year. Such households also have limited access to microfinance or local banks.

ENTERPRISE SOLUTION

Investisseurs & Partenaires in partnership with ENGIE Rassembleurs d'Énergies, the Impact Assets Emerging Market Climate Fund, DEG and Sunfunder, invested in PEG, a Ghanaian enterprise that provides loans for solar home systems and other useful assets to off-grid households in West Africa. The enterprise secured a licensing partnership with M-KOPA and combined it with technical, distribution and financing innovations to improve access to clean energy for remote households. PEG provides loans using 'pay-as-you-go' technology. This technology allows it to remotely control its assets and also provides its customers a means to build their credit history.

IMPACT

PEG has over 10,000 customers and operates 29 service centers in 7 regions across Ghana.³⁷ The company has a vision of connecting over 500,000 remote and rural households in West Africa to solar power, within the next 5 years. It also aims to make its customers financially included by providing the loans through its technology.

³⁴ Intellecap research

³⁵ Integrated Business Establishment Survey, Summary report, Ghana, 2015

³⁶ <http://www.iotp.com/en/content/peg-completes-75-million-round-expand-activities-africa>

³⁷ <http://www.iotp.com/en/content/peg-completes-75-million-round-expand-activities-africa>

Intermediaries of Capital

Ghanaian traditional financial institutions have one of the highest loan rates in the continent.

Financial markets in Ghana are highly debt-driven. Most of the capital flowing in the country is in the form of debt. This is true both for traditional banking sector, such as banks and micro-financial institutions, as well as for impact investments. The preference for debt as the form of capital has made the financial sector in Ghana highly crowded with 33 commercial banks (excluding ARB Apex bank which is a mini-central bank for rural banks), 77 non-banking financial institutions, 141 rural and community banks (RCBs), and 564 microfinance institutions (MFIs).³⁸ Total assets of the industry at the end of March 2016 were US\$ 15.4 Billion, up by 18.8% compared US\$ 12.9 Billion at the end of March 2015.

Intermediaries of capital include institutions such as banks, micro finance institutions, fintechs, local lending organisations; assisting social enterprises with intermediate capital.

Loan interest rates charged by Ghanaian banks are one of the highest in Africa, averaging around 24.5% (2018).³⁹ High interest rates, combined with high collateral requirements, make it difficult for SMEs to access commercial capital from local banks.

However, some banks in Ghana have begun to realise that there is a gap in the availability of long term and patient capital in Ghana. Consequently, banks in Ghana have started to play in private equity/impact investment space through the development of new services/products. Examples include Ecobank and HFC bank, which have established their fund under the names of Ecobank Venture Capital and HFC Capital Partners, respectively.

BOX 4:

REDBIRD HEALTH GIVING PATIENTS A MORE CONVENIENT AND CHEAPER WAY TO MONITOR THEIR HEALTH

Sector: Healthcare

Enterprise: RedBird Health

Model: Rapid medical diagnostics

Investment Managers: Gray Matters Capital

Capital Invested: US \$250,000

Year: 2018

CHALLENGE

It is difficult for many patients, especially from low-income communities to go for regular health check-ups, as they are mostly daily waged workers and cannot afford to spend their day out of work.

This creates difficulty in managing the health conditions of patients especially the chronic patients or pregnant women.

ENTERPRISE SOLUTION

Redbird health tech provides convenient health testing option for chronic patients by using the skillsets and infrastructure of existing pharmacies and over-the counter chemists. The enterprise partners with pharmacies and licensed chemist shops to train them on proven rapid test technology for chronic and acute conditions, enabling them to expand their businesses, and giving patients a more convenient and cheaper way to monitor their health. Redbird received investment from Gray Matters capital in 2018; driven by the impact that Redbird can create by reducing pregnancy complications and maternal mortality, as well as by improving access to diagnostic services.⁴⁰

IMPACT

The investment will help the enterprise scale its solution to 30 community clinics in the area. The enterprise has so far partnered with two pharmacies in the Accra area but has a vision to scale to over 2000 pharmacists, 10,000chemists in the future.⁴¹

³⁸ Sourced from <https://www.stanbicbank.com.gh/Ghana/About-Us/news/A-time-for-equity>

³⁹ Bank of Ghana banking sector report released in Feb'2018

⁴⁰ <https://www.businessghana.com/site/news/business/168614/Gray-Matters-Capital-fund-Redbird-Health-Tech>

⁴¹ <http://disrupt-africa.com/2018/07/ghanaian-e-health-startup-redbird-secures-funding-to-scale/>

Government/Regulatory Players

According to 2018 Ease of doing business report, Ghana fared better than its neighbours, such as Cote d'Ivoire, Senegal and Nigeria, in terms of ease of doing business.

The government of Ghana has been taking initiatives to improve the working environment for both businesses and investors. These initiatives have been successful, evidenced in the improvement of Ghana's ease of doing business ranking at 114 in 2018, as opposed to 120 in 2017. Over the last two decades, the country has witnessed relative political stability and improved macroeconomic conditions, which turned it in an attractive investment destination. The Annual Investment Meeting (AIM) Awards in Dubai awarded Ghana Investment Promotion Centre (GIPC), one of the main actors promoting investments in the country, the Best Investment Promotion Agency (IPA) in West and Central Africa for 2015.

The government of Ghana is working towards achieving Sustainable Development Goals (SDGs) through the promotion of the social enterprise sector.

This is evidenced by the significant advancement of a policy that is being developed by the Ministry of Trade & Industry in partnership with Social Enterprise Ghana (SE Ghana), British Council, STAR Ghana and the West Africa Civil Society Institute. The policy is currently in discussion at the cabinet level.

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The goal of the policy is to support achievement of SDGs through the growth of strong, innovative and financially sustainable social enterprise sub-sector that drives measurable social impact in prioritized areas of social need, provide jobs and support economic transformation especially for the urban and rural poor.

”

DRAFT GHANA SOCIAL ENTERPRISE POLICY PRESENTATION TO CIVIL SOCIETY ON 20TH JULY'2018

KEY GOVERNMENT INITIATIVES

The following are key initiatives taken by government for the promotion of investments/social enterprise sector in Ghana:

▲ Ghana Investment Promotion Centre (GIPC)

The Ghana Investment Promotion Centre (GIPC) is a government agency that encourages and promotes investments in Ghana, provides for the creation of an attractive incentive framework and a transparent, predictable and facilitative environment for investments in Ghana.⁴²

▲ Relevance to the sector: The GIPC facilitates all investments into the country and supports local and foreign investors. It supports investors by ensuring full repatriation of dividends and net profits earned from their investments in Ghana. It acts as a liaison between businesses, Government and investors to ensure interests of all the parties are met and benefits of investments are trickled down to local population.

▲ Ministry of Trade and Industry (MoTI)

The Ministry of Trade and Industry is responsible for the formulation, implementation and monitoring of Ghana's internal and external trade. MoTI spearheads the current government's flagship "one-district-one-factory" initiative which is aimed at establishing, at least, one factory or enterprise in each of the 216 districts of Ghana. The initiative was launched in August 2017 and it aims to transform the 'production and export of raw materials' dependent economy to a 'value-added' industrialised economy. Prior to its launch, the government allocated ~US\$93 million for the commencement of the one-district-one-factory project (1D1F). It also allocated ~US\$51 million for the revamping of 100 private commercially viable and distressed companies throughout the country.⁴³

▲ Relevance to the sector: The government plans to work together with the private sector (the local investors and the "business promoters") in order to implement this program.⁴⁴ In September 2018, five financial institutions (Exim Bank of Ghana, GCB Bank, Agricultural Development Bank, UMB and the Standard Chartered Bank) committed various amounts of funds under this program.⁴⁵ It is reported that the program has attracted 800 business plans, with 357 of which having proven bankable models and 95 others at the credit committees of the participating banks for consideration. The incentives provided by the government under the 1D1F include duty free status for importing machinery and equipment, duty free importation of all raw materials for the Company and a five-year tax holiday to be extended on application; there is a possibility that this could be extended after the five-year period.

▲ Ghana Venture Capital Trust Fund (VCTF)

The government of Ghana established Venture Capital Trust Fund in 2004, for providing low-cost financing and technical assistance to small and medium enterprises in the country and ensuring that there is equal participation by SMEs in achieving the country's development goals. The fund does not invest directly into SMEs but invest through Venture Capital Finance Companies (VCFCs) and Special Purpose Vehicles (SPVs) created for this purpose. VCTF sits under the Ministry of Finance, Ghana. The fund was allocated US\$50 million in the 2017 budget to support small and medium enterprises (SMEs) and drive up economic growth via equity investments. The funding from VCTF is expected to provide alternative and cheaper source of capital to small businesses across the country.

⁴² <http://www.gipcghana.com/about.html>

⁴³ <http://www.gipcghana.com/press-and-media/497-government-releases-gh-465-million-for-start-of-one-district-one-factory-project.html>

⁴⁴ <https://ifejghana.org/private-sector-will-lead-the-implementation-of-1d1f-trade-minister/>

⁴⁵ <http://www.ghananewsagency.org/economics/five-banks-provide-funds-for-73-1d1f-projects-138669>

BOX 5:

GHANAIAN GOVERNMENT VENTURE CAPITAL TRUST FUND (VCTF), PAVING THE WAY FOR IMPACT INVESTMENT IN THE COUNTRY

HIGHLIGHTS

- ▲ VCTF currently has six funds under management, all of which are funded by Ghanaian government
- ▲ VCTF has exited six of its investments to date. In five of the six exits, exists were through buy back by promoters of the company while the sixth one was through trade sale to strategic buyer.

