ASHESI UNIVERSITY COLLEGE

A SURVEY OF THE GHANAIAN PRIVATE EQUITY INDUSTRY AND ITS CONTRIBUTION TO PRIVATE SECTOR DEVELOPMENT

By

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STUDENT'S DECLARATION

I hereby declare that this dissertation is the result of my own original work and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature:……

Candidate's Name:……

Date:……..

SUPERVISOR'S DECLARATION

I hereby declare that the preparation and presentation of the thesis were supervised in accordance with the guidelines on supervision of thesis laid down by Ashesi University College.

Supervisor's Signature:……..

Supervisor's Name:…….

Date:……..

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ABSTRACT

The usefulness of private equity (PE) as a tool for stimulating private sector growth in an economy is a topic that, regrettably, does not feature prominently in the literature on Ghanaian development. However, private equity has the potential to contribute significantly to Ghanaian private sector development by providing affordable long term capital and business expertise to local firms.

In 2004, the Government of Ghana, realizing the importance of PE in private sector reform, set up the Venture Capital Trust Fund to jump start the local private equity industry. Subsequently five local PE funds were setup while several foreign PE funds opened Ghanaian offices or invested remotely in Ghanaian businesses. Since 2007, when many of these funds begun operating in earnest, not much has been done by way of measuring the socio-economic impact of PE on the Ghanaian private sector by either academia or the corporate world. Similarly, little is known about the size of the Ghanaian PE industry or its current growth trajectory. It is by addressing these shortcomings in the literature that this paper seeks to contribute most to the body of knowledge on Ghanaian PE.

To this end, this paper seeks to answer the question: *What is the state of the Ghanaian PE industry and to what extent is it contributing to private sector development?*

The paper concludes that the PE industry, while still growing, is making a significant contribution to the development of Ghanaian businesses through the provision of capital and technical assistance. The paper however reveals that the Ghanaian PE industry is defective in its reluctance to provide start-up capital for local entrepreneurs.

TABLE OF CONTENT

CHAPTER 1

INTRODUCTION

1.0 Background

While the socio-economic benefits of microfinance and other financial innovations feature prominently in academic discourse on the role of finance in economic development, the same cannot be said for private equity financing and its subset of venture capital finance. Several factors have worked in tandem to create the current deficiency in private equity literature. Chief among these factors is the fact that private equity investments, by definition, are in themselves closed transactions for which data are seldom made public. Consequently, researchers with an interest in the area of private equity have frequently had to penetrate iron walls of secrecy in order to further their studies. Often, their penetration efforts have yielded little fruit.

The fact that private equity, in its mature state, only began to take form and attract broader research and academic attention in the early 1980s has also stifled the proliferation of the literature (Investment U, 2007). Indeed as early as 1946, some shrewd entrepreneurs such as Georges Doriot, the founder of American Research and Development Corporation (a firm widely considered as one of the first venture capital firms), had discovered the economic returns realizable from private equity investments. However, private equity investments remained rudimentary until the first private equity boom in the 1980's (Dagan, 2007).

Following this boom, both the academic and corporate world began to address the scantiness of private equity literature in both Europe and America; culminating in increased awareness and accelerated growth of the private equity industries on both continents. Regrettably, this semi-

revolution in the west had little impact on the state of the literature or the art of private equity in Africa where, arguably, private equity was needed most.

1.1 Private Equity in Ghana

The private equity industry in Ghana is at best a nascent industry which owes its beginnings largely to the 2004 Venture Capital Trust Fund Act. The act (Act 680 of the Third Parliament of the Fourth Republic of Ghana), set up a fund of funds[1] for Ghanaian PE firms with an initial endowment of GH¢22.4mn and removed venture capital funds from the list of non-bank financial institutions regulated by the Bank of Ghana. The deregulation of venture capital funds, and the provision of seed money for these funds led to the establishment of five venture capital funds over the next five years with over GH¢62mn in committed capital. The political and economic stability that the country enjoyed between the 1990s and early 2000s also boosted confidence in the Ghanaian economy and increased foreign investment in local private equity. Today there are at least five foreign funds in Ghana with a total of over $1bn under management.

Prior to the emergence of private equity in Ghana in the early 2000s however, the consensus on private equity investment in Ghana was that Ghana's economy was simply not developed enough to build and sustain its own internal private equity sector. This consensus was unquestionably true since the nation did not have the financial muscle to build an intra-national private equity industry or the macroeconomic stability necessary to sustain such an industry. The fact that Ghana's first private equity firm Ghana Venture Capital Company (GVCC) collapsed amidst high inflation,

[1] A fund of funds is a fund that invests in other private equity funds rather than investing directly in private companies.

fragile exchange rates and rising interest rates testifies to the poor private equity conditions that existed (Venture Capital Trust Fund, 2007). Foreign investors were also unwilling to fund private equity ventures in Ghana due to the political volatility that characterized post-independence Ghana.

The humbling reality forced the Ghanaian government, like many other African governments, to concentrate its business stimulation efforts on microfinance programs with the aid of Financial Non-Governmental Organizations (FNGO's) and the few small-cap banks that existed at the time. For example, in the late 1950's the Ghanaian government provided subsidized credit to local businesses and later went on to set up the Agricultural Development Bank (ADB) in 1965 to cater to the financing needs of SME's in the agricultural sector (Asiama, 2007). A decade later, Ghana would begin setting up rural banks and pass legislation forcing commercial banks to set aside 20% of their credit portfolios to aid SME's (Ibid).

These microcredit initiatives, although commendable, were unable to stimulate the private sector in Ghana amidst political and economic instability. It was not until the return of constitutional rule and the passage of the Non-Bank Financial Institution Law (NBFS) in 1993 that the financial services sector in Ghana began to warm-up and the economy began to see signs, however subdued, of increased access to capital. This increased access to capital was further augmented by the emergence of Ghanaian private equity in early 2000s

1.2 Problem Statement

Sixteen years after the liberalization of the Ghanaian financial services sector first began, and following the downward expansion of the customer base of Ghanaian banks to include low income workers in the informal sector of the economy, Ghanaian cities and towns are now littered with Small and Medium Scale Enterprises (SMEs) that have reached a point where short term micro-credit can no longer meet their growth needs. The effects of globalization and increased access to education have also created a wealth of entrepreneurs with marketable ideas who are in need of large value venture capital to turn their ideas into viable businesses. Sadly, access to long–term, large value growth and venture capital is severely restricted in Ghana. Some of the largest firms in Ghana still face an ominous task trying to raise funds for large scale projects. This is particularly so when they are looking exclusively for equity financing.

Yet the availability of such funds is pivotal to the sustained growth and international competitiveness of Ghanaian firms. An economy that finances businesses almost exclusively with short-term, small value credit is in effect shutting its doors to business ventures with cash flows that are not in the short-term irrespective of how viable these ventures might be. Consequently, in such an economy, investment in industries such as commercial real estate development and pharmaceuticals, where returns are only realizable in the long term, will remain miniscule as financiers favour investments in industries with short cash flow cycles. Often, it is those firms that deal in fast moving consumer goods (FMCG) that benefit most from this economic distortion. This bias towards short-term lending appears to be rife in Ghana and is evident in the fact that the country's

largest finance house (UT Financial Services) typically has a maximum tenure of 180 days on its business loan facilities.

According to the Venture Capital Trust Fund's 2007 annual report, 90% of businesses in Ghana are SME's. It follows therefore that if Ghana is going to experience the private sector led economic growth that is often spoken about, that its SMEs be given access to sizeable capital pools. Currently there is no shortage of short term, stop gap capital for these SMEs as there are currently 45 non-bank financial institutions (NBFI) registered with the Bank of Ghana who are ever ready to provide this type of financing. There is also no shortage of banks in the country as there are 26 registered banks in Ghana. With most of these banks struggling to meet the new minimum capital requirement of GH¢60mn however, they can ill-afford to tie up their funds in illiquid long-term loan facilities and have generally shied away from long-term, large value loans; thus making the need for a robust private equity industry more pressing.

In Ghana, an appreciation of the role that private equity investment can play in making capital accessible to local businesses has only recently began to reach the upper echelons of government. This has culminated in the establishment of the GH¢22.4 million Venture Capital Trust Fund (Venture Capital Trust Fund, 2010). The Ghanaian finance industry also appears to have developed an appreciation for the value of private equity in recent times with several finances houses such as Databank (investment bank), SIC (insurance) and Fidelity Bank (retail bank) investing in private equity funds. Several foreign PE fund managers such as Kingdom Zephyr African Management (KZAM) and Aureos Capital have set up regional offices in Ghana while many foreign based funds have

invested remotely in Ghana. These foreign funds include the Blackstone Group and Warburg Pincus who invested in Kosmos Energy, a locally based American oil exploration firm worth an estimated $4bn and Actis International who invested in the $30 million Accra Mall project.

The progress that is being made in local private equity augers well for the Ghanaian economy considering the benefits that other nations have derived from private equity. J.P Cotis, the chief economist at the OECD (Organisation for Economic Co-operation and Development), wrote that "an economy that does not have a strong venture capital sector is one that displays symptoms of deeper economic problems" (DEG KFW-GRUPPE, 2005). His sentiments on the issue of venture capital appear warranted given that a 2004 survey by the British Venture Capital Association showed that 77% of companies in Britain attributed their existence and growth to the availability of private equity/venture capital at some point of need during their existence (Ibid). Unsurprisingly the economic importance of venture capital/private equity is not lost across the pond in the United States where, according to the National Venture Capital Association, a staggering 10.4 million people are employed by venture capital-backed firms that chalked $2.3 trillion in revenue in 2006 alone (National Venture Capital Association of America, 2007).

It is generally hoped by Ghanaian business leaders that the emerging private equity/venture capital industry will fill the financing gap left by banks and NBFIs and provide long-term, high value capital for businesses in Ghana as is the case in Asia, Europe, America and Southern Africa. While it may well be the case that private equity has indeed filled the proverbial financing gap already or made significant inroads in that

respect, no comprehensive assessment of the industry or its contribution to the availability of long term financing for Ghanaian firms has yet been done. This paper will attempt to go some way to fill this gap in the literature.

