Investment Readiness Pilot Program for the African Development Bank

Proposal – UCLG Africa and GFA Consulting Limited

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Section 01

Background and Context
Private sector development is a key objective of the African Development Bank ("AfDB" or the "Bank"). In the Bank Group’s Strategy 2013-2022 document, the Bank wants to be a critical partner to support the transformation of Africa by improving the quality of growth, making it shared and more sustainable. The future of African economic growth, and the future of millions of Africans and thousands of African communities, is closely linked to the vibrancy of the private sector, with the public sector creating an enabling environment in which the private sector can thrive.

There is a general agreement that African SMEs are the engines that drive the growth of African economies. In Sub-Saharan Africa, SMEs account for more than 90% of businesses in the modern sector of the economy, contribute about 50% of Gross Domestic Product (GDP) and employ more than 50% of the workforce. However, there is an equally shared recognition that African SMEs face numerous challenges ranging from power shortage, lack of capital, poor management skills and competencies, corruption, etc., with many African governments not putting SME development on their agenda despite their undeniable contribution to economic growth.

One key challenge identified is African SMEs’ inability to access finance, a problem that researchers have found as being a major hindrance to SMEs survival and growth in Africa. This has generally been explained by Africa’s weak financial systems, high comparative interest rates, demand for collateral and loan guarantees and inadequate legal frameworks, among others. Outside this business-unfriendly environment that makes it more difficult for African businesses to grow and be competitive on the global market, we believe the following reasons can also explain why so many SMEs struggle to raise funding: many entrepreneurs have limited knowledge of fundraising options available to them, and they don’t know how to “sell” their investment opportunity to potential investors. Also, they are perceived as riskier than larger companies and have limited access to collateral, which makes it difficult to access loans from banks. Finally, inadequate timing plays a major role in several unsuccessful fundraising efforts; in fact, many African SMEs do not plan nor structure their fundraising process and therefore may approach the wrong investors at the wrong time, with the wrong investment opportunity and the wrong message.

To make matters worse for African SMEs, the current COVID-19 pandemic has led to a global demand shock, with decreased consumer spending on clothing, recreation/entertainment, travel, etc. as a result of widespread restrictions on travel and movements. Other major disruptions include purchase and import cycles, increased global uncertainty, temporary business closures, realignment of budgets towards healthcare spending, loss of income by certain employee classes, along with disruptions in global trade, financial markets and investments.
In this context, African countries, and particularly the African private sector, are currently badly hit by the economic consequences of the COVID-19 pandemic. The impact of the widespread lockdowns and curfews in Africa is already felt by all classes of businesses, micro, small and medium enterprises (MSMEs), but also individuals and large corporates.

According to the UNDP, the COVID-19 crisis threatens to disproportionately hit developing countries, with income losses that are expected to exceed $220 billion, and nearly half of all jobs in Africa that could be lost. Across Africa, governments are examining and setting up macroeconomic stimulus packages that reflect the structure of African economies. However, African governments have limited available financial resources and will not be able to provide adequate support to SMEs that have not been considered a priority so far, so the main challenge for many African SMEs will be to survive the economic impact of the pandemic; unfortunately, increasing weight of overheads, decreasing revenue, and procurement delays will certainly mean that a large number of businesses may not survive, unless they find a way to raise the much needed funding to maintain and grow their operations.

Why usual solutions don’t work

For the past decades, countless institutions have researched on the challenges of SMEs in accessing finance, and particularly on the challenges faced by the “missing middle”, i.e. African businesses employing between five and 250 people, with capital needs ranging from $20,000 to $2.0 million. Companies in the missing middle have been identified as facing unique challenges in accessing finance, talents and markets, as they are too big for microfinance institutions and too small or risky for conventional debt and equity providers.

Consequently, several solutions were designed to address the challenges of the missing middle, essentially with the support of development institutions. While such solutions certainly contributed to lifting many people out of poverty and to supporting thousands of businesses, observations on the ground show that a limited number of true champions managed to emerge thanks to these initiatives, and to reach the critical size to become regional or continental players.

Let’s take a look at the most popular solutions that were designed to support African SMEs and why they did not translate into sustainable companies not talking of the growth of African giants.

Strong focus on startups

The assessment: Startups play an important role in Africa in developing innovative solutions that respond to local needs; they have the potential to create numerous jobs, especially for the youth, and to foster local economic development.

The solution: Several programs were developed to facilitate access to seed/early stage funding for African startups through structures and organizations such as business angels, incubators and accelerators. Today, the continent counts more
than 40 angel investor groups, networks and initiatives providing early stage funding across 25 African countries – up from only 20 in 2015.

The limitations of the model: A very large proportion of startups still have to rely exclusively on family and friends to get seed funding, especially as programs aimed at facilitating access to seed funding are usually limited to technology companies. In addition, angel investing is still in its early days in Africa. In fact, in 2018, 450 African startups raised around $750 million on the whole continent, representing less than 10 companies per country. As a comparison, Europe reported €9.8 billion invested by business angels in 2016, while US angel investors are responsible for funding 67,000 startup ventures annually.

Conclusion: While necessary to enhance the digital transformation of Africa, startup support programs only help a relatively limited number of companies who present the riskiest possible profile for investors and who will take years to achieve the level of impact that Africa needs in terms of job creation, assuming they don’t experience business failure in the first five years of operations.

Proliferation of business competitions to provide grant money to SMEs

The assessment: Innovative African startups can get supported in turning business concepts into effective companies through access to “free” money, i.e. through grants provided to winners of business competitions.

The solution: Innovation and business competitions of all sorts have become prevalent throughout Africa, from hackathons to ideation challenges, demo days, code jams, bootcamps, roadshows and pitch fests.

The limitations of the model: Too many entrepreneurs develop their business model around competitions to win “free” money, instead of building a customer base to sell their products and services. In addition, entrepreneurs with exciting innovations and good presentations skills may find more incentives in jumping from competition to competition to pick up small grants and seed capital from each, rather than actually building sustainable business models focused on long-term growth. This creates fragile SMEs that are too dependent on grant money.

Conclusion: The inflation of business competitions creates SMEs that are distracted from generating revenue and profit. With no proof of business scale beyond winning awards, few or no investor would provide longer-term funding to such businesses, reinforcing the need for SMEs to source additional grants from competitions to survive.

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1 In South Africa for instance, 40% of SMEs fail within one year of existence, while 60% fail by the second year and 90% within 10 years of inception
Development of capacity building programs

The assessment: Research has demonstrated that the lack of business knowledge and managerial expertise partly explains the high rate of business failure among African SMEs.

The solution: Development institutions have developed a large number of free or heavily subsidized capacity building and training programs through incubators, accelerators and other organizations. These programs are usually aimed at raising SMEs’ standards, improving governance and driving competitiveness.

The limitations of the model: SME owners cannot be turned into effective entrepreneurs just because they enroll into capacity building programs or attend classroom training. While such programs can provide entrepreneurs with useful basic management skills, they are insufficient to significantly change the way the majority of entrepreneurs operate and to turn badly managed businesses into sustainable businesses or regional champions.

Conclusion: Capacity building programs are in fact designed to support the largest number of least effectively managed SMEs, i.e. those SMEs that are least susceptible to attract professional investors in the first place.

Provision of long-term financial resources to African commercial banks for on-lending to SMEs

The assessment: It was assumed that one reason why banks were reluctant to lend to SMEs was the banks’ unavailability of affordable financial resources and inadequate credit assessment processes.

The solution: Several international development agencies and foundations provided local commercial banks with long-term lines of credit which had to be used exclusively for on-lending to SMEs. Guarantees were also granted to cover for the banks’ risk in providing loans to SMEs, while technical assistance programs were designed to develop local banks’ credit assessment capabilities. The overall objective was to make local banks absorb part of the $330 billion annual financing gap suffered by African SMEs.

The limitations of the model: Limited impact has been observed on the ground because of a persistent high perceived credit risk for banks towards SMEs. In the absence of any coercive measures to shy away from “easy” and “safer” money, African commercial banks generally prefer to lend to governments, multinationals and major family-run businesses. As a result, only 5% to 8% of African banks’ loan portfolios are allocated to SMEs.

Conclusion: Hundreds of millions of cheap funding resources have been provided to local banks but that did not result in more SMEs being supported. African SMEs still face the same difficulties in accessing funding and do not
A new approach to business support is needed

In the current context of the COVID-19 crisis, giving to African businesses the financial means to survive should be a priority for African governments and development agencies. Today, the institutions best positioned to provide this funding are the private equity institutions who provide equity funding in exchange for a stake in businesses. Between 2014 and 2019, more than a thousand private equity funds have closed deals amounting to $25.3 billion\(^2\). Despite the ongoing crisis, Africa-focused funds should confirm the long-term attractiveness of Africa, especially when compared to developed markets. It is therefore reasonable to assume that there will be a renewed appetite of private equity funds for African growth opportunities once the worst of the pandemic is over.

What are private equity funds looking for?

Africa-focused private equity funds (PE Funds) have raised $3.8 billion in 2019\(^2\), which is the highest figure since 2015. These funds will need to be invested in African businesses in the next five years. In order to support businesses in accessing this pool of funds, it is critical to understand what kind of businesses PE Funds are looking for. In fact, unlike many local commercial banks, Africa-focused PE Funds are willing to invest in local businesses that display the following features:

- **Maturity** – The majority of Africa-focused PE Funds are interested in providing growth capital to businesses that have managed some level of maturity and structure; they will therefore prefer to invest in companies that have been in operations for at least 3 years (if not 5 years) and that have minimum structures in place, including audited financial statements, appropriate legal forms (limited liability companies), satisfactory board, and existence of middle managers. Consequently, few PE Funds will be attracted by startups or early stage companies, especially outside the technology sector.

- **Proven growth opportunities** – PE Funds always favor businesses that can display clear growth opportunities, either because they operate in Africa’s identified growth sectors\(^3\) or because they have unique competitive advantages and a strong customer base.

- **Size** – Between 2014 and 2019, the median deal size was $8.2 million in West Africa’s main markets (Nigeria, Ghana and Cote d’Ivoire\(^4\)). In fact, the sweet spot of investment size for most PE Funds is between $3.0 million and $10.0 million. Since PE Funds are generally minority investors,

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\(^2\) AVCA (Africa Venture Capital Association) – “2019 Annual Private Equity Data Tracker”, March 2020

\(^3\) According to AVCA’s 2019 Annual Private Equity Data Tracker, consumer discretionary, consumer staples, industrials, financials and information technology represented 63% of PE deals in Africa by volume between 2014 and 2019.

\(^4\) All three countries represented 86% of transactions in volume and 93% of transactions in value over the 2014-2019 period (Source: AVCA)
the implied valuations of businesses represent several millions of US Dollars; this excludes businesses that have turnover lower than $1.0 million.

- **Scalability** – Africa-focused PE Funds expect two-digit returns from their investments. This can only be achieved by investing in scalable businesses, i.e. businesses that understand how to convert market opportunities, how to deliver products and services in a cost-effective manner and how to replicate successful business models. The greater the sales, the greater the profitability and therefore the greater the expected return on investment for the funds.

**The case for supporting large local businesses**

Solutions aimed at facilitating access to finance were usually designed for SMEs; if we consider the three largest markets in Africa (Nigeria, Cote d’Ivoire and Ghana), SMEs are defined by maximum level of turnover, specifically:

- Between $200,000 and $5.0 million in Ghana;
- Around 100 million Naira (around $250,000) in Nigeria;
- Around 1.0 billion CFA Francs (around €1.5 million) in Cote d’Ivoire.

All these solutions have effectively supported many businesses across the continent and have contributed to lifting millions of people out of poverty. However, the preferred investment targets for PE Funds are rather larger businesses with revenue of minimum $5.0 million, who have managed minimum levels of structure and governance and/or who have clear growth paths. For such businesses, the main challenge is access funding to achieve scale; this proves difficult with commercial banks given their high cost of borrowing, stringent collateral requirements (generally 120% of the loan amount), and lack of credit lines available for durations exceeding 5 years. On the other hand, however large, these businesses still show organizational deficiencies that prevent them from achieving the level of profitability expected by PE Funds.

Consequently, there is a strong case to support African’s larger SMEs businesses, who differ from multinationals because they are usually managed by the owner and have revenue that range between $5.0 million and $50.0 million. Firstly, each of these large SMEs businesses creates a small ecosystem around it; these strategic SMEs businesses are generally leaders on their market who can pull smaller businesses in their value chain, including micro enterprises and informal sector businesses. They employ more staff and can address larger markets; they can also adopt professional standards and improve the quality of the whole ecosystem. By helping these businesses grow, development agencies directly contribute to the growth and professionalism of African ecosystems and value chains. They are also the businesses that are most likely to foster regional integration with their capacity to export to neighboring countries.
In addition, now is the right time to support larger SMEs businesses given the current pandemic which is putting pressure on the economies that have not invested in their manufacturing capabilities and essential infrastructure. Yet, manufacturing activities are capital-intensive and related investments are more easily incurred by larger companies who have the capacity to amortize the cost of such investments given their level of sales and profits. Large African SMEs are the best agents to foster the industrialization on the continent and should be supported for this reason.

Finally, large local SMEs businesses have the capacity to become national or regional champions if they are better structured, and to compete at a much larger scale; consequently, they can create sustainable job opportunities, especially for women and the youth. In addition to the development of enabling environments, any support that contributes to boosting large SMEs businesses’ productivity will translate into the creation of jobs for Africa’s young and growing population.
Section 02

Proposed Investment Readiness Pilot Program

Introduction
One way to facilitate access to PE Funds equity funding for African SMEs businesses is to ensure that such businesses demonstrate all the features expected by PE Funds. In other words, African SMEs businesses must achieve satisfactory levels of governance, systems, processes, quality of teams and project’s credibility to stand a chance at attracting interest from PE Funds.

An Investment Readiness Pilot Program has been therefore designed to help African SMEs businesses meet the expectations of equity investors. As such, the Investment Readiness Pilot Program aims at reducing the gap between entrepreneurs’ knowledge and financiers’ needs.

The Investment Readiness Pilot Program is developed using the Business Diagnostic tool developed by GFA Consulting and summarized below.

**Partnership with UCLGA**

In 2016, GFA Consulting partnered with UCLG Africa (United Cities and Local Governments of Africa) to run a Local Entrepreneurship and Job Creation pilot program to support four companies in Senegal and Ghana using GFA Consulting’s Business Diagnostic tool. This program, funded by the European Union, was in line with UCLG Africa’s vision to develop Corporate Learning and Knowledge Management under its 15-year GADDEPA perspective strategy.

As part of the 2016 pilot program, UCLG Africa engaged with two cities in West Africa, namely Accra and Dakar. Each city selected or approved two companies who provided private sector solutions to public sector challenges in the areas of sanitation, recycling and healthcare. All four selected SMEs companies went through the Business Diagnostic process described above.

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5 Governance, Advocacy, and Decentralized Development Program for Africa
One of the key learnings of the pilot was that the support needed to be provided to the right type of business. In fact, the selected companies were all early stage companies who could not achieve the level of structure and organization required by PE Funds over the 6-month support period, and who therefore failed to attract funding.

Another learning was that the criteria to select participating companies should have been defined based on investors’ expectations instead of being defined by local governments who have limited knowledge and experience in private sector fundraising processes and requirements. In fact, local governments ended up selecting companies for which investors had limited interest, essentially due to their limited size and limited potential to scale.

UCLG Africa has therefore decided to support GFA Consulting with the set up and deployment of the present Investment Readiness Pilot Program, with the objective of supporting the right African businesses in a more effective way and for maximum impact.

**Selection of pilot participants**

A Call for Expression of Interest will be organized by UCLG Africa to directly identify the companies that will participate in the Investment Readiness Pilot Program.

The following criteria were selected to be consistent with the profile of businesses sought by the PE Funds that are most active in Sub-Saharan Africa:

- Legally registered and headquartered in Ghana and Cote d’Ivoire;
- Minimum five years of operations;
- Existence of minimum three years of audited financial reports;
- Average turnover of minimum $5.0 million (or local currency equivalent) over the past three years;
- Net profit reported over the past three years;
- Companies active in the following sectors: manufacturing, agri-business & agro-processing, healthcare, renewable energy & sustainable development, transport & logistics, education, financial services, consumer discretionary and consumer staples; and
- Fundraising need of minimum $2.5 million (or local currency equivalent).

The pilot will aim at supporting ten companies in Ghana and ten companies in Cote d’Ivoire. Following the Call for Expression of Interest, the number of received applications from SMEs companies may be larger. Therefore, a 9-member Pilot Program Committee will be set up to select the companies that will participate in the Pilot Program.

That Pilot Committee could be comprised of the following profiles:

- One representative of the African Development Bank;
- One representative of UCLG Africa;
Once the selection of the participants is completed, GFA Consulting will deploy the Pilot Program with the completion of the diagnostic and the support with the implementation of recommendations.

**Diagnostic interviews**

The first step of the diagnostic is to complete diagnostic interviews with the management of the participating companies. Usually, diagnostic interviews would be completed with three to four managers, including: the founder/CEO (mandatory), the Deputy CEO, the Finance Manager, the Head of Operations, the Head of Marketing and Sales, or any other relevant manager for the company. Interviews are always individual and can last between four and six hours, which means that interviews can be completed in two days for each company.

The senior management of participating companies will be interviewed around the following topics:

- Cash management
- Risk management
- Financial information
- Governance
- People management
- Project’s credibility

**Cash management**

The cash management questionnaire aims at identifying the sources of risks around cash management. It is a very important element for equity investors as it is crucial to ensure that cash is maximized and managed in the best possible way.

The questionnaire overviews the way working capital is managed (clients, suppliers, inventories), along with other short-term liabilities (employees, taxes) and investments.

**Risk management**

This questionnaire allows GFA Consulting to identify and assess the risk management tools and processes designed by companies to increase their operations’ efficiency.

Discussions on risks evolve around the identification of the company’s specific risks, the protection against the risk of fraud, the management of business risks around
people and assets, health and safety risks, quality management systems and environmental risks.

**Financial information**

This questionnaire covers the quality of financial information and the tools and processes put in place by the company to monitor its performance (reporting systems). The questionnaire covers several topics like the nature of the accounting and management information systems used by the company, the budgeting process, the reconciliation process between management and audited accounts, and the monitoring of target operating margins.

**Governance**

This questionnaire measures the governance systems in place at target companies, an element that can be a deal breaker when equity investors contemplate investments in companies.

The governance questionnaire covers elements such as business ethics, the existence of effective boards, the way decisions are taken within the company, compliance with human resources best practices (including the existence of employment contracts for permanent staff), along with compliance with regulatory and industry requirements.

**People management**

The questionnaire on people management relates to the way the company manages its staff. This is of paramount importance to equity investors because effective people management systems increase the credibility of business plans.

The questionnaire overviews the expertise and background of senior management, the company culture, the recruitment, evaluation and training processes and the level of turnover in the company.

**Project's credibility**

This questionnaire explores the different elements that contribute to the credibility of the project for which a company is looking to raise funding. This element is usually carefully analyzed by investors.

Project’s credibility covers elements such as vision, strategy, business plan rationale, investment opportunity, evidence of demand, route to market and competition.

Once the diagnostic interviews are completed, GFA Consulting will use the scoring system it has developed to measure companies’ investor-readiness. The table below provides an example of scoring, considering that the company subject to the diagnostic tool raises 100% of equity.
That table must be understood as follows:

- **Score**: this reflects the scores that the company has achieved assuming it approaches debt or equity investors; in fact, some of the elements subject to the diagnostic have more or less importance depending on the type of investors the company will deal with. For instance, financial control is of paramount importance to equity investors but is less meaningful for debt providers;

- **Maximum score**: this corresponds to the maximum possible score the company can achieve given the weight of the different diagnostic areas;

- **% score**: this is computed by dividing the score achieved by the company by the maximum score.

- **Positioning**: the positioning of the company depends on the score it has achieved; Tier 3 companies have a score between 60% and 70% excluded, Tier 2 companies have a score between 70% and 80% excluded, and Tier 1 companies have a score of minimum 80%;

- **Initial funding structure**: the initial funding structure depends on the type of funding that the company is looking to raise (debt only, equity only or a mix of debt and equity);

- **Resulting score**: the resulting score is computed by multiplying the score achieved by the company by the initial funding structure;

- **Final score**: the final score corresponds to the sum of the resulting score for debt and the resulting score for equity;

- **Final % score**: the final % score is computed by dividing the resulting score by the maximum score for debt and equity, and by adding both results.

- **Final positioning**: the final positioning is determined based on the final % score.

### Diagnostic report

Within four to six weeks of the completion of the interviews of management, GFA Consulting will deliver a diagnostic report to the management team of each participating company, with a copy to the Pilot Program Committee.
The diagnostic report will comprise the following sections:

- **Executive summary** – The executive summary presents a general overview of the Business Diagnostic, the context of the diagnostic for the company, the rating of the company along with its positioning, the gap analysis and a summary of GFA recommendations;

- **Detailed diagnostic** – This section extensively describes the findings of the interviews and the company’s performance along the six topics of the diagnostic (cash management, risk management, financial information, people management, governance and project’s credibility);

- **Gap analysis and impact on the investment process** – This section highlights the key elements of the company that may be problematic in view of an investment by any investor. This section also describes the impact of the company’s rating on the fundraising process. For instance, a rating of minimum 60% (Tier 3) means that the company can move to the next phase, i.e. the development of the fundraising documentation (business plan, financial model and investment proposal); a rating between 40% and 60% means that the company needs to implement some or all of the key recommendations to be eligible for investment within 6 months; finally, a rating of less than 40% means that the company needs to postpone its fundraising process by minimum a year in order to deeply improve its operating structure;

- **Detailed recommendations** – This section describes the recommendations that can contribute to the improvement of the quality of the company’s investment opportunity for investors. Recommendations are all designed around teams, governance, systems & processes, and project’s credibility.

Once the diagnostic report is delivered, a feedback meeting can be organized to discuss GFA’s findings and the proposed recommendations with the company.

The recommendations proposed by GFA Consulting will be implemented by the companies with the support of GFA Consulting and its network of partners specialized in financial reporting, operations, marketing and compliance. Recommendations should have tangible positive impact on the way investors evaluate the company’s opportunity. Only high and medium priority recommendations will be formulated, since low priority recommendations have only marginal positive impact while using resources.

Recommendations will be proposed based on the following key imperatives:

- **Simplicity**: the objective is not to bring more complexity to the company but rather to identify solutions that can be easily owned and deployed by the company staff;
Rapidity of implementation: recommendations should be implemented within maximum 6 months;

Pragmatism: recommendations should consider the company’s operational and financial constraints and their impact on the company’s set of priorities;

Ownership: to be efficient, recommendations need to be implemented with the support of the company’s teams to incur a sustainable and positive change in the way the company’s teams manage operations.

Recommendations will be formulated whatever the resulting score of the company. Typical support includes the following:

- Development of operations manuals;
- Identification of recruitment needs;
- Development of reporting tools on excel and training of the company teams in charge of populating and analysing them;
- Setup of effective boards;
- Development of terms of reference for the selection of audit firms, accounting firms and providers of management information systems;
- Completion of market studies to assess/confirm market potentials; or
- Implementation of accounting software.

Exit diagnostic

At the end of the 6-month implementation period, an exit scoring will be completed by GFA Consulting to assess progress compared to the initial scoring. The conclusions of that exit scoring will then be reported in the updated diagnostic report, which will be shared with the company and with the Pilot Program Committee.

If the participating companies decide to move forward with the fundraising process, assuming they achieve an exit scoring of minimum 60% in each of the diagnostic areas, the updated diagnostic report will help potential PE Funds measure the companies’ improvements of their risk profile, thereby increasing the companies’ chances of effectively attracting funding. Companies who successfully complete the program will be in a position to develop their fundraising documentation (business plan, financial model, valuation, investment proposal) with or without the support of GFA Consulting.

Monitoring and evaluation

Monitoring progress and evaluating the Pilot Program’s output are key to successfully replicating the Pilot Program and scaling it up in other countries and to a larger number of companies.

The African Development Bank and the Pilot Program Committee will be provided with quarterly reports that will update them on where each company stands in the program (interview, scoring, diagnostic report, implementation of recommendations or exit scoring) and on key findings and challenges. This will allow the Pilot Program...
Committee to provide guidance and advice for a successful execution of the program.

Clear Key Performance Indicators (KPIs) will be set up to measure the performance of the Pilot Program. Such KPIs may include:

- Level of improvements implemented in companies, particularly in areas such as cash management, risk management and governance;
- Potential for job creation, especially for women and youth;
- Potential for wealth creation through increased taxes;
- Potential for climate change mitigation;
- Potential for import substitution;
- Potential for poverty reduction;
- Potential for financial inclusion;
- Other potential development impact; and
- Any other KPI relevant to the Bank and the Pilot Program Committee.

In addition, extensive surveys will be conducted with the 20 companies that will be part of the Investment Readiness Pilot Program to get their feedback on the program. Additional feedback from all the consultants involved in supporting companies may be incorporated with the implementation of some specific recommendations (marketing, compliance, accounting software, etc.).

A Monitoring and Evaluation Report will therefore be completed at the end of the Investment Readiness Pilot Program. This report will be shared and discussed with the Pilot Project Committee and will include recommendations on the best ways to adjust and scale the program in other countries.

**Proposed schedule and cost**

**Proposed schedule for the Investment Readiness Pilot Program for the African SMEs**

The Investment Readiness Pilot Program for the African SMEs is proposed for an 18-month duration to accommodate for the time necessary to identify and engage with companies, complete the Business Diagnostic, support each business over a 6-month period with the implementation of recommendations, complete the exit scoring and review the overall outcomes of the Pilot Program.

For each of the 20 companies, a typical schedule can be described as shown below:
Cost of the Investment Readiness Pilot Program for the African SMEs

The cost of the Investment Readiness Pilot Program for the African SMEs is estimated to **500,000 Euros**, including GFA Consulting’s interventions fixed fees evaluated to 20,000 Euros per company, which amounts to 400,000 Euros for the 20 SMEs companies; to which will be added 50,000 Euros to cover travel and accommodation expenses, and 50,000 Euros that will cover the management and administrative costs incurred by UCLG Africa.

GFA fixed fees for the completion of the Investment Readiness Pilot Program for the African SMEs include:

- The collaboration with UCLG Africa for the identification and selection of 20 SMEs companies (10 in Ghana and 10 in Cote d’Ivoire) to be included in the Investment Readiness Pilot Program;
- The completion of the Business Diagnostic for all 20 companies;
- The writing of a diagnostic report for each of the 20 companies;
- The support of all 20 companies with the implementation of the recommendations identified during the diagnostic phase over a 6-month period;
- The completion of the exit scoring, with the corresponding update of all diagnostic reports; and
- The provision of all necessary reporting and Key Performance Indicators required by the African Development Bank and the Pilot Program Committee every quarter and at the end of the program.

GFA Consulting fixed fees covers the Business Diagnostic interviews, the writing of the diagnostic report, the implementation of recommendations over a six-month period, the exit diagnostic and the reporting on the Pilot Program for the benefit of the African Development Bank upon completion of the 18-month Investment Readiness Pilot Program. The GFA Consulting fixed fees include the consulting
fees of GFA Consulting and any other consultant involved in the implementation of recommendations.

### Expected benefits for the African Development Bank

After the COVID-19 crisis, many companies will need important funding resources to recover and to capture opportunities to grow in their country and beyond. It will be critical for those companies to be investment-ready if they want to have a chance at attracting funding from debt and equity providers. In this respect, the African Development Bank will have a key role in designing, promoting and implementing the best solutions to improve the investment-readiness profile of African businesses.

By partnering with UCLG Africa and GFA Consulting in the Investment Readiness Pilot Program for the African SMEs, the African Development Bank will take advantage of a proven expertise in addressing fundraising issues for African companies. In fact, the Business Diagnostic will contribute to attracting more funding to African SMEs businesses and fostering their growth in a successful and sustainable way, which in turn will allow them to strengthen their ecosystem and support their value chain.

In executing the Investment Readiness Pilot Program for the African SMEs, one can rely on the following key differentiators brought about by UCLG Africa and GFA Consulting:

- An excellent knowledge of the environment of African LRGs, and conditions for local economic development and the contribution of African SMEs therein
- A proven expertise in the completion of business diagnostics in a diversity of sectors and countries in Sub-Saharan Africa, with more than 20 business diagnostics completed in the past five years;
- Close to 25 years of experience in fundraising advisory of GFA Consulting with an in-depth understanding of investors’ expectations and with investors requirements in mind; and
- A strong network of specialized expert advisors who can support with the implementation of recommendations both in Ghana and in Cote d’Ivoire.
Section 03

Overview of GFA Consulting
Introduction

GFA Consulting Limited was set up in April 2011 by its founder and current Managing Director, Mrs. Carole Ramella. GFA Consulting is a corporate finance boutique based in Ghana and which specializes in fundraising advisory (debt and equity) and tax & legal advisory services for businesses operating in West and Central Africa.

To date, GFA Consulting has been engaged in a variety of countries in Africa: Ghana, Cote d’Ivoire, Cameroon, Gabon, Nigeria, Mali, Senegal, Togo, Guinea, Congo, South Africa and Burkina Faso.

Company history

Since its setup in April 2011, the Company has grown to propose a broad range of services to businesses operating in Africa, from financial advisory services to the provision of tax and legal services and the completion of market studies.

Partnership with Urban Inclusion

In June 2013, GFA Consulting and Urban Inclusion entered into an exclusive partnership to design and execute innovative business support solutions. Urban Inclusion is an independent consultancy set up in the UK in 2002 and that expanded to Ghana in 2012. Urban Inclusion offers services in business mentoring, business and operational planning, growth strategies, market research and innovations in marketing.

Competitive advantages

- Premier level of service
  - Highest level of professionalism
  - Responsiveness and timeliness
  - Superior level of service compared to current “consultant” model

- Innovation
  - Our clients recognize that the business support solutions and business advisory services that we deliver have no equivalent in West and Central Africa

- A one-stop-shop approach
  - An integrated portfolio of activities to support African businesses through the completion of their transactions
  - Competitive pricing

- International quality delivered locally
  - GFA Consulting’s senior management team has been trained in some of the largest advisory firms
  - Education from top-tier institutions in Europe

Overview of services

GFA Consulting proposes an array of integrated services.
Investment Readiness Pilot Program for the African Development Bank Proposal – UCLG Africa and GFA Consulting Limited
Prepared by GFA Consulting Ltd (Ghana) - Strictly Confidential
May 6, 2020

GFA Consulting has developed a unique proven solution that provides tailored business advice and guidance to the fundraising process. The Business Diagnostic was developed for companies looking to access finance for growth. The methodology consists of an organizational and financial diagnostic, using GFA’s proprietary rating system to assess the position of the business. This is then followed by the development of the fundraising documentation (financial model, business plan, investment proposal), assuming the minimum rating is achieved.

Since the methodology was launched in 2015, GFA Consulting has systematically used the Business Diagnostic for all its equity and debt fundraising mandates. That represents more than 20 companies in 8 different countries in West and Central Africa between 2015 and 2020, in a diversity of sectors.
Key professional personnel

The Company has a team of 12 permanent staff, which represents close to 50 years of experience in the provision of advisory services to businesses that operate in Sub-Saharan Africa.

The engagement will be managed by Carole Ramella, who is the Managing Director of GFA Consulting. Prince Dogbe, Associate at GFA Consulting, along with two analysts, namely Precious Dodoo and Carole Bli, will also provide support for the execution of the pilot program.

<table>
<thead>
<tr>
<th>Name of staff</th>
<th>Areas of expertise relevant to the assignment</th>
<th>Designation</th>
<th>Assigned tasks and deliverables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mrs. Carole Ramella</td>
<td>SME business development, Business monitoring, Operational diagnostic, Market/business model assessments, Financial analysis, Review/design of reporting tools</td>
<td>Managing Director</td>
<td>Interviews with company management, Company rating / design of recommendations, Support with the implementation of recommendations, Exit scoring, Review of fundraising documentation</td>
</tr>
<tr>
<td>Mr. Prince Dogbe</td>
<td>Financial analysis, Market research, Operational diagnostic, Design of reporting tools</td>
<td>Senior Analyst</td>
<td>Interviews with company management, Diagnostic report, Support with the implementation recommendations, Research, Development/review of the financial model, Writing/review of the investment proposal</td>
</tr>
<tr>
<td>Ms. Precious Dodoo</td>
<td>Financial analysis, Market research, Operational diagnostic</td>
<td>Analyst</td>
<td>Interviews with company management, Diagnostic report, Support with the implementation recommendations, Research, Development of the financial model, Writing of the investment proposal</td>
</tr>
<tr>
<td>Ms. Carole Bli</td>
<td>Financial analysis, Market research, Operational diagnostic</td>
<td>Analyst</td>
<td>Interviews with company management, Diagnostic report, Support with the implementation recommendations, Research, Development of the financial model, Writing of the investment proposal</td>
</tr>
</tbody>
</table>

Other staff may be added to the team as necessary. In addition, GFA Consulting will work with a network of recognized consultants and advisors for the implementation of specific recommendations in the areas of market entry strategy, marketing, sales, operations, compliance and financial reporting.

Profile of Carole Ramella

- **24-year experience** in financial analysis, fundraising advisory, company valuation and mergers & acquisitions acquired in France and Italy (Paribas, Arthur Andersen, Gras Savoye and Duff & Phelps).
- **Experience with both SMEs and large multinationals** on transactions representing more than 22 billion Euros in value and covering more than 15 countries on 4 continents.
- **Expertise in a large number of sectors**: information systems, publishing, financial services, transportation & logistics, pharmaceuticals, hospitality, etc.

- **Founder and Managing Director of GFA Consulting**, a corporate finance boutique based in Ghana and specialized in business support and fundraising advisory for businesses operating in Sub-Saharan Africa.

- **INSEAD MBA** (Fontainebleau, France) and graduate of **NEOMA Business School (ex-Reims Management School)** in France (major in Finance).

- Since July 2016, **Foreign Trade Advisor for the French Government (Vice President of the Ghana Section)** in addition to GFA activities.

- Member of the **Investment Committee of Investisseurs & Partenaires (IPAE2)**, a leading Africa-focused private equity fund headquartered in Paris, France (**http://www.ietp.com/en/content/impact-funds**).

- French national - Proficient in French, English and Italian.
Overview of UCLG Africa

United Cities and Local Governments of Africa (UCLG Africa)

www.uclga.org
General Background

UCLG Africa, the continental organization representative of the voice of African local and regional governments (LRGs), was founded in 2005 in the City of Tshwane, South Africa as a result of the unification of three continental groups of local governments, namely the African Union of Local Authorities (AULA); the Union des Villes Africaines (UVA); and the African Chapter of the Unao dos Ciudades y Capitaes Lusofono Africana, Americana y Asiatica (UCCLA).

UCLG Africa’s headquarters and secretariat general are established since January 2008 in Rabat, the capital city of the Kingdom of Morocco, where it is granted a diplomatic status as a Pan-African International Organization. UCLG Africa also maintains five regional offices in Cairo, Egypt, for the North Africa region (NARO); Accra, Ghana, for the West Africa region (WARO); Libreville, Gabon, for the Central Africa region (CARO); Nairobi, Kenya, for the East Africa region (EARO); and Pretoria, South Africa, for the Southern Africa region (SARO).

The membership of UCLG Africa includes the 48 national associations of LRGs operating in the different countries that are implementing the decentralization policy throughout the continent, and 2,000 cities and subnational governments affiliated as individual members. Through its membership, UCLG Africa represents over 350 millions African citizens.

Vision and Mission

The core values of UCLG Africa enshrined in its Constitution (2016), are respect of human rights, equality, rule of law and good governance, social justice in the search of sustainable and balanced economic development of Africa.
The vision of UCLG Africa is “Building African Unity and Driving African Development through the Grassroots.”

To achieve this vision UCLG Africa’s Mission Statement includes the following:

- Unite African local government; place it in the continental political and economic development context and represent it in all relevant forums
- Strive for the establishment of local government as a distinct sphere of government working in support of national and other spheres of government in Africa
- Ensure democracy, equality and respect for human rights at the local level
- Promote sharing of human and intellectual capital as well as other resources among local authorities in Africa
- Empower local governments through research, training and capacity development
- Pursue sustainable development in partnership with institutions, structures and programs of the same mission

Objectives

In order to translate this mission statement into objectives UCLG Africa has defined in 2007 a long term perspective strategy spanning form 2008 to 2021, also known as The Governance, Advocacy & Decentralized Development Program for Africa (GADDEPA). GADDEPA lays out the objectives of UCLG Africa’s interventions according to three main pillars: A. Institutional Strengthening and Capacity Development; B. Advocacy and Mobilization; C. Corporate Learning and Knowledge Management. Under these pillars UCLG Africa has developed a series strategies, methods and tools translated into programs and projects aimed at supporting the emergence and strengthening of developmental LRGs, among which support to the development and strengthening local economic activities and job creation are a priority. This is as early as in 2016 UCLG Africa partnered with GFA Consulting to implement the Local Entrepreneurship and Job creation pilot program referred at in page 12 of this document. The
Profile of Jean Pierre Elong Mbassi

Investment Readiness Pilot Program draws lessons from this experience a taking into consideration the new situation stemming from the Covid-19 crisis.

- **40 years of experience** in the field of urban development and planning, urban services, local economic development, local governance, housing and of slum upgrading.

- The Secretary General of United Cities and Local Governments of Africa (UCLG Africa) since 2007.

- Secretary General of the Municipal Development Partnership, MDP from 1992 to 2006.

- From 1996 to 1999 he was the first Secretary General of the World Association of Cities and Local Authorities Coordination-WACLAC

- From 1981 to 1991, Director of the first urban project financed by the World Bank in Cameroon which focused on the upgrading of a slums area of 300,000 inhabitants in the city Douala.

- From 1973 to 1980, Research and Projects Manager at the Cooperation and Planning Agency ("Agence Coopération et Aménagement") in Paris, France

- Since 1998, Leader in the organization of the Africities Summit, the most important platform for dialogue on the implementation of decentralization policies and the role of local and regional governments in the development and integration of Africa.