IMPACT TO DATE

- ▲ VCTF realised that High-Net worth Individuals (HNWIs) in the country can be used to fill the funding gap for SMEs in the country. As a result, it created Ghana Angel Investor Network (GAIN) in 2011 to promote angel investing in the country. Currently, GAIN has 36 HNWIs as part of its network. Recently, GAIN also launched a program with focus on gender-lens investing. Through this program, it identifies, mentor, coach and invest in high potential women-led or women-focused SMEs.
- ▲ VCTF was instrumental in launching Ghana Alternate Exchange (GAX) in 2013, which focuses on listing high potential SMEs on Ghana's stock market. It is also working with Ghana's stock exchange to ease and promote the listing of SMEs by providing them finances needed for listing on the exchange.
- ▲ It has also initiated discussions with the government to promote local pension funds to invest in the country, specifically in the SMEs.

▲ Microfinance and Small Loans Center (MASLOC)

Microfinance and small loans center is the government agency responsible for providing micro and small loans to small businesses and startups in the country. It also controls the microfinance sub sector in Ghana.

Relevance to the sector: MASLOC has the mandate ensure that 50% of disbursed loans go to women engaged in small-scale farming and businesses. In order to strengthen the capacity of local businesses- SMEs & women led businesses, the government has put in place a policy that requires 70% of all government-funded contracts or projects to be awarded to local contractors and 30% of the contracts or projects to be awarded to women-led/owned enterprises.⁴⁶

▲ Ghana Free Zones Board (GFZB)

The GFZB was established in 1995 to enable the establishment of free zones in Ghana. GFZB is responsible for the promotion of economic development and for regulation of the activities in these free zones. Companies operating in industries other than mining, petroleum or timber can obtain a license from the GFZB to operate as a free zone entity provided it exports at least 70% of its goods or services. GFZB registration enables the company to enjoy a tax holiday for a period of ten years; thereafter, it will be required to pay corporate tax of 25% on local sales and 15% with respect to exports.

Other incentives provided by GFZB, as stated on their website, are as follows⁴⁷:

- ▶ 100% exemption from payment of direct and indirect duties and levies on all imports for production and exports from free zones
- ▶ 100% exemption from payment of income tax on profits for 10 years and shall not exceed 15 per cent thereafter
- ▶ Total exemption from payment of withholding taxes from dividends arising out of free zone investments
- ▶ Relief from double taxation for foreign investors and employees
- ▶ No import licensing requirements
- ▶ Minimal customs formalities
- ▶ 100% ownership of shares by any investor, both foreign or national
- ▶ No conditions or restrictions on: repatriation of dividends or net profit; payments for foreign loan servicing; payments of fees and charges for technology transfer agreements; and remittance of proceeds from sale of any interest in a free zone investment
- ▶ Free Zone investors are permitted to operate foreign currency accounts with banks in Ghana

Relevance to the sector: GPZB incentives are aligned with the government's priorities of increasing the industrialisation and reducing the reliance on imports in the country. These incentives, provided by GFZB, helps the export oriented social enterprises to scale regionally and globally and take their products/services outside of the country.

⁴⁶ <https://citnewsroom.com/2018/06/05/govt-directs-masloc-to-reserve-50-loans-for-women/>

⁴⁷ <https://gfzb.gov.gh/>

▲ **Ghana Securities and Exchange Commission (SEC)**

Ghana's Securities and Exchange Commission is responsible for promoting the growth and development of an efficient, fair and transparent securities market in Ghana.⁴⁸ It is also responsible to ensure that interests of investors and stakeholders as well as the integrity of the market are protected.

Relevance to the sector: Ghana Alternative Market (GAX) was launched in 2013, as a parallel market, with the purpose of bringing high potential SMEs to stock exchange. GAX provides an alternative capital raising avenue to the SMEs, which can use the raised capital either for starting their operations or for expanding into other geographies.

“

GAX, though a good avenue for SMEs to raise capital, hasn't seen much success. This can be attributed to some key facts – high procedural cost of listing, low preference amongst the SMEs to bring their businesses to public scrutiny, high compliance requirements in terms of documentation, undisclosed association with public figures/politicians.

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ECOSYSTEM SUPPORT PROVIDER

Ghana

BARRIERS IN REGULATORY FRAMEWORK

Although the government has rolled out a number of positive regulatory initiatives, following are key barriers hindering the growth of impact investment sector in Ghana:

▲ **Higher trade tariffs between Francophone and Anglophone countries:**

All Francophone countries have a single financial market regulation, called *Organisation pour l'harmonisation en Afrique du droit des affaires* (OHADA). This regulation makes it easier for investors and businesses to operate across all Francophone West African countries. However, there is not much integration between Francophone and Anglophone West African countries. This presents a challenge to enterprises that need to scale up their businesses beyond their countries' geographical boundaries, particularly if they are in Anglophone countries, such as Ghana.

▲ **Lack of incentives to convert from informal to formal business structures:**

Only 9.5% of Ghanaian businesses are formal while the other 90.5% are informal businesses with over 80% of all businesses being micro-enterprises.⁴⁹ It is difficult for investors to invest in business in the informal sector as formalisation of business is one of the key due diligence criteria. The government currently does not have any incentives that motivate these businesses to convert from informal to formal sector, further some of the current regulations are prohibitory, complicated and time consuming that the businesses feel that it is better to stay informal.

“

We come across lot of businesses that have the potential to scale but the promoters of the businesses don't want to formalize their businesses as they are afraid that the government will come back to them with lots of taxes and tariffs

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ECOSYSTEM SUPPORT PROVIDER

Ghana

⁴⁸ <https://sec.gov.gh/vision-and-mission/>

⁴⁹ Integrated Business Establishment Survey (IBES), 2016

Ecosystem Support Providers

The support providers' ecosystem in Ghana is small; it consists mostly of incubators, technical assistance providers and research organisations. Currently, there are 38 incubators registered under the Ghana Hubs and Incubators Network supporting ~ 26,000 social enterprises, highlighting the gap in support needed for the businesses to grow.⁵⁰

There is also a need for increased coordination and collaboration amongst the impact investors in the country. While eastern and southern Africa have developed region specific associations for venture capital (of which impact investors are also part of) i.e. East Africa Venture Capital Association and Southern Africa Venture Capital Associations, West Africa doesn't have such an association.

KEY ECOSYSTEM SUPPORT PROVIDERS IN GHANA

INCUBATORS, ACCELERATORS & CO-WORKING SPACES	TECHNICAL ASSISTANCE & CAPACITY DEVELOPMENT PROVIDERS	NETWORKS, PLATFORMS, CONVENINGS & EVENTS	CONSULTANCIES: RESEARCH & KNOWLEDGE	EDUCATION PROGRAMS & UNIVERSITY CENTERS	PROFESSIONAL ASSOCIATIONS
<ul style="list-style-type: none"> ▲ Growth Mosaic ▲ Impact Hub Accra ▲ iSpace ▲ Meltwater Entrepreneurial School of Technology ▲ Reach for Change ▲ Enablis ▲ Stichting Nederlandse Vrijwilligers (SNV) 	<ul style="list-style-type: none"> ▲ Ghana Investment Promotion Centre (GIPC) ▲ DFID ▲ CARE International ▲ Catholic Institute of Business and Technology ▲ Grameen Foundation ▲ Ghana Youth Employment Entrepreneurship Development Agency ▲ mFriday ▲ National Board for Small Scale Industries ▲ Start Up Cup ▲ UK Foreign and Commonwealth Office ▲ UK Trade & Investment ▲ TechnoServe 	<ul style="list-style-type: none"> ▲ Ghana Centre for Entrepreneurship, Employment and Innovations ▲ Social Entrepreneurs Ghana Network ▲ Social Enterprise Happy Hour (by One Acre Fund) ▲ Slice Biz ▲ Ghana Think Foundation (Barcamp) ▲ Ghana Angel Investor Network 	<ul style="list-style-type: none"> ▲ GIMPA Centre for Impact Investment\ ▲ British Council ▲ GIIN ▲ ET Jackson & Associates ▲ Dalberg Global Development Advisors ▲ Impact Capital Advisors ▲ Global Social Entrepreneurship Network 	<ul style="list-style-type: none"> ▲ Ashesi ▲ Catholic Institute of Business and Technology ▲ Enactus ▲ GIMPA Centre for Impact Investment ▲ Global Social Entrepreneurship Network ▲ Kumasi Polytechnic ▲ Tamale Polytechnic ▲ University of Development Studies, Tamale 	<ul style="list-style-type: none"> ▲ Association of Ghana Industries ▲ Ghana Centre for Entrepreneurship, Employment and Innovations ▲ Impact Capital Advisors ▲ The Africa Network for Entrepreneurs ▲ The African Private Equity and Venture Capital Association

BOX 6:**B-BOVID PROMOTING SUSTAINABLE AGRICULTURE PRACTICES****Sector:** Agriculture**Enterprise:** Building Business on Values, Integrity and Dignity (B-BOVID) Limited**Model:** Sustainable polyculture**Investment Managers:** Moringa Investment Fund**Capital Invested:** US \$5,000,000**Year:** 2018**CHALLENGE**

Smallholder farmers in Ghana, as in other parts of Africa, often face multiple challenges such as inefficient farming practices, lack of market linkages, lack of financial literacy and lack of business acumen amongst the farmers.

ENTERPRISE SOLUTION

Moringa Investment Fund has recently invested in B-BOVID LTD., which is a national and United Nations (UN) award-winning enterprise. B-BOVID produces and processes palm oil. Its model is based on using inclusive business and social entrepreneurship concepts, clubbing it with corporate social responsibility (CSR) activities of other corporate organisations.

The enterprise has various arms to deploy its integrated solution:

▲ **B-BOVID Farms:** The farm includes a plantation, nursery, vegetable farm, animal farm, aquaculture, bee farm and eco-garden.

▲ **B-BOVID innovation centre:** The centre includes an agricultural technology and mechanisation centre, alternative livelihood centre and an agro-eco tourism centre.

▲ **B-BOVID mart:** This is the unit of the group that brings farm products to the consumers by creating market linkages.

▲ **B-BOVID** is looking to start an out-grower scheme for oil palm and vegetables farmers, ensuring that there is a ready market for farmers. It will share the profit with farmers/community members who become part of the scheme.

IMPACT

The investment by Moringa investment fund will strengthen the company's out-grower palm oil polyculture model aimed at engaging up to 4,000 farmers within the next few years. It will also support the modernisation of B-BOVID's manufacturing plant and expansion of its production capacity to meet growing local and regional demand.⁵¹ Through its innovation center, the company has trained several thousand farmers and students on climate smart agriculture. B-BOVID has, so far, developed a 110-hectare demonstration plantation showcasing oil palm agroforestry practices and has implemented a comprehensive training structure to promote the best agroforestry farming models and management practices toward revenue diversification, social inclusion and low environmental impacts⁵²

⁵¹ <https://allafrica.com/stories/201811060532.html>

⁵² <https://citinewsroom.com/2018/11/05/moringa-invests-5m-in-ghanas-b-bovid-to-transform-agribusiness/>

Recommendations for Strengthening Impact Investment Sector in Ghana

The following recommendations surface from impact investment landscape analysis of Ghana

Supply of Capital

▲ Impact investors need to develop flexible investment strategies and innovative funding structures

While angel and seed capital are appropriate financial instruments to meet the demand of high growth social enterprises, mezzanine instruments can play an important role for low and moderate growth social enterprises. Most of the impact investors in the market have deployed the same investment vehicles as their commercial counterparts (simple equity and debt), thereby excluding a significant number of investees from their portfolio. Impact investors should consider other innovative structures of deploying impact capital, such as:

- ▶ Development of a tiered venture debt structure: Venture debt is the capital in the form of debt to high-risk businesses that lack the assets or cash flow for traditional debt financing. Venture debt is more flexible and is longer term than traditional form of debt.

Example: *GroFin is a venture debt fund that provides medium term debt and technical assistance to startups and early stage enterprises across Africa and Middle East. It has invested in 675 SMEs since its inception in 2004. More such funds are needed in the region.*

- ▶ Structuring deals with catalytic first loss, matching-grant guarantee: Catalytic first loss is the guarantee provided by an investor or grant provider to bear the first loss in case the investment fails to meet its return expectations.

Example: *Catalytic first loss capital models are starting to gain traction in the market due to their ability to offer protection to investors while engaging in high risk investments. A good example of this is in Tanzania where Equity for Africa leveraged a US\$1.2 Million grant from the Dutch government to catalyse an additional US\$ 3.6 Million investment towards setting up of EFTA, an SME equipment leasing company in Tanzania.⁵³ EFTA Ltd. is a Tanzanian equipment financing company that serves small and medium enterprises and farmers. It provides equipment loans of up to US\$ 60,000 with no collateral except for the equipment itself.⁵⁴*

- ▶ Implementation of evergreen structures, which takes a long-term approach in provision of capital and allows enterprises to fulfil long-term goals. Evergreen structures may work for some investors and may not for others, however such structures take the pressure off the impact investors to identify, invest and exit from businesses within a short time frame (usually 5-7 years investment period in regular funds) and, therefore, they are able to invest in social ventures which require more patient and longer term capital.

Example: UK-based impact investment fund, Bridges Ventures, launched Bridges Evergreen Holdings ("Evergreen") in 2016. This evergreen capital vehicle is designed to provide long-term support to impact driven and social enterprises. The capital vehicle is structured as a holding company rather than a fund so that it can provide ongoing support to enterprises over a long term, with no requirements to exit.⁵⁵

Five is an evergreen fund, launched by AfricInvest (fund manager) and FMO and BIO (anchor limited partners) in 2017. This long-term fund aims to invest in financial institutions in Africa in order to increase the access to financial services for growing populations. The fund's evergreen structure allows it to meet the requirements of investors, fund managers and investees.

- ▶ **Reduce the cost of capital for social enterprises:** Cost of Capital in Ghana is very high and therefore, prohibitive for social enterprises. Most businesses (especially social enterprises) cannot meet investors' target investment hurdles, let alone repay. This is a huge impediment for social enterprises, irrespective of the maturity of the underlying investment instrument. Even in cases where interest rates are subsidised by grants from the public sector or grant makers, many of the Non-Banking Financial Institutions (NBFIs) on-lenders still charge investee companies high rates, despite binding agreements against this practice. Therefore, there is a need for investors, grant-makers, policy makers etc. to ensure that the cost of capital is affordable for social enterprises.

▲ Local fund managers to adopt co-investment models

There is a lack of local capital in the country, which makes it difficult for Ghanaian-owned fund managers to raise capital. In such scenario, it will be advisable for these managers to make co-investments into the target businesses. The co-investment model will reduce the risks for the local investors, while at the same time give them the opportunity to reap benefits from the upside of company's positive performance.

- ▶ **Investors can reduce due-diligence costs by greater coordination amongst themselves:** One of the main reasons expressed by investors for not investing in early stage businesses is high cost of conducting due diligence. It is observed that an enterprise, in the process of fund raising, undergoes due-diligence multiple times separately by multiple investors. Such due-diligence costs can be reduced by increased coordination amongst investors. For instance, multiple investors can conduct due diligence together and/or next stage investors can also use previous due diligence conducted for the enterprise, etc.

⁵³ <https://www.investingforgood.co.uk/news/blendedfinance>

⁵⁴ <http://www.equityforafrica.org/efta.html>

⁵⁵ <http://www.bridgesfundmanagement.com/bridges-launches-new-evergreen-permanent-capital-vehicle-mission-led-businesses/>

▲ Impact investors can leverage funds from diaspora for investments into social enterprises

Ghana has large diaspora population with diaspora remittances hitting US\$ 2.2 Billion in 2017. Primary uses of remittances currently are for household needs such as food, clothing, etc. Though, with the growing economy and political stability, more and more diaspora members are becoming interested in investing back in their country.⁵⁶ There is potential to tap these remittances, through a diaspora fund, to invest in high impact and high growth social enterprises. Remittances from the diaspora population currently lack structure and organisation and formal recognition or the formulation of policies that encourage the diaspora will help investments into social enterprise sector.

Example: The Rwanda diaspora mutual fund is a pool of capital from Rwandans in the diaspora for collective investments into Rwanda. The fund aims at promoting the financial well-being of the Rwandan diaspora, while, at the same time, increasing their participation in the socio-economic growth of their country. The fund is open to all Rwandan diaspora communities, their organisations and networks, friends of Rwanda, Rwandan nationals, and any other interested parties both public and private.⁵⁷

▲ Pre-investment technical assistance to build the pipeline of potential investment companies: The investors

interviewed, as a part of this research, mentioned that lack of investable companies is one of the main challenges in deploying the capital in the country. While technical assistance support providers are growing in Ghana, their focus is still on providing post-investment support. Many scalable businesses, which have potential to grow but no proper documentation or capacity, do not pass the due diligence of investors and, eventually, fail in securing the required capital for their business. In this case, pre-investment support will assist these enterprises and make them investment ready.

Example: The African Agriculture Fund (AAF), a private equity fund investing in agriculture and agribusiness in the region, has on boarded Technoserve to serve as the implementing agency for its technical assistance facility. The facility provides pre and post investment technical assistance to the portfolio companies invested in by the AAF.⁵⁸

▲ Philanthropists and grant providers can lower the investment risk by providing guarantees or non-returnable grants, with options to act as first loss, to impact investors for investment into social enterprises: Even though there is grant capital flowing directly to social enterprises, this still does not yield comparable benefits for either the enterprise or the sector. If grant capital is facilitated indirectly as guarantee or as first loss capital to impact investors, it will assist more investors to deploy capital in high risk early stage businesses.

Example: The Bill and Melinda Gates foundation (BMGF) has issued several loan guarantees and taken this up as one of its new strategies as opposed to direct funding. This way, it uses its donations to allow other investors to offer more funding to their current investees or to provide funding to the high-risk enterprises. BMGF offered a loan guarantee to a charter school in Houston, allowing it to raise US\$67 million in commercial debt at a low rate, saving the school (and its donors) almost US\$10 million in interest payments.⁵⁹

The African Guarantee Fund is a non-banking financial institution, with the main objective of providing loans guarantees to financial institutions, introducing a hybrid approach for lending SMEs. The fund is owned by the Government of Denmark through the Danish International Development Agency (Danida), the Government of Spain through the Spanish Agency for International Development Co-operation (AECID) and the African Development Bank (AfDB).⁶⁰

▲ High-net-worth individuals (HNWIs) should be encouraged to make impact investments: Ghana has a considerable number of HNWIs, either currently or potentially interested in more responsible and impactful investing in social causes, but they are not yet familiar with the concept of impact investing. In our research with various stakeholders, it was revealed that targeted outreach and coordination efforts towards HNWIs could create a large source of additional funding for impact investment and fill the gap for early stage businesses.

The Chana Angel Investment Network (GAIN) is already working towards encouraging HNWIs to make impact investments, however there is still a long way to go.

▲ Local foundations should be encouraged to participate in the impact investing sector: Ghana has many local foundations, such as MTN foundation and Ecobank foundation, which are actively working towards achieving the sustainable development goals in the country. There

is a need to include such organisations amongst the impact investment ecosystem. The participation of local foundations in the impact investment sector can be increased by creating awareness on the concepts and benefits of impact investing. These local foundations can fill the missing financing gap. In addition, the core companies of these foundations have business skills, expertise and market linkages in the region, which can be shared with SMEs and social enterprises in order to assist them for their growth and scale.

⁵⁶ Understanding the investment potential of the Ghanaian Diaspora. Results of the Commonwealth Diaspora Investor survey country report

⁵⁷ <http://www.rwandadiaspora.gov.rw/index.php?id=64>

⁵⁸ <http://www.technoserve.org/our-work/projects/technical-assistance-facility>

⁵⁹ <https://hbr.org/2012/01/a-new-approach-to-funding-social-enterprises>

⁶⁰ <https://www.gogla.org/african-guarantee-fund-agf-0>

Demand for Capital

▲ Increased awareness amongst social enterprises on the benefits of formalising their business

The overwhelming majority of businesses in Ghana operate informally, which constricts their ability to grow if they do not formalise their structures.⁶¹ An investor or a financial institution such as banks will not invest in a business lacking proper financial records or one that fails to meet regulatory requirements. Therefore, there is a need to create awareness amongst the informal sector on the benefits of formalising their businesses. Ecosystem support providers are well-placed run campaigns across the country, in partnership with the government, to educate informal businesses and assist them in formalising. The government should introduce incentives and ease the regulatory requirements to attract informal businesses to formalise.

▲ Creation of knowledge transfer corridor

A knowledge transfer corridor can provide information, advisory services and collaboration support to match small businesses with large companies within and outside of the Greater Accra region. Most of the businesses in Ghana are present in the Greater Accra region – large sized (>50% present in Greater Accra region), medium sized (> 70% present in Greater Accra region), small sized (>30% present in Greater Accra region), and micro sized (30% present in Greater Accra region).⁶² Creating connections between these large businesses with smaller businesses will assist in transfer of knowledge and allow the smaller businesses to learn and grow. Furthermore, the transfer of knowledge to other regions outside of the Greater Accra region will also enable social and economic uplifting of those regions as well.

▲ Increased awareness amongst social enterprises (SEs) on the different instruments/mechanisms of impact investments:

Many social enterprises are not aware of how they can benefit from the different masterclasses/mechanisms/instruments available in the market. The ecosystem support players (incubators, accelerators, research institutions and networks) need to hold regular (monthly or quarterly) meetups or convening platforms to sensitise the social enterprises on the various investment instruments or mechanisms available and ways of tapping into them.

Example: The Meltwater Entrepreneurial School of Technology (**MEST**), pan-African incubator, provides entrepreneurs with a graduate-level entrepreneurial training in business, communications, investment raising and software development, including extensive hands-on project work, culminating in a final pitch and the chance to receive seed funding.⁶³

▲ Collaboration between incubators, accelerators, universities and colleges to build entrepreneurship skills amongst youth:

All African countries, including Ghana, face the challenge of high unemployment among youth. Universities and colleges are not able to produce employment or entrepreneurship ready youth. Ecosystem support providers such as incubators and accelerators and education institutions such as universities and colleges can collaborate together to develop the curriculum and training pedagogy which meets the skill gaps in the market. The focus can be on developing the entrepreneurship skills. This can be done through development of incubation centers within the universities/colleges itself.

Government/ Regulatory

While the government of Ghana is taking on many initiatives to promote investment in the country, it does not give special or different recognitions to impact investments made in the country. The government can play a role in promoting the impact investing in the country by working on three fronts, i.e. supply side regulations, demand side regulations and ecosystem level regulations. On the supply side, it can provide tax incentives to impact investors, provide guarantees on the impact investments, promote local long-term financing through pension funds and ease regulations for foreign investors. On the demand side, it can create a specific regulations tiered regulatory system which varies with the size and stage of the company and offer tax benefits to those businesses which are solving social and developmental challenges. On the ecosystem side, it can create industry bodies which promote and market impact investing, thereby enhancing collaboration amongst various ecosystem players.

Specifically, it can take initiatives on following fronts:

▲ Development of Ghana Stock Exchange (GSE) listed vehicle for social impact investing

A GSE-listed vehicle can attract certain institutional and individual investors that require publicly listed companies in order to invest. Furthermore, this can also provide non-resident Ghanaians (and Africans from the diaspora) with an easy way to start participating in social impact investment sector immediately without having to start vetting investments themselves, which, of course, is very difficult for the individuals to do successfully.

▲ Revamping of the Ghana Alternative Exchange and integration with other regional stock exchange for exits

One of major challenges faced by impact investors is finding the right avenues to exit their investments. Revamping the Ghana Alternative Exchange would both strengthen and deepen the local capital market. Moreover, it would be in the best interest of the entire West African region if they can integrate and boost their country stock markets and regional stock market Bourse Régionale des Valeurs Mobilières ("BRVM"), as it would improve the exit opportunities for investors, allowing them to get better exit valuations and reap better returns for their investments.

⁶¹ Integrated Business Establishment Survey (IBES), 2016

⁶² Integrated Business Establishment Survey (IBES), 2016

⁶³ <https://meltwater.org/training-program/>

Market Building Support

▲ Provide market access support to SMEs

In addition to financial and technical assistance, SMEs interviewed as part of this research, cited access to market as one of their biggest challenges. Market linkage refers to linkages with various stakeholders across the value chain of the business such as suppliers and customers. In the absence of an adequate market, SMEs are not able to grow beyond their immediate vicinities or take their products to regional or global markets. While there has been a lot of focus by the ecosystem support providers on technical assistance and capacity building for enterprises, there is an increased need to assist these enterprises with market linkages. Ecosystem support providers can create facilities to link big corporates and SMEs, through which corporates can be regular buyers for SMEs' products and services.

Example: Ecobank in Kenya is providing market linkages to their SME customers through their Emerald Ecobank Business Club. The platform provides SME's a secure network to engage in verified B2B agreements where they understand trade rules and requirements in different markets and close deals using the Ecobank Mobile App. The purpose of this club is to facilitate direct networking amongst the members, generate market information and to provide business advisory services.⁶⁴

▲ Develop a platform to support collaboration and information sharing

With multiple DFIs, donor and government programs to promote startups and MSMEs across the country, there is a need for a common platform which disseminates useful information, enables collaboration and multiplies the impact of these efforts. This research found that it is mostly the support program implementation teams that identified and sourced beneficiaries and entrepreneurs. It was very rare that beneficiaries actively sought out support—particularly in areas outside of the Greater Accra region. This is primarily due to poor awareness levels amongst the enterprises. Furthermore, it also came out in the research that there have been instances where investors have spent significant time and resources on vetting an investee company but were ultimately crowded out by grant providers providing free money to enterprises.

Since VCTF anchors the role of SME development, it could establish such a platform which could provide information on available government programs and policies that promote startups or SMEs in Ghana. It could also act as a focal point to connect with various stakeholders in different provinces and keep them updated about the activities in the sector.

▲ Impact investors and entrepreneur support organisations should come up with initiatives meant to assist SEs in attracting and retaining the necessary talent that they need to grow: Such initiatives can entail creating linkages and/or partnerships with relevant tertiary academic institutions or ecosystem support players so that they can develop and implement specific and customised curricula to supplement the skills of the management team of the SEs. They can also organise for short-term externships/secondment of support ecosystem players' staff members to the social enterprises for capacity building.

Example: Shared Growth initiative by Barclays Bank Ghana promotes youth employability through education and skills development, enterprise development and financial inclusion in Ghana. The initiative reached over 4,500 young people with many more expected to go through the programmes under Shared Growth. The Shared Growth initiative allowed Barclays Ghana to use its core assets and expertise to create solutions that have a positive and sustainable impact on the Ghanaian society.

Example: Secha Capital, an impact investment fund based in South Africa, is supporting its investee companies in attracting and retaining the necessary talent within the organization. For this purpose, it runs a nine-month accelerator toolkit tailored towards developing management capacity of the investee company's team members.

⁶⁴ <https://www.businessdailyafrica.com/corporate/marketplace/Ecobank-links-SMEs-to-33-African-markets/4003114-4395176-gx680bz/index.html>

Conclusion

Ghana's strengthening economic environment, stable political environment and growing social enterprise sector render the country well suited to the development of an impact investment industry. The recommendations, outlined in this paper, are based on extensive secondary research, literature review and primary research conducted through interviews with over 15 leading professionals in impact investment sector in Ghana such as fund managers, government and policy makers, entrepreneurs, incubators, accelerators etc., spanning a three-month period

Annexure

List of organisations interviewed for the research

NAME OF ORGANIZATION	TYPE OF ORGANIZATION	CONTACT PERSON	DESIGNATION
VOTO Mobile	Demand for capital	Mr. Collins Boakye	Founder
Accion	Ecosystem Support Providers	Ms. Ashley Lewis	Investment Officer
British Council	Ecosystem Support Providers	Mr. Sydney Tetteh-Hushie	Partnerships & Business Development Manager
Meltwater Entrepreneurial School of Technology (MEST)	Ecosystem Support Providers	Mr. Ashwin Ravichandran	General Manager
Impact Hub Accra	Ecosystem Support Providers	Ms. Emily Sheldon	Director, Africa operations
Growth Mosaic	Ecosystem Support Providers	Mr. Wayne Miranda	CEO
Food & Drugs Authority	Government and Regulatory	Ms. Delese Mimi Darko	CEO
Private Enterprise Federation	Government and Regulatory	Mr. Nana Onsei-Bonsu	CEO
Association of Ghana Industries (AGI)	Government and Regulatory	Mr. Seth Tum-Akwaboah	Executive Director
MBC Africa	Intermediary	Ms. Anna Samake	Managing Partner
Venture Capital Trust Fund	Supply of capital	Ms. Hamdiya Ismaila	General Manager
Blue Haven Initiative	Supply of capital	Ms. Lauren Cochran	Managing Director
Injaro Agricultural Capital Holdings	Supply of capital	Ms. Mirabelle Moreaux	Investment Director
Zebu Investments	Supply of capital	Mr. Prince Akpesey	COO
Aavishkaar Africa Fund	Supply of capital	Mr. John Kamunya	Investment Associate