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GHANA ALTERNATIVE MARKET (GAX) MARKETING - ANALYSIS, FINDINGS & NEXT STEPS

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GHANA ALTERNATIVE MARKET (GAX) MARKETING - ANALYSIS, FINDINGS & NEXT STEPS

USAID-FINANCING GHANAIAN AGRICULTURE PROJECT
(USAID- FINGAP)

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ACRONYMS LIST

AfDB	African Development Bank
AGI	Association of Ghana Industries
BoG	Bank of Ghana
CSD	Ghana's Central Securities Depository
GDP	Gross Domestic Product
GSE	Ghana Stock Exchange
GSECI	Ghana Stock Exchange Composite Index
GoG	Government of Ghana
GAX	Ghana Alternative Market (on Ghana Stock Exchange)
GFIM	Ghana Fixed Income Market
IPO	Initial Public Offering
JCAP	Joint Country Action Plan
LDM	Licensed Dealing Member
PFG	Partnership for Growth
SME	Small and Medium Enterprises
USG	United States Government
VCTF	Ghana Venture Capital Trust Fund

EXECUTIVE SUMMARY

Ghana is an economy in transition. The country was blessed with the discovery of oil off its coast in 2007. This immediately raised hopes for structural transformations and breakthrough economic growth. However, the global recession unfolded about a year later with oil prices falling dramatically from almost \$150 a barrel to under \$45 a barrel. In October 2015, the price had fallen once again, this time to a 10-year low of \$43 a barrel.

With double digit inflation and government deficits averaging 10% over the past 3 years, the economy is challenged. The government is funding its deficits with government debt, resulting in a flood of government T-bills and bonds that pay 25%+ interest rates. This government debt has crowded out private sector investment and made it extremely difficult for businesses to raise urgently needed investment and operating capital.

The Ghana Stock Exchange (GSE) has operated successfully since 1990 and has enjoyed an increased profile, profitability, and status as trading of government debt has re-energized the GSE. To respond to this need, Ghana in 2013 introduced an alternative market, a stock market tailored to meet the needs of Ghanaian SMEs. The Ghana Alternative Market (termed "GAX") targets SMEs, with annual revenues greater than GHC 500,000 (~US\$133,333), an opportunity to raise capital via debt or equity provided the firm is or nearly profitable.

USAID FinGAP has partnered with the GSE to provide marketing support and technical advice to help the GAX to raise the number of SMEs using its securities market to attract investment. This Final Report documents that project and puts forth a series of marketing recommendations to improve the marketing process and message of the GAX. The report also touches on some larger strategic and sustainability issues surrounding the operation of an SME stock market in Ghana. Quite succinctly, the seven marketing recommendations made to GAX are summed up below:

Seven GAX Marketing Recommendations

- Improve branding of the GAX.
- Establish and grow online presence for the GAX.
- Improve marketing materials (online, PDF, printed) and distribution (via email)
NOTE: If an SME doesn't have email, should it list on the GAX?
- Establish a clear, linear, online tool that integrates Licensed Dealer Members (LDMs) with prospective SMEs
- Upgrade and improve GAX decision making, governance, and reporting
- Separate and distinguish GAX as a separate entity from the GSE. This will take effort, work, and persistence. GAX and GSE are vastly different in terms of targets, outcomes, and capabilities.
- Additional details and recommendations contained in the project's final report.

I. OVERVIEW