1.3 Research Question

Ghana is well on its way to developing a robust private equity industry that is capable and willing to provide the large value debt and equity necessary for growing the countries SME's and transitioning them from the informal to the formal economy. Regrettably, the progress being made in the PE industry has not been assessed to any great extent by industry or academia. This paper will attempt to fill the gap in the literature by looking at the state of the local PE industry and its contribution to the development of local business. To this end, the research question for this paper is as follows;

What is the state of the Ghanaian PE industry and to what extent is it contributing to private sector development by making long term, high value capital more accessible to local firms?

While this question deals with Ghanaian firms in general, I will take particular interest in SME financing investment.

1.4 Research Objective

In this paper, I will be looking to provide a snapshot of Ghana's private equity industry as it exists today; its organizational strengths, weaknesses and its attempts at growth. I will also be examining the flow and nature of PE funds available to Ghanaian businesses while making an argument for a consolidated effort to strengthen the nation's private equity sector. Additionally and most importantly, I will attempt to measure the

contribution that private equity has made to making long-term, high value capital more accessible to local firms. The ultimate goal of this paper is therefore two-fold:

(1) To provide insight for private equity professionals, regulators and the general public as to the state of the private equity industry and how it can be improved.

(2) Measure the realized and potential impact of a robust private equity industry on the ability of Ghanaian firms to access capital and thus contribute meaningfully to economic development.

1.5 Structure of the Paper

The structure of this paper is as follows:

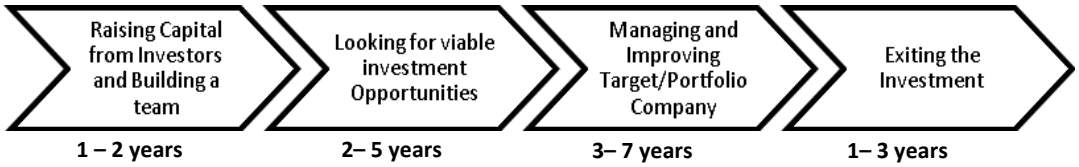
The paper begins with a brief introduction to private equity at a global and national level and continues with Chapter 2 which provides contextual definitions of key terms used in the private equity industry and in this paper. Chapter 3 is a review of the literature on the state of the private equity industry in Ghana and Africa while chapter four provides detail on the research methods employed for this paper. Chapters 5 and 6 provide robust discussion on the state of the Ghanaian private equity and the contribution that private equity (PE) is making to the development of local businesses respectively. The paper then comes to a synthesis in chapter 7 with a concise conclusion on the state of the Ghanaian PE industry and its contribution to private sector development.

CHAPTER 2

CONTEXTUAL DEFINITIONS

2.0 The Private Equity Industry

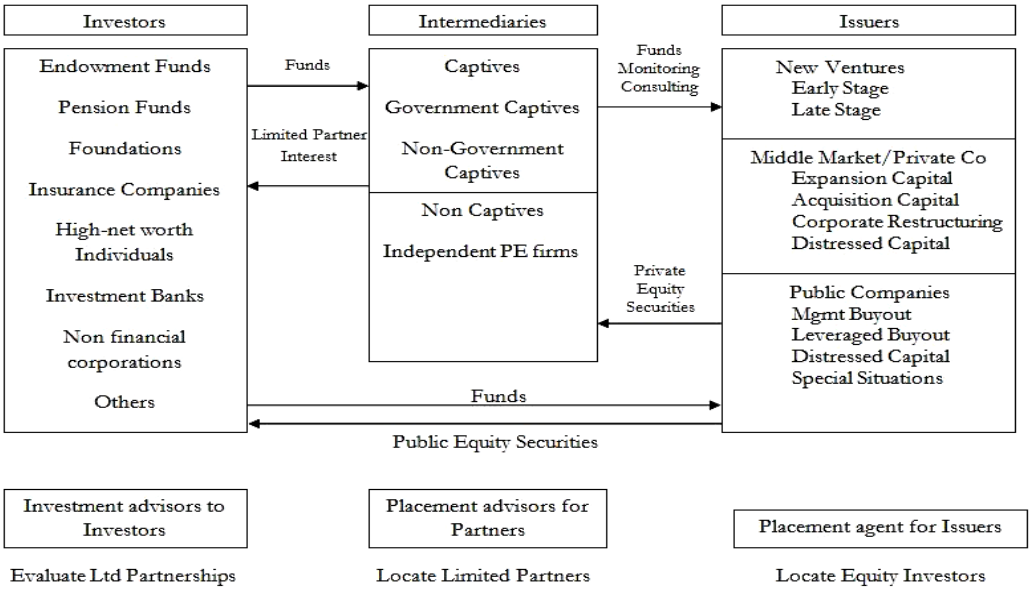
If the succeeding discourse is to be coherent, a working definition of the private equity industry must be provided. Private equity investment can be described as medium to long-term capital investment in privately held companies. These investments have an average lifespan of ten years and four distinct stages.



4 STAGES OF A PRIVATE EQUITY FUND (FIG 2.0)

Source: Adapted from "4 Stages in the Life of a Private Equity Fund ." seekingalpha.com, 12 November 2009.

PE investments may be made in the form of debt, equity or mezzanine capital (Subordinated debt/preferred equity) and usually involve three (3) distinct parties namely; the investor (limited partner), the private equity firm (intermediary, general partner), and the issuer/target company/portfolio company. Figure 2.1 is a graphical representation of the relationship that exists between the players in the PE industry.



STRUCTURE OF PRIVATE EQUITY INDUSTRY (FIG 2.1)

Source: Adapted from. "Measuring the economic impact of private equity funds: the South African experience." De Beer and Nhleko. IFC Bulletin, 2008. Page 497

Investors provide the bulk of the funding for private equity investments (typically between 95% and 98%) they however have no part to play in the day-to-day investment decisions of the fund; this is left to the private equity firm/ general partner. Investors are usually corporate/institutional investors such as pension funds, university endowments, foundations and bank holding companies that are capable of locking up large amounts of capital in long- term investments without adversely affecting their finances. Some high net-worth individuals do, however, invest regularly in private equity. The liability of investors is limited to their contributions to the fund thus making them limited liability partners of the fund. Often, the lure of investing in private equity for investors comes from the extraordinarily high returns realizable from this kind of investment. For example, between 1980 and 2005, annualized return on PE investments averaged and estimated 39% whereas the S&P 500 returned an average of 12.61%[2] per annum (Grant, 2008) (iStockAnalyst.com, 2009).

Private equity firms are the fund managers or general partners who manage the PE investments in order to optimize investor return. Typically they contribute between 2-5% of the investable funds. Their main contribution to the success of the investment is however in the form of the knowledge, contacts and technical expertise that they use in optimizing the performance of the target company and the return attributable to investors. For this service PE firms usually charge a management fee of about 2% of the fund per annum in addition to about 20% of carried interest or fund profits at the end of the investment.

[2] S&P 500 figures are for the period 1988 - 2005

Private equity firms can be classified as either captives or independents. Captive firms are firms that are affiliated to other organization such as bank, insurers or governments whereas independents are stand-alone firms. Captive PE firms usually have access to funds sourced through their affiliates to invest; thus giving them an operational advantage over independents. In Ghana, an example of a government captive would be the investment wing of the Social Security and National Insurance Trust (SSNIT)[3]. Fidelity Capital Partners is an example of a local non-government captive while IC Securities is an example of an independent.

The last member of the three member cell of the PE industry is the target or portfolio company. This is typically a company with some unsatisfied financial need and good prospects for superior return. The fund managers, who are responsible for the vetting and selection of target companies, usually base their investment decision on the potential for superior return and the preferred investment strategy of investors. For example, if fund managers/ general partners were to raise money for a real estate PE fund from investors who wanted to invest in the real estate industry, (possibly as part of a diverse investment portfolio) then the fund managers would be limited in their choice of investment to real estate related firms. In recent years, funds that focus on real estate, energy and emerging markets have gained immense popularity (Cohn, 2007).

2.1 Types of Private Equity Funding

The funding given by PE firms to target companies can be described as venture capital, growth capital, distressed capital or buyout capital depending on the developmental stage of the firm and the purpose for

[3] Although SSNIT is not a fully fledged PE firm, its business practices of directly investing in privately held firms is akin of a private equity firm

which the funds are being given. Figure II lists the various stages and their corresponding private equity investment.

PRIVATE EQUITY INVESTMENT CATEGORIES TABLE 2.1

Equity Category	Stage of Business Development	Application
Venture Capital	Idea, Start-up, Early Stage	Funding for Developing a concept new or young (one to three years old)
Development Capital	Expansion and Development	Funding for Growth and Expansion of Sound Business
Distressed or Special Situation Capital	Growth or Mature Company	Investment in equity or debt securities of financially stressed companies to aid turnaround or new ownership
Buy-Out	Mature Company	Purchasing Mature from owners who want to disinvest

Source: Adapted from. "Measuring the economic impact of private equity funds: the South African experience." De Beer and Nhleko. IFC Bulletin, 2008. Page 498

VC Bank, a Bahraini venture capital firm, defines venture capital as "*... equity capital invested in young, rapidly growing companies that have the potential to develop into significant contributors to the economy...*" This definition however falls short of capturing the fact that providing seed money for concepts that have not yet become businesses is an important part of venture capital investment. Venture capital is essential for encouraging entrepreneurship in an economy and has been directly responsible for the rise of the computer programming industry, particularly in the United States. Venture capital was instrumental in the rise of Silicon Valley not only by providing capital for start-ups, but by cherry-picking the most viable ventures and thus distributing national resources optimally (Ferrary and Granovetter, 2009).

Growth capital refers to funding given to growing but well established companies to enable them expand their operations. One of the main arms of growth capital is project financing. GE Lending, a global financial

services company with considerable expertise in project financing defines project finance as:

"...the finance of industrial (or infrastructural) projects often with myriad capital needs...where debt and equity (and potentially leases) are used to finance the project and are paid back from the cash flow generated by the project. The project's assets, rights and interests are often held as collateral (where debt is used).

Distressed capital is simply capital given to firms that are in financial distress. Distressed capital may take the form of turnaround capital (in which case the goal of the PE firm is to help the firm back on its feet) or distress-to-own capital (in which case the PE firm will seek to capitalize on the firm's poor finances to cheaply acquire the firm for itself).

Lastly, a leveraged buyout is a private equity strategy in which a controlling stake in a firm is bought using borrowed money, with the purchased firm's assets serving as collateral for the transaction. Similarly, a management buyout is the purchase of a controlling stake in a firm by management of that firm using borrowed money. These methods are used to finance the exit of shareholders from a particular firm. For example, management of a firm that has been performing poorly due to a lack of capital injection by shareholder may decide to purchase the firm once its current shareholders decide to sell it. Often, management does not have the finances to purchase the firm outright and is incapable of raising the required amount in bank loans. As such, management may seek funding from a private equity firm, who will in turn raise part of the funds needed and borrow the rest from a bank, (using its reputation and the target

firm's assets as collateral) in order to finance the deal. MBOs and LBOs are more popular in America and Western Europe than they are in Africa

2.2 Exit Strategies

At the end of an investment, a private equity firm must disinvest from the portfolio company in order to gain a return on its investment. The manner in which this is done is heavily dependent on the peculiarities of the investment and does not follow a specific set of guidelines. Nonetheless, the following exit strategies are available to PE firms.

(a) Public listing (I.PO) – PE firm sells its stake in the portfolio company on a public stock exchange

(b) Trade Sale – Portfolio company is sold to an existing firm in that market or a conglomerate firm looking to add the firm to its holdings

(c) Company Buy-back – Shareholders buy back the PE firm's stake in the portfolio firm.

(d) Secondary Sale of Direct Interests – PE firm sells its stake in the portfolio firm to another PE firm

(e) Secondary Sale of Limited Partnership Interests – PE firm sells its stake in the PE fund to another PE firm.

CHAPTER 3

LITERATURE REVIEW

3.0 Problems Facing African Businesses

With regards to the problems that hamper the development of businesses (particularly SMEs) in Africa, the literature is almost entirely uniform in its assertions that the main challenge is the unavailability of affordable long-term capital. Dagogo and Ollor's 2009 article in the African Journal of Accounting, Economics, Finance and Banking Research tested this widely-held belief by measuring the economic value added of VC-backed firms in Nigeria against those of non VC-backed firms. Their research concluded that VC-backed firms, as a result of the long-term capital and expertise that was afforded them, added more economic value than their non VC - backed counterparts who had to grapple with inadequate entrepreneurial and managerial skills, financial indiscipline, and weak monitoring mechanisms. (Dagogo and Ollor, 2009). They therefore advocate that more incentives for VC investments be offered in order to encourage greater participation in it. Dagogo and Ollor's views are shared by Tagoe, Nyarko and Anuma-Amarh who in their 2005 article *Financial Challenges Facing Urban SMEs under Financial Sector Liberalization in Ghana* state that "The main financial challenge facing SMEs is access to affordable credit over a reasonable period." (Tagoe, Nyarko and Anuwa-Amarh, 2005). Tagoe et al also suggest that VC could potentially be an effective remedy to this problem in Ghana.

3.1 Problems Facing African PE

While both Tagoe et al and Dagogo and Ollor all advocate for the strengthening of the PE industries in African countries to varying degrees, both papers fall short of identifying the reasons why PE/VC in Africa has not developed the way it perhaps ought to. Paul Inbona (2002) however

addresses this gap in the literature. He presents a detailed list of the factors that impede (or have impeded) the development of PE/VC in Africa inter alia as follows:

***Limited Exit options**:*With relatively usophisticated capital markets, the option of exiting from an investment through an IPO is seldom available to PE firms in Africa. These firms are therefore forced to turn to the even more insipid mergers and acquisitions market in order to unlock value from their investments. This makes it difficult and costly for PE firms to exit investments and has stifled PE development of African PE

Small Markets: Local markets are very small and fragile, except for regulated industries such as power, water, telecom, and mining. PE firms are therefore forced to adopt regional investment approaches versus national approaches in order to achieve economies of scale and lower risk exposure. When PE firms do invest however, they tend to focus on industries that have global/regional markets with export potential. Nigeria and South Africa are perhaps the only nations in Sub-Saharan Africa that have sizeable internal markets for goods and services.

Management: Talented managers are generally hard to find. In Africa it is even harder. The perceived risk makes it difficult for talented people to come and work on the continent. This often loads the cost base of the project to an unbearable level.

Control: Generally African business owners are culturally predisposed to owning their firms in whole. As a result many entrepreneurs refuse to accept equity financing and opt for debt.

Currency Risk: The mismatch between funds currency and portfolio currency can have dramatic impact on the performance of the fund, when calculated in the currency that the investors used to invest in the fund initially.

Restricted Access to debt and Second round financing: The lack of private funding makes it difficult to raise second-round finance or even debt finance locally to augment initial private equity investments.

High Political, Legal and Economic Risk: These factors make it difficult to forecast economic conditions and thus reduce risk adjusted return.

It is highly probable that this research paper will find that the hindrances to the growth of PE in Africa that Imbona discusses in his paper, have played a a significant role in shaping the development of PE in Ghana.

3.2 Availability of Data on African PE

A July 2004 article by Katrina Manson on african-investor.com opens with the statement "Private equity investment in Africa may be worth millions, but African countries overlook its potential" (Manson, 2004). The writer goes on to lament the fact that while this is the general view on private equity in Africa, there is little beyond anecdotal evidence to support the assertion (Ibid). Unsurprisingly, Manson's view is shared by a host of business and academic leaders including John Leeds, the director of the Centre for International Business and Public Policy at John Hopkins University and Teresa Barger, Director of Private Equity and Investment Funds at the IFC (Ibid). Mark Jennings, the Chairman of the Africa Venture Capital Association (AVCA) and Principal Manager at Kingdom Zephyr Africa was also quoted in a recent interview echoing the status quo and saying that "Data on overall funds and returns received is currently not

available for Africa" (Manson, 2004) Barger attributes the lack of data on PE in Africa to the sparse distribution of PE interests across vast and myriad nations in relatively small amounts. She posits that the different regulatory regimes and industry practices that exist across these nations make it difficult to collect meaningful continent wide data (Ibid).

While this fact may contribute to the lack of data on African PE, it most certainly is not the primary cause of the lack of data; especially at the national level. Rather, the fact that until recently there were no national, regional or continental bodies tasked with data collection for African PE industries is perhaps the primary cause of the lack of data (although the passivity of African governments towards the development of PE has played an equally important role). Evidence of this is found in the fact that in both Europe and America, comprehensive research on the PE industry is carried out primarily by industrial associations such as the British Venture Capital Association and the Private Equity Council which until recently were non-existent in Africa. In those markets, market data providers like Preqin and consulting firms such as Price Waterhouse Coopers also conduct research in the PE industry for the benefit of their clients. Such firms are however motivated by the monetary gain realizable from the sale of data and are therefore willing and able to commit resources to periodic data collection in the knowledge that there is a guaranteed market for their data. To expect similar private data collection methods in undeveloped PE industries such as Ghana's would be wishful considering the cost of data collection and the limited opportunities that exist for the sale of such data. Rather, countries such as Ghana would be better advised to encourage the establishment of industrial associations with

data collection mandates who could then contract consulting firms to collect data. Such encouragement was sadly not forthcoming until recently.

In 1999, the Southern Africa Venture Capital Association (SAVCA) was established and given the mandate to conduct industry-wide research for the southern Africa PE industry. SAVCA's establishment was followed by the establishment of the AVCA in 2002 with a similar but broader (Africa-wide) research mandate. Both bodies have made efforts to fill the African PE data void and have published a number of reports including the Africa Investment Activity Report and the Southern Africa Private Equity Confidence Survey on a regular basis. Despite this, data on African PE is still hard to come by at a national level. Evidence of this can be found in the fact that there is currently no periodic report on PE activity in Ghana by any public or private organization; thus making it difficult to gauge the flow and nature of PE funds in the country.

3.3 Private Equity and African Development

Although industry data is in short supply in Africa and in Ghana, there is no shortage of literature that advocates for the development of robust PE industries in African nations as a method of stimulating private sector development. One of such works is the 2005 AVCA commissioned *Unlocking Venture Capital and Private Equity for Our Common Interest*. In this publication, written in response to the UK Commission for Africa (CfA) Report, the AVCA challenges several of the recommendations put forward by the CfA to accelerate African development while advocating for more assistance for African PE initiatives. The CfA's main recommendations in its report were as follows:

(a) Improve the quality of Governance and Infrastructure

(b) Improve Government accountability & clampdown on corruption

(c) Strengthen quality and use of data

(d) Provide Peace and Security

(e) Leave no one out: Invest in Education, healthcare & sanitation

(f) Improve investment climate

While these recommendations appear noble and well intentioned, the AVCA challenges them on the premise that African development can only take place when there is an active and competent private sector driving the said development. Consequently, the AVCA argues that by failing to attach any importance to private equity and venture capital in Africa and assuming that the recommendations for infrastructural and social improvement would suffice in bringing African development, the commission downplayed the importance of the private sector in African development and flawed its work significantly (Africa Venture Capital Association, 2005). Currently, 80% of Investment in Africa comes from Africa (Ibid). The quality of this local investment is compromised by restricted access to affordable finance and the lack of business know-how. This stifles local entrepreneurship and serves to impede private sector development. Building a robust PE industry across Africa would significantly improve access to reasonable finance and business expertise for African entrepreneurs thus stimulating private sector growth and development on the continent. This would help create jobs, efficiently allocate resources and aid capital formation. The AVCA therefore makes the following recommendations to foreign donors on how to allocate aid to help develop the private sector in Africa:

(a) Establish an African Venture Capital Technical Assistance Fund (AVC-TAF).

(b) Establish an African Venture Capital and Private Equity Fund of Funds (AVC- FOF)

(c) Put in place an African Venture Capital and Private Equity Tax Relief for foreign investors in Africa (AVC-TR).

(d) Establish Capacity Building Fund for AVCA

These recommendations are geared towards increasing private equity activity on the African continent by increasing the amount of investible funds available and building the capacity of industry regulators and associations (Ibid).

The AVCA's argument is buttressed by Patricof and Saunderland who wrote in the Milken Review in 2005 about the steps that nations such as Ghana could take to achieve economic success. In that paper, Patricof and Saunderland identified three steps that bring economic success to nations as follows:

- Governments must reform their business environments, with the focus on easing regulation and stemming the corruption that feeds on it.
- Second, access to capital for these enterprises must be expanded, with government- or donor-supported capital augmenting private sources.
- Third entrepreneurs and managers of SMEs need access to skills gleaned from practical experience and international best practice.

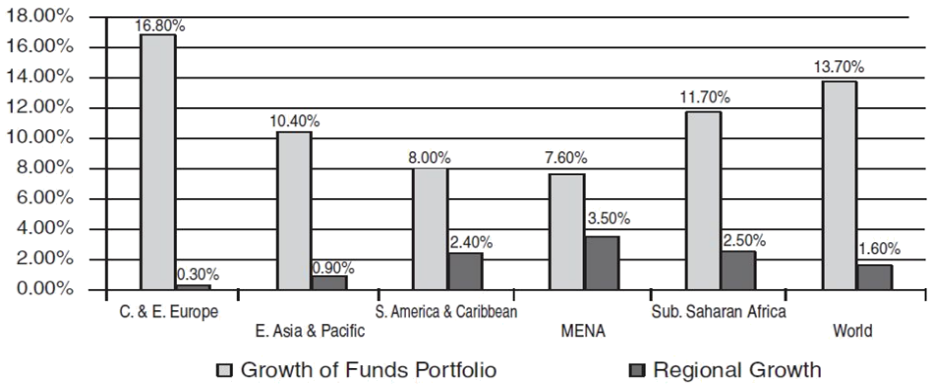
The first item on the list lies squarely in the hands of national governments however, access to capital for entrepreneurs and entrepreneurial skill training/ business assistance are the staples of PE. For this reason, Patricof and Saunderland acknowledged that PE could be a useful tool for bringing development and entreats donor nations to do more to build up PE markets in developing nations (Patricof and Sunderland, 2005)

3.4.1 Impact of Private Equity on Employment

It is worth pointing out that the body of literature is not unanimously in favour of private equity investment. Questions have been raised about the benefits of private equity investment by a number of scholars particularly in the area of employment. S.N Kaplan's 1989 article *The effects of management buyouts on operating performance and value* in the Journal of Financial Economics for example concluded that PE investments, particularly LBO transactions, reduced employment by a median of 12% after studying 79 LBO transactions. Kaplan's findings were echoed by Siegel and Lichtenberg in a wider study of 131 buyout transactions in 1987. In contrast to the findings in the previously-mentioned studies however, two separate studies, one contained in the Global Economic Impact of Private Equity Report 2008, and the other commissioned by the Private Equity Council report growth in employment in PE-backed-firms that is about 6% above national average employment growth figures globally. While both sets of studies appear to contradict and therefore nullify each other, it may be more apt to conclude that the truth lies somewhere in between both studies.

PE-backed-firms do have a preoccupation with efficiency which often means that redundancies are rarely avoided following a PE transaction.

Non value added positions are usually pruned away as a way of reducing costs thus creating the impression the PE-backed-firms reduce employment. In truth, PE-backed-firms create more value added jobs than non PE-backed-firms. This-is-because PE-backed-firms are able to channel cost savings from non value added activities into value added activities that boost productivity and return. Also, PE-backed-firms have the capital needed to invest in expansion/growth projects which create jobs that non PE-backed-firms may not. PE-backed-firms therefore create the kind of employment that optimizes the use of national human and financial resources and boosts national productivity levels. Figure 3.1 compares global employment growth rates for PE-backed-companies against regional averages. It testifies to the fact that real employment growth in PE-backed-firms is about 5 times regional employment growth rates in most parts of the world.



Source: IFC News, 2007

GROWTH RATE FOR PORTFOLIO COMPANIES AGAINST REGIONAL EMPLOYMENT GROWTH RATES (FIG 3.1)

3.4.2 Impact of Private Equity on Innovation and Technology

Overwhelmingly, the literature on PE also agrees that it is also an effective tool for encouraging innovation and technology which are in themselves important development drivers. Ever since Solow's 1956 essay *A Contribution to the Theory of Economic Development*, economists have agreed almost unanimously that technological innovation and labour

productivity are the main drivers of economic growth (assuming that capital is bound by the law of diminishing returns). Solow therefore entreats governments to invest in education and training to boost labour productivity and precipitate innovation. People are however more likely to be innovative when they anticipate that some benefit (monetary or otherwise) will accrue to them as a result of their innovativeness; this is where PE plays a role. PE motivates individuals to be innovative by making funds for both research and marketing available to innovators and thus enhancing their chances of financial success.

Ferrary and Granovetter (2009), discusses the fact that beginning in the mid 1980s, thousands of college graduates and computer enthusiasts were dedicating their time and energy to research and development in the computer industry in a manner that was only made possible by the high levels of financial backing that venture capital firms gave these enthusiasts. Young innovators, particularly in the Silicon Valley area of California could rely on venture capital firms to fund their research and commercialize any products that resulted from such research. This served as motivation enough for them to dedicate their time to developing viable computer products. In the end, United States became the global centre for the computer software industry and Silicon Valley was positioned at the apex of this $303.8bn[4] a year industry.

African nations such as Ghana could benefit from using PE to stimulate innovation and enterprise particularly among their youth. Each year, the tens of thousands of graduates who are churned out from Ghanaian

[4] According to datamonitor.com, the global software industry is worth an estimated $303.8bn a year (2008 estimate)

tertiary institutions could be motivated to engage in entrepreneurial and innovative ventures rather that tussle for the limited amount of "ready-made jobs" if the financial backing and business expertise they needed to develop their ideas were widely available to them. This would not only help solve the chronic unemployment problems in Ghana but boost national productivity immensely.

3.4.3 Impact of Private Equity on Foreign Direct Investment (FDI)

Another benefit of PE that features prominently in the literature is its ability to boost foreign direct investment in an economy. Jayati Ghosh's 2009 article *Private equity and India's FDI* boom captures this phenomenon superbly. In the article, Ghosh discusses a shift in the nature of foreign investment in India from speculative portfolio investment (whereby foreigners invest small amounts in Indian concerns in order to diversify a portfolio of investments or as a hedge against risky investments elsewhere) to direct investment in Indian businesses whereby the aim is to realize substantial returns over a sustained period of time. Ghosh goes on to explain that this shift was caused in no small part by the activities of PE firms in India. Prior to the Indian PE boom, foreign investors who wanted to invest in India were handicapped by their limited knowledge of the terrain in much the same way that Indian businesses looking to raise funds outside India were handicapped in their ability to identify the kind of investors to target with their supposedly risky enterprises.

Once PE firms entered the equation however, matching investors to investments became less of a problem. PE firms were able provide prospective investors with the knowledge they required about Indian

companies. They were also able provide business expertise to these Indian companies in way that made investing in India less risky for investors. Investors therefore became more willing to take long positions with Indian investments in the knowledge that their investments would carefully monitored by PE firms. In the same way, Indian businesses looking to raise funds abroad were paired up with the right investment partners by the PE firms that organized investors into categories based on preferred investment strategies. Investors who wanted to invest in real estate were organized into real estate funds while those who wanted to invest in technology were grouped into "tech" funds. In the end Indian firms were paired with foreign investors in a manner that allowed FDI to reach $11.9bn per annum in 2006 having stood about $2.7bn only 3 years earlier (Ghosh, et al).

In Africa, where the lack of data adds to the perceived investment risk for foreign investors, PE firms with a nuanced appreciation of the African investment terrain are playing a role similar to that of their Indian counterparts in matching African investments with foreign investors. However, by committing more resources to building the PE industry in Ghana and in Africa, the literature does suggest that it may be possible to increase FDI several fold in line with national development targets. Today there is over $1.5bn worth of foreign funds held in PE funds that are locally represented. This sizeable contribution to FDI is only made possible by the unique ability of PE firms to mitigate risk for foreign investors and can be grown further if efforts to improve Ghanaian PE are intensified.

3.4.4 Impact of Private Equity: Addressing Economic Inequality

PE has also proved itself useful as a tool for addressing the problem of economic inequality within nations. In the article *Measuring the Economic Impact of Private Equity Funds: The South African Experience* written by Berend de Beer and Zeph Nlheko, the writers document how PE has been used in post-apartheid South Africa to redistribute wealth that was once concentrated in the hands of white South Africans among black South Africans. South Africa passed the Broad-Based Economic Empowerment Act in 2003 which put pressure on white owned businesses to provide employment and give business to black people. It also sought to allow black people to own assets in South Africa in an attempt to redress the skewed distribution of wealth. However, with limited resources, black South Africans found themselves unable to build companies that could win contracts or purchase viable businesses from white or Asian South Africans.

With the help of PE firms however, black South Africans were given access to start-up capital and the funds to buyout white South Africans in established firms. The Southern African nation has since made significant inroads in addressing the resources imbalance and eased racial tension as a result. As is evident in this case, PE generally allows individuals or businesses that do not have the finances to operate, grow, or buyout another firm to do so without relinquishing control of their businesses or taking on crippling debt. It is therefore an effective tool for combating economic imbalance as was done in South Africa.

In Ghana and other West African nations, PE can be used as a tool to empower disenfranchised ethnic groups or regions such as those in the northern-most part of West Africa where development has been slow.

Indigenes of northern West Africa who have been economically disenfranchised for decades could be given access to start-up and buy-out capital by PE firms in order that they may own viable businesses and bring employment and development to their less developed regions. This would not only have economic benefits for West Africa but would also go a long way to address the ethnic and political tension that has characterised this part of West Africa.

3.4.5 Summary of Literature

In general the literature on private equity suggests that African nations would benefit immensely from well developed PE industries in much the same way that other parts of the world have. Greater employment, increased FDI, innovation and better corporate governance beckon at the end of the PE rainbow. Sadly, the literature provides no information on the extent to which Ghana is benefitting from its budding PE industry. It is in providing this assessment that this paper seeks to make its greatest contribution to the body of knowledge on Ghanaian PE.

CHAPTHER 4

METHODOLOGY

4.0 Study Type

For the purpose of assessing the state of the Ghanaian PE industry, a mixed method study was carried out. Qualitative data was collected from PE industry practitioners and Ghanaian business leaders using recorded personal interviews. This was done in order to gain an understanding of the industry from the perspective of both the PE firms and their portfolio companies. Secondary quantitative data was also collected from the records of PE firms. This was done to support the qualitative data that was collected and aid the making of accurate inferences about the Ghanaian PE industry.

With regards to the assessing the contribution that PE is making to the development of the private sector in Ghana, four case studies involving companies that have benefitted from PE in the past were reviewed. Employment, market share, profits and tax contributions were used as proxies to measure PE's contribution to private sector development.

4.1 Sampling

For the purpose of assessing the state of the PE industry, the cluster method of sampling was first used to group locally active PE firms into two clusters namely; indigenous PE firms and Foreign PE firms[5]. Subsequently, five indigenous firms and three foreign firms were purposefully selected from each cluster to provide an opinion on the local PE industry. Sampling was done such that firms on all points of the local PE spectrum were

[5] For the purpose of this study foreign PE firms were defined as PE fund managers whose primary investment focus is not Ghana.

included in the study. A list of all the firms that were represented in the sample of PE firms can be found in appendix A of this paper.

Five locally active companies that have benefitted from PE were also sampled to give their opinions on the state of the Ghanaian PE industry. Representatives from these companies were interviewed in the same fashion as the representatives from the PE firms. This second set of interviews was conducted to gain insight into the contribution the PE industry was making to private sector development from the perspective of local firms. The firms sampled were randomly selected from the client lists of four private equity firms. Randomization was done by first compiling a comprehensive list of each PE firm's clients and assigning each client a number. The number four (4) was then picked arbitrarily and the fourth company on each PE firm's list of clients was included in the sample. Two PE fund managers were purposefully excluded from this exercise since both firms do not as yet have local clients on their portfolios while two fund managers's selected portfolio company asked to be excluded from the study. A list of the portfolio companies that participated in the study can be found in appendix A of this paper.

The companies that were selected for inclusion in the case studies conducted were selected using the convenience sampling method. Companies that had already published case studies were first selected for inclusion. Subsequently, companies that did not have already published case studies but were prepared to volunteer information towards this research were then selected for inclusion from the pool of portfolio firms on the books of the sampled PE outfits. A total of four case studies from

four companies were reviewed and the list of these companies can be found in appendix A of this paper.

4.2 Data Collection

Data collection for the study begun with personal interviews with key personnel from selected locally active PE firms using a voice recorder. The company representatives that participated in the study were picked by their respective firms to partake in the study on their behalf.

Interviews were generally unstructured (to create room for ad libitum) however, interviewees were asked to address eight (8) areas of interest with regards to Ghanaian PE. These areas of interest can be found in appendix B of the paper.

The second phase of data collection involved accessing information from local firms that had benefited from PE in the past. As was the case with the representatives of the PE firms, these company representatives were interviewed in a semi-structured manner about their PE experiences. The interview guidelines can also be found in appendix C of this document.

The last section of data collection for the study involved the compilation of secondary quantitative data from the PE firms and the collection of data for case studies. This section of the data collection was more quantitative than the previous sections and was designed to quantitatively corroborate what was learnt from the interviews. Data was collected on fund raising activity, investment activity and investment profitability using company records, press releases, advertisements and website information.

4.3 Data Analysis

Data analysis of the qualitative data was done by first transcribing the interviews with the help of two volunteer transcribers. The transcripts were then reviewed to identify trends, and themes in the opinions and submissions of the resources persons. The raw data was then scaled on a scale of one to five on a "*positivity of response index*" designed purposely for this study (see appendix D). This index ranks each response on a scale of 1(Negative) to 5(Positive) depending on the perceived nature of the response. The index was used only to gauge the attitude and perception of respondents towards practices in Ghanaian PE.

Quantitative data that was collected was fed into a spreadsheet and analyzed against figures from the general economy. For example, ROE for PE firms was compared to that of the return on the Ghana Stock Exchange (GSE). Employment, tax payment and profit figures for PE beneficiaries were also fed into the spreadsheet and compared to similar figures from firms that had not benefited from PE.

4.4 Limitations of the Study

The sampling technique used to sample PE firms for inclusion in the study was designed to be comprehensive and not representative of the PE industry in Ghana. Consequently it tries to include at least one example of each type of PE firm in Ghana (see page 11 for types of PE firms). A truly representative sample would include more indigenous venture capital firms since they make up the bulk of the Ghanaian PE market in terms of number of firms. However in this study, foreign PE firms and Local PE firms are not proportionally represented. By selecting a wide variety of PE firms both local and foreign, it is hoped that a more holistic appreciation of the Ghanaian PE industry can be gained. This is because opinion can be

garnered from both the foreign PE firms that provide high value, long term financing at the top end of the market and the indigenous venture capital firms that are less liquid and provide funds at middle-to-bottom end of the market.

Secondly the fact that companies that were included in the case studies were not scientifically selected may bring into question the universality of the findings. Having said this, these case studies still provide valuable information about the contribution of PE to the success of those companies and the Ghanaian economy in general.

This study is also limited by time and monetary constraints. Given more of both resources, the study would include more case studies of companies that have benefited from PE in order to gauge more accurately the impact PE is having on local businesses. In the absence of these resources however, the study only includes four case studies and therefore cannot be an accurate measure of the **impact** of PE on private sector development. It however gives some indication as to the kind of **contribution** PE is making to private sector development.

CHAPTER 5

FINDINGS & DISCUSSIONS ON THE STATE OF GHANAIAN PE

Industry Summary

Total Investable funds held by locally represented PE firms (Fully Raised)	$1,368mn+
Number of Locally Active PE Funds	17
Number of Locally Active PE Fund Managers	11
Average Size of Funds managed by Indigenous Firms	$13.7mn
Average Size of Fund managed by Foreign Firms	$212.18mn
Modal Investment Range	$250k - $4mn
Modal Targeted Investment Period	5 years
Average Carried Interest	20%
Average Hurdle Rate	23.5%

List of Locally Active PE Firms and Funds[7]

FUND MANAGERS	FUNDS UNDER MANAGEMENT	VALUE	INVESTMENT SIZE
AUREOS CAPITAL	Africa Health Fund	$57mn	$250k - $5mn
	West Africa Fund	$50mn	$2mn - $10mn
	Africa Fund	$381.1mn	
OASIS CAPITAL PARTNERS	Ebankese Venture Fund	$15mn	GH¢100k - GH¢2m
SARENGETI CAPITAL	Serengeti Africa Fund	$100mn[6]	$2mn - $10mn
IC SECURITIES	IC Africa Fund	$75mn[6]	GH¢2m - GH¢10m
KINGDOM ZEPHYR AFRICA MANAGEMENT	Pan-African Investment Partners I	$123mn	$30mn +
	Pan-African Investment Partners II	$492mn	
BLACK STAR ADVISORS	Activity Venture Finance Company	$10mn	GH¢25k - GH¢500k
SIC FINANCIAL SERVICES LTD	Bedrock Venture Finance Company	$10mn	GH¢25k - GH¢500k
FIDELITY CAPITAL PARTNERS	Fidelity Equity Fund I	$8.5mn	$50k - $300k
	Fidelity Equity Fund II	$23.2mn	$1m - $3m
GROFIN INVESTMENT HOLDINGS	Grofin Africa Fund Ltd	$170mn	$50k - $1m
GOLD VENTURE CAPITAL	Gold Venture Capital Fund	GH¢4mn	GH¢25k - GH¢500k
CANAL CAPITAL	Canal Venture Capital Fund I	Raising	Raising
	Canal Real Estate Trust		
	Canal Fund		

[6] This figure represents the target figure to be raised as opposed to the amount already raised.

[7] Be advised that this list is only comprehensive as per the researcher's investigations. There is no known official list of PE funds in Ghana to which researchers could refer. This list only includes PE Funds that have registered offices in Ghana. Foreign funds that invest in Ghana but do not have local offices were therefore excluded in this list. Private Equity Firms that had have not raised PE funds but facilitate PE transactions were also excluded from this list.

In addition to the 11 fund managers and 17 funds listed above, there are also 4 investment houses that facilitate PE transactions but have not yet raised PE funds. These investment banks facilitate PE transactions by matching investors with investment opportunities for a fee, by investing directly in companies using their own resources or by borrowing (by means of a special purpose vehicle) to invest in PE transactions. These companies are; Databank Private Equity Limited, SEM Capital Ghana and New World Renaissance.

In recent times, interest in emerging market PE, particularly African PE, has grown several fold and brought with it an influx of Western and Pan-African PE funds. While many of these PE funds are not locally represented, they remain open to investing heavily in Ghana and thus welcome business proposals from Ghanaian entrepreneurs. A list of some of the most active western/Pan-African PE funds in Ghana can be found in appendix E of this paper. These PE funds can count projects such as the Accra Mall and the exploration of the West Cape Three Points Oil Block among their contributions to Ghanaian development.

5.0.1 Fund Raising Activity

Local fund raising activity for PE firms is almost entirely non-existent. The bulk of the local funding that PE funds receive is from government and quasi government corporations such as the VCTF, National Investment Bank (NIB), Ghana Commercial Bank, SIC Insurance and Ghana Union Assurance. Fidelity Bank and HFC bank are the main privately owned institutional investors in Ghanaian PE. Although many of these local investors invest only small amounts in PE (Thus far nothing more than GH¢5mn) this type of funding is the backbone of many of the indigenous PE firms. For example, Activity Venture Capital Fund, Bedrock Venture

Capital Fund and Gold Venture fund are all 100% locally funded by the said government and semi-government corporations. This is perhaps the reason why these funds are also the smallest in Ghana.

To raise large PE funds, fund managers have to focus their fund raising efforts abroad. Interestingly however, when it comes to foreign investment in Ghanaian PE, very little investment comes from private individuals or corporations. Foreign investment in local PE comes predominantly from development financial institutions such as the Commonwealth Development Corporation (CDC), Financierings-Maatschappij voor Ontwikkelingslanden (FMO), Canada Investment Fund for Africa (CIFA), International Finance Corporation (IFC), Swiss Investment Fund for Emerging Markets (SIFEM) and the US Overseas Private Investment Corporation (OPIC). This gives the Ghanaian private equity industry strong developmental undertones. IC Securities' Africa Fund is the only locally active fund that is without governmental or DFI support. Its funds were sourced entirely from high net worth individuals and families across the world.

5.0.2 Investment Profitability

Four of the fund managers who were interviewed were not in a position to give definite figures on their fund's Return on Investment (ROI) since they had not exited from their investments yet. Most of the funds in Ghana today were set up following the passage of the VCTF Act (680) 2004 and began operating after 2007 when private equity took off in Ghana. Since most of these funds have investment horizons of about 5 years, definite figures on ROI that prove the profitability of Ghanaian funds can only be had in the year 2012 at the earliest. Five out of the eight funds interviewed admitted that the fact that there is little by way of historical

performance to attest to the profitability of PE Ghana makes it difficult to convince investors to invest in this untried asset class.

It is worth pointing out however that Kingdom Zephyr Africa Management (KZAM) and Fidelity Capital Partners (FCP) (two firms with pre-2007 funds) posted ROIs of 91% and 25% respectively when they exited from these funds. However, since KZAM had miniscule investments in Ghana and invested in deals that were exclusively at the top end of the market in terms of capital requirements, it is fair to exclude it's as ROI as an outlier and expect figures closer to FCP's 25%. The local industry's average hurdle rate was however calculated as 23.5%.

5.0.3 Investment Preferences

With the exception of the Aureos Health Fund, all the PE firms in Ghana are generalist funds that invest in all industries. However, some funds such as the Ebankese Fund (Real Estate) and the IC Africa Fund (Telecoms, Media, Financial Services, Agro business) do give priority to some industries. Seven out of the eight fund managers interviewed conceded that primary agriculture fell outside their risk appetite for which reason they avoided it. They however invest readily in agro processing and aqua culture.

In principle, many of the funds invest readily in start-up firms. In practice however, four out of eight respondents said that they tended to shy away from pure start-ups due to the high level of risk and business support involved in such investments. Most of the PE money in Ghana is therefore in the form of growth capital given to SMEs that are beyond the start up stage. The definition of an SME in Ghanaian PE circles varies from fund-to-fund. However, on average, these are companies with no more than 100

employees, a maximum of $2 million in assets, $4.5 million in revenue and capital needs between $50k and $1m. Some fund managers such as Fidelity Capital Partners, who deal more with medium scale enterprises than small scale enterprises will however invest up to $3m in a company. Maximum single exposures ranged between 5% for Activity Venture Capital Fund and 13% for Fidelity Equity Funds II.

5.0.4 Risk Mitigation Practices of Foreign PE Funds

In order to mitigate the political and economic risks that characterize many African countries, most global and Pan-African PE funds adopt a regional rather than a national approach to investment. In practice therefore, these funds are more likely to allocate $50m (for example) for investment in West Africa than they are to earmark $20 million for investment in Ghana. This does not only help mitigate risk for these funds but also allows them to achieve scale economies from the small and fractured economies that exist across Africa. This approach to investment however favours entrepreneurs in countries with large markets that have huge capital investment needs to the detriment of entrepreneurs from smaller nations with smaller markets and is evident in the fact that Nigerian businesses enjoy more than 22% ($50m) of Grofin's committed capital despite the fact that it is a continent-wide fund open to 52 African nations. This provides a possible explanation for the fact that there are several Pan-African funds with little or no investments in Ghana. Aureos Capital for example, despite having its regional office in Ghana, has less than $14mn of its $488mn in Ghanaian investments while KZAM (also with its regional office in Ghana) has none of its over $600mn invested in Ghana. Ghanaian entrepreneurs looking to secure funding from western or Pan-African funds must develop businesses that are multi-national in

outlook and/or export oriented. This is one way they can increase the demand for their products and justify the high capital investment that foreign PE funds are looking to invest. By scaling up their business ideas, local entrepreneurs would not only gain a fairer share of foreign PE funds in Africa, but leave smaller local funds to concentrate on funding truly small scale businesses and start-ups.

5.1.0 Challenges facing Ghanaian PE – Investor Scepticism

As with all new and untried products, there is some apprehension among the investing public as to the viability of PE in the Ghanaian economy. Three of the eight funds surveyed said that they felt that investors (particularly institutional investors) were reluctant to invest in this nascent industry given that it has no proven track record locally for strong returns. They believed also that this scepticism was further augmented by a general lack of understanding of PE among investors. This, they said, had made raising funds locally difficult and was stifling the growth of PE locally. The respondents were however of the opinion that once the first few funds begun to exit and post high returns, investors would become less sceptical about investing in PE. Five fund managers also believed that investor knowledge and understanding of PE was growing steadily.

5.1.1 Challenges facing Ghanaian PE – Low Levels of Liquidity

In developed PE markets, insurance companies, pension funds, banks and other institutional investors provide the bulk of the capital under management for PE funds. They are able to do this because they are highly liquid and capable of locking up capital for several years without adversely affecting their operations. In Ghana however, very few institutional investors are liquid enough to lock away millions of dollars at a time without adversely affecting their operations. The fact that 19

Ghanaian banks are currently struggling to raise a total of GH¢462mn to satisfy the Bank of Ghana's new GH¢60mn minimum capital requirement attests to the low levels of liquidity locally. Also pension regulation which requires that all basic pensions be administered by SSNIT has done little to buoy local pension funds. Similarly insurance regulation which dictates that insurance firm's hold 25% of all gross premiums in government securities has also stifled private investment by insurance companies. Prospects for improved liquidity are however encouraging given the anticipated boom in insurance premiums following the passage of legislation that requires that all crude oil interests in Ghana be locally insured and the institution of the three tier pension scheme which institutes a mandatory privately managed pension contribution for all workers. All the respondents interviewed were of the opinion that PE would see significant and rapid growth as liquidity increases in the local financial services sector

5.1.2 Challenges facing Ghanaian PE – Exit Options

Again in developed PE markets, public listings of company shares and trade sales are the most common exit strategies for PE funds. However in Ghana, where the capital markets are not as developed as they ought to be IPOs, and trade sales seldom present bankable exit options. IPOs are seldom an option as the state of the local stock exchange means public listing may be to the detriment of the firm while trade sales are difficult to engineer in a climate where there are rarely local firms that are willing and financially and technically capable of acquiring the portfolio company. To pre-empt the difficulties that may arise at exit time, PE funds that operate locally are using a number of tactics including, among others, buy back clauses, leveraged recapitalizations and convertible debt/equity. In some

cases funds earmark potential trade sale options several years before the anticipated exit date. The most disturbing finding that was brought to light through this research however is the fact that there is a growing number of PE funds that are issuing more debt than equity in order to secure their exits. Two of the eight firms interviewed said they used more debt than equity despite being private equity firms as it made exiting easier while two fund managers said they did more equity than debt but used a significant amount of convertible debt to mitigate risk. This trend is alarming as it defeats one of the reasons why companies opt for PE in the first place; to avoid the burden of debt repayments. Three firms said they used debt to augment equity particularly when they reached their preferred equity threshold however they intimated that the debt equity mix was dependent on the specific situation.

5.1.2 Challenges Facing Ghanaian PE – Business Control Wars

All respondents in this survey agreed unanimously that they had to constantly grapple with entrepreneurs who are reluctant to give up unilateral decision making in their companies and share control. Some of the respondents maintain that for this reason, many Ghanaian entrepreneurs prefer debt financing to equity financing and used this to justify their use of more debt over equity.

5.1.3 Other Significant Findings

- Three out of the eight funds make the acceptance of business development assistance a condition for the disbursement of funds although all funds do give business development assistance.

- Locally, there is a funding gap for entrepreneurs looking for funding between $10mn and $30mn. There are several funds that will invest up to $10mn however no fund will invest between $10mn & $30mn. KZAM will however consider investments above $30 million.

- All respondents believe a local industrial grouping is a good idea as it would increase collaboration and industry lobbying power. However, only one fund manager was making an effort towards the establishment of such a grouping.

- While there is general lack of data on Ghanaian PE none of the funds saw it as a major problem and theorized that it was simply due to the fact that PE is a nascent industry. Fund Managers were more concerned about the fact that there was little market data for the industries that they invest in.

5.2 PE industry in Ghana Today

By all accounts, the Ghanaian PE industry although young has gone a long way to make long term capital more widely available for local firms. In spite of this, the industry's effectiveness in bridging the finance gap has been hampered by a number of factors chief among which are the following:

5.2.1 The Failure of Ghanaian Entrepreneurs

As mentioned earlier, Ghanaian entrepreneurs have failed to capture the imagination of foreign PE funds by focusing on business models that are confined to the small domestic market that exists in Ghana. Many of these businesses are too small to interest foreign PE funds that are looking to invest several millions of dollars in export oriented or sub-regional

projects. As a result Ghanaian business people have lost out to their Nigerian, South African and North African counterparts who are more inclined towards regional and export oriented projects and also have sizeable internal markets.

Ghanaian business people have also failed to capture the imagination of local PE firms by failing to understand the essence of PE and thus present workable business plans. For example, two of the respondents in this study complained about the high number of requests that they received for funding in excess of the value of the applying company. Other problems that the funds said they faced from entrepreneurs included a reluctance to give up equity and unilateral control of their businesses and over ambitious forecasting.

PE would have a greater impact on national development if the number of PE beneficiaries increased. The number of PE beneficiaries can only increase if more entrepreneurs are made to understand how PE works and are able to tailor their business plans accordingly. Short entrepreneurship courses organized by a PE industry association for people looking to tap into PE would be one way of addressing this problem.

5.2.2 Low Level of Investment

The potency of the PE industry can also be enhanced if more funds are channelled into the industry. More needs to be done to encourage more private participation in Ghanaian PE in both local and foreign funds. This would not only increase the size of the portfolios of the existing fund managers but also encourage the establishment of new PE fund managers and thus create healthy competition among PE funds.

If these issues are addressed and more funds and tailored business plans are made available to local PE, The impact of PE on private sector development will increase several fold and precipitate the emergence of world-class businesses in Ghana.

In the following Chapter, I will look to measure the contribution that PE is already making to the development of the private sector in Ghana using 4 separate case studies from companies that have benefited from local PE. These case studies shed light on the potential that PE has to change the local business landscape if it is made more widely available to businesses. Be advised that the names of some of the companies have been changed per their wishes to remain anonymous.

5.3 Future of PE industry in Ghana

PE looks set to take off in Ghana over the next few years as liquidity increases and the economy grows. With the economy expected to grow at a rate of about 8% per annum in 2011 (largely due to oil exploration), linked industries such as the financial services will grow in tandem and precipitate the growth of PE.

The growth of local PE is important for national development as it provides the surest way of making sure that local people have access to the capital necessary to engage in capital intensive, value added industries and do not become bystanders in an economic transformation that accrues to foreigners.

5.4 Positivity of Response Index (Findings summary)

This index ranks each response on a scale of 1 (Negative) to 5 (Positive) depending on the perceived nature of the response. It allows researchers to quantify the general perception and/or attitude of the respondents towards specific areas of PE in Ghana.

Scale:

1 – Negative. Response was unequivocally muted

2 – Fairly Negative. Response was muted

3 – Indifferent. Response was neither buoyant nor muted

4 – Fairly Positive. Response was buoyant

5 – Positive. Response was buoyant with conviction

The scores for the respondents in this study were as follows:

Ease of raising local funds for PE firms –	*2*
Prospects for improvement in availability of local capital for PE funds -	*5*
Availability of good and willing businesses to invest in -	*3*
Private equity's contribution to private sector development -	*5*
Ease of disinvesting -	*2*
Ability of Ghanaian firms to access foreign PE funds –	*2*
Willingness of foreign PE firms to invest in Ghanaian firms -	*4*
Willingness of Local PE to finance start-up ventures -	*2*
Growth prospects for Ghanaian PE -	*5*

CHAPTER 6

FINDINGS & DISCUSSIONS ON THE CONTRIBUTION OF PE TO PSD

6.0 Case Study 1: Elnental Properties

Elnental Properties Limited (EPL) was incorporated in 2000 under the Ghana's Companies Code, (Act 179) 1963 to develop residential properties for sale & rent. It commenced operations in 2003 with the key objective of taking advantage of the growing housing market in Ghana and developing condominiums and luxury semi - detached houses for sale and rent.

The company focuses on providing high-end, quality and luxury residential accommodation (furnished and unfurnished) for its clientele in Accra although it dabbles in the commercial real estate market also.

In 2006, as the company outgrew the equity capital of its founders, it was forced to take on bank debt to continue its operations. However, management soon realized that debt taken at the high bank lending rates that prevailed at the time was taking a toll on the firm's profit margins and stifling growth. As a result, in 2008, the EPL approached FCP (Fidelity Capital Partners) about investing equity in the firm. FCP duly invested $600,000 in equity and extended $900,000 in convertible debt finance to the firm at a reduced rate of 8% per annum while taking a 28.6% stake in the firm.

On the back of this investment, the firm was able to increase its number of properties by 100%. Turnover went from GH¢0 in 2007 to GH¢889,200 in 2008 and to GH¢2,293,368 in 2009. Profits after tax jumped 777% from the GH¢44,689 in 2007 to GH¢392,262 in 2009. The firm was also able to pay GH¢21,110 in income tax in 2008; a figure that is said to rise for 2009. Today the firm has over 17 permanent workers and has spun of

Express Property Management Ltd to manage its five multi-property developments worth over $10mn. FCP has also taken a minority stake in Express Property Management.

Speaking to the firm's Chief Financial officer, he affirmed that the firm's relationship with Fidelity was highly and mutually beneficial for both EPL and FCP. He said it was unlikely that FCP would sever its relationship with EPL soon as it continues to enjoy healthy dividends from its investment. (Darfour, 2010) He said FCP was more likely to invest more in the firm and spoke about EPL's relationship with the firm as a partnership in which all parties wanted the project to succeed as opposed to the traditional banker – debtor relationship in which bankers are mostly concerned with recouping their principal and earning interest. To this end, he stated, FCP does its utmost to help EPL find buyers for its properties and had been instrumental in finding buyers for a large number of their properties. (Ibid)

6.1 Case Study 2: Accra Mall Ltd

Accra Mall was the brain child of Mr. Owusu-Akyaw, a former SSNIT employee who purchased the land the mall now sits on in 1972. His original plan was to build a hotel on the land but he later decided that a shopping mall would best contribute to the socio-economic development of Ghana and make better use of the land. This view was given credence when in 1996 Shoprite Checkers SA and Game SA approached him about acquiring his land to build their first retail outlets in Accra. Mr Owusu-Akyaw soon approached the Centre for Planning and Development (CPD), global experts in the field of retail development to help him put together a business plan to pitch to investors. However, once the plan was drawn up, finding investors to invest a total of $30mn in a shopping mall project in a

country where malls were non-existent proved difficult. This was particularly so in Ghana where many banks found the capital requirements for the project too large for their loan portfolios (Accra Mall, 2010).

Mr Owusu-Akyaw tried in vain for over 5 years to secure funding for the project which finally received funding from Actis International's Africa Real Estate fund in 2006. Actis invested a total of $16.2mn in the project and is looking to exit over a ten year period (Ibid).

During its 2 year construction, the mall employed over 700 people and today employs over 2500 people across 69 retail outlets. In its first year, the mall generated an estimated $4.3mn in sales tax for the Ghanaian government and posted profits of $2.2mn. It is projected that taxes, rates and fees of US$60m will be accrued from retail tenants over a ten year period (Commonwealth Development Corporation, 2010).

Following the initial success of Accra mall, there are plans to increase the space within the mall, introducing new companies to Ghana's formal retail sector, and thus generating further tax revenues for the Ghanaian government.

Accra-Mall remains the only Grade A mall in Ghana today. Its development was however almost stifled by the lack of liquidity and the risk averseness of the Ghanaian banking system which was unwilling and/or unable to invest the required amount of money over a ten year period.

The success of the Accra Mall project is due in no small way to the involvement of PE which had the risk appetite and the capital necessary to take an equity position in this project. Actis apart from investing capital used its business contacts in areas as diverse as architecture, retailing,

property management and construction to ensure that the project was a success from a company and national point of view.

6.2 Case Study 3: JD Industries (a start-up company)

JD Industries in a local water bottling firm established in 2008 by a British-Ghanaian returnee. The firm bottles purified water for sale on the Ghanaian market. In 2009, JD approached Activity Venture Capital for finance believing that debt financing from local banks would maim the business with high interest rates and unfavourable payment terms. Added to that, the fact that the firm was a start-up with little more than warehousing space in Nsawam made the project unattractive for Ghanaian banks. AVCF invested GH¢225,000 and took a 25% stake in the company. This allowed the company to set up a state-of-the-art production facility in Nsawam with a production capacity of 5000 bottles per day. The firm began commercial production in March 2010.

As the firm is in its primary stages, it is expected to produce at 40% of capacity or 2000 bottles per day. Sales estimates suggest that sales will hit the GH¢ 730,000 mark with profits expected to reach GH¢207,600 in the first year of operation alone. JD directly employs 20 people currently and employs several more indirectly through its service providers. The firm also anticipates a total tax contributions of about GH¢50,000 in its first year of operation.

Speaking to the proprietor of the business, he commented that he had benefitted from his relationship with AVFC in more ways than just finance. He stated that as a business person who recently moved back to Ghana, Black Star Advisors had helped him forge alliances with companies and individuals that have made his business a success (Dwamena, 2010). He

commented that Black Star Advisors had played a significant role in developing JD's marketing strategy and said that although he had had to relinquish unilateral control of the company and report regularly to Black Star Advisors, he felt that this had allowed the firm become more structured and contributed to its success. (Ibid)

6.3 Case Study 4: Premium Auto Leasing

Premium Auto Leasing is an auto leasing firm set up with equity sourced from the IC Africa Fund in 2008. Having sourced $4mn in early 2008, the company began operations in November 2008 by purchasing 300 vehicles for use as taxis across Ghana. This is now the firm's primary business.

The firm currently employs over 300 taxi drivers and 4 office workers; providing livelihoods for an estimated 304 families many of whom can now be classified as middle income families. The firm also indirectly employs over 50 people at PHC motors; suppliers of the vehicles being used as taxis through after sales service agreements and the sale of spare parts. It also provided direct cash injection of more than $3mn dollars for the Ghanaian motor retailing industry in 2008 following the purchase of these vehicles. (Osei-Boateng, 2010)

The company's annual revenue is estimated at about GH¢1,620,000 while it is expected to make 30% (in dollar terms) ROI over a five year period. The company is also expected to make tax contributions in excess of GH¢200,000 to the Government of Ghana in its first year alone; this is aside road tax and the taxi levy that the government collects from all commercial drivers.

From an environmental point of view, Premium Auto Lease has also set a trend locally by replacing gas guzzling old vehicles with fuel efficient city cars that are less harmful to the environment. The brand new vehicles

also provide a more pleasant commuting experience for Ghanaians; with cleaner and more reliant taxis that are often fitted with air-conditions.

Premium Auto Lease by its conduct has also formalized the taxi services industry in Ghana which was dominated by individuals who owned single taxis and was very much part of the informal economy. This has made it possible for revenue agencies to collect taxes, improved the safety and comfort of taxi commuters and improved the public transport network in Accra and other major cities in Ghana. If investment in this part of the economy increases, it might be possible to formalize the entire public transport system in Ghana from taxis to buses and perhaps trains.

6.4 Summary

The contribution of PE to private sector development is apparent from the above case studies. The most striking thing about these case studies is the fact that in all cases, the entrepreneurs were unable to access capital through the local banking system or felt that such capital would be detrimental to their firm's growth. It is therefore fair to conclude that these companies would not be at their current levels of development if they did not have access to private equity.

The case studies also provide a compelling case for PE by attesting the economic returns that are possible when technical assistance and capital are given to local firms. The Accra Mall project, a project that many banks felt was not viable (considering its price tag of more than $30mn) was made viable as a result of Actis international's extensive technical support. It was this technical support that was used to attract more than 10 international brands to the project and design the mall in the most cost

efficient way possible. Today, the mall employs over 2500 people and can be credited with giving birth to modern retailing in Ghana.

The over 2837 jobs that these four PE-backed projects have created, in addition to more than $2mn in taxes and $5mn in profits (as per first year of operation) also provide a compelling case for PE and suggests that PE is contributing positively to private sector development.

CHAPTER 7

CONCLUSION AND RECOMMENDATIONS

After extensive research, it is fair to conclude that the Ghanaian PE industry is a nascent industry which is very much at the beginning of its growth cycle. Having said that, the industry has a gone a long way since it first took off in 2007 and is contributing positively to the development of Ghanaian businesses in a way that the traditional banking system has been unable to do for decades. The success of PE in developing local businesses is due in equal part to the capital that it provides as well as the technical assistance that PE firms afford their clients. It is this type of technical assistance that saw some of the world's finest architects work on the Accra Mall project and allowed firms like JD Industries develop potent marketing and distributions strategies that would see them gain market share. In effect private equity firms in Ghana have not only been capital providers but also business consultants and this has augured well for the few local firms that have benefitted from PE finance.

Indeed the success of PE locally is due in no small part to government support through the Venture Capital Trust Fund (VCTF) which has provided seed money for five different funds in Ghana and sensitized small business owners to the benefits of venture capital through the VCTF's countrywide road shows. While many of these VCTF funds are small even by national standards, it is these funds that provide the bulk of the grass roots venture capital for SMEs at the bottom of the SME ladder.

The efforts of development financial institutions (DFIs) such as FMO, OPIC, SOVEC, DEG and the Commonwealth Development Corporation (CDC) should also be noted as they have spearheaded the development of mid-

to-large cap PE in Africa and Ghana. 50% of the funds listed in this study (see chapter 5; Industry summary) have sourced funds from one or more of these DFI. As a result, these DFIs have made more capital available for Ghanaian PE than was possible from local institutions. The step that these DFIs have taken to invest in Ghana is also likely to encourage the participation of foreign private entities in Ghanaian PE and should thus be applauded.

PE in Ghana is however yet to make the impact that it is capable of. The local industry is played by a plethora of problems that hinder its growth. Chief among these hindrances is the difficulty associated with raising local capital outside what is raised by the government-backed VCTF and other government-backed corporations. Private institutions and individuals remain apprehensive about investing in Ghanaian PE due to the fact that PE firms have no proven track record for returns and the fact that they are not liquid enough to tie-up large amounts of capital in illiquid investments. Yet without this growth in local fundraising activity it will be difficult to widen the PE net to provide more capital and technical assistance for Ghanaian firms. It is with this in mind that the local PE industry has welcomed changes in local insurance and pension regulation which will boost liquidity levels in the Ghanaian banking and insurance sectors and increase the likelihood of increased investments in PE. Meanwhile, the western and African PE funds looking to invest in Ghana are growing both in number and size. This will boost the capital available for investment in local PE while inadvertently boosting FDI.

7.1.1 Key Failure of Ghanaian PE

Where local PE has unequivocally failed is in the area of pure start-up finance. All the funds surveyed showed apprehension towards funding pure start-ups to varying degrees. Unsurprisingly, only one firm had a pure independent start-up on its portfolio. There are perhaps two reasons for this phenomenon. The first possible reason is that local fund managers are learning from the traditional financial institutions and becoming more risk averse for the sake of protecting their nest eggs. The second and perhaps more likely reason is that with limited fund sizes, and high demand for capital, it makes very little business sense to invest in risky pure start ups when there are established firms with lower risk profiles clamouring for capital.

I recommend that the VCTF look into the possibility of establishing a separate fund dedicated to start-up ventures. This would ensure that start-up capital gets to real start-ups that need the capital and is not gobbled up by already established firms trying to avoid the inept banking sector. The British government in March 2010 set up the University Enterprise Fund worth £35mn to provide capital for university graduates with viable business ideas and the Ghanaian government would benefit tremendously from doing the same.

7.1.2 Key Failure of Ghanaian Business

While the Ghanaian PE industry has failed to provide pure start-up capital, local businesses have failed to take advantage of the wealth of foreign PE funding available to them. Many Ghanaian businesses despite local success have failed to expand their businesses beyond the borders of Ghana. Yet the small local market size acts as a cap on demand for local companies and makes them unattractive to foreign PE funds that are

looking to invest large amounts of capital in firms with large markets. Under these circumstances, countries such as South Africa and Nigeria arguably the only nations with sizeable internal markets have benefitted. Ghanaian entrepreneurs on the other hand have lost out. Ghanaian entrepreneurs ought to be encouraged to scale-up their business plans to make them at least sub-regional (ECOWAS) and at best global. It is by so doing that they can grow their potential customer base and thus justify large capital investments from foreign PE funds.

7.2.1 Enhancing the Potency of Local PE: Increasing Investible Funds

The potency of the PE industry can also be enhanced if more funds are channelled into the industry. More needs to be done to encourage more private participation in Ghanaian PE in both local and foreign funds. This would not only increase the size of the portfolios of the existing fund managers but also encourage the establishment of new PE fund managers and thus create healthy competition among fund managers looking to invest their committed capital.

7.2.2 Enhancing the Potency of Local PE: Training Entrepreneurs

PE would have a greater impact on national development if the number of PE beneficiaries increased. The number of PE beneficiaries can only increase if more entrepreneurs are made to understand how PE works and are able to tailor their business plans accordingly. Short entrepreneurship courses organized by a PE industry association for people looking to tap into PE is one way in which this problem might be addressed. PE fund managers should also be more open to providing pre-investment guidance to entrepreneurs who may not be able to fully crystallize their ideas.

7.2.3 Enhancing the Potency of Local PE: Fixing the Ghana Stock Exchange

Fixing the local stock exchange would also help boost private equity locally as it would provide PE firms with a reliable exit route and thus bring down the risk associated with Ghanaian investments. As things stand now, activity on the Ghana Stock Exchange (GSE) is rather slight. This makes stock listed on the exchange illiquid and therefore less attractive to investors. As a result, there are always several GSE stock that are undervalued for several months at a time. In a small newly listed firm, such a situation would make the firm highly susceptible to unwelcome takeovers and board wrangling to the detriment of the firm. For this and many other reasons, the GSE does not usually provide a viable exit route for PE firms and has led to a spike in the number of PE firms issuing debt in order to safeguard their exits. By improving the GSE, it is likely that PE firms would return to their more traditional role as equity providers and help develop the private sector.

7.4 Summary

In summary the PE industry in Ghana is healthy, growing, and contributing significantly to private sector development by making long term capital and technical assistance available to Ghanaian firms. It can however be improved significantly by making more capital available to it for investment in Ghanaian companies; particularly start-ups.

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APPENDIX

Samples (Appendix A)

PRIVATE EQUITY FIRMS INCLUDED IN THIS STUDY

Indigenous PE Firms	Foreign PE Firms
Oasis Capital **Databank Private Equity** **Activity Venture Capital** **Fidelity Capital Partners** **IC Securities**	**Kingdom Zephyr** **Aureos Capital** **Grofin Limited**

LIST OF PORTFOLIO FIRMS INCLUDED IN THE STUDY

Portfolio Company
Elnental Properties **Premium Auto Lease** **JD Industries** **Voltic Ghana Limited**

LIST OF FIRMS/ PROJECTS INCLUDED IN CASE STUDY

Portfolio Company
Elnental Properties **Premium Auto Lease** **JD Industries** **Accra Mall**

Interview Guidelines for PE firms (Appendix B)

While Interviews were generally unstructured, PE fund representatives were asked questions with regards to their company and industry wide experience in the following areas.

(a) Company Portfolio Size

(b) Composition of Portfolio by Industry

(c) Company Fund Raising Activity

(d) Hurdle rate on Fund's portfolio

(e) Problems facing the Ghanaian PE equity industry
   a. Liquidity Problem?
   b. Lack of competent Business leaders?
   c. Lack of Viable Ideas?
   d. Lack of Data

(f) Future of Ghanaian PE: Prospects for Industrial Groupings

(g) Level of "Hand Holding" and Entrepreneurial Training that Target company's receive

(h) Anticipated Exit Strategy

PE Beneficiaries Interview Guidelines (Appendix C)

While Interviews were generally unstructured, PE fund beneficiaries were asked questions with regards to their company experience with PE funds in the following areas.

a) Amount of Funding Sourced

b) Amount of time taken to source funds

c) Investment Period

d) Reason for sourcing funds and alternatives weighed

e) Contribution of PE on firm
   a. Employment?
   b. Market Share?
   c. Profitability?
   d. Company control

f) General Private Equity Experience

g) Debt-equity mix preference

h) Level of business development assistance

Data Analysis tools (Appendix D)

Positivity of Response Index
Scale:

1 – Negative. Response was unequivocally downbeat

2 – Fairly Negative. Response was downbeat

3 – Indifferent. Response was neither upbeat nor downbeat

4 – Fairly Positive. Response was upbeat

5 – Positive. Response was upbeat with conviction

List of foreign based PE firms that actively seek investment opportunities in Ghana* (Appendix E)

Fund Name	Fund Size
Africinvest Group	**$170mn+**
Actis International	**$1.0bn+**
African Lion	**$34.6mn**
Sanlam Private Equity	**$100mn+**
Africap	**$13.3**
Cordiant Private Equity	**$211mn**
Emerging Capital Partners	**$1.1bn**
Travant Capital	**$300mn+**
Pryme Private Equity	**$40mn**
Pamodzi	**$1.3bn**
Phoenix Capital Management	**N/A**
Helios Investment Partners	**$300mn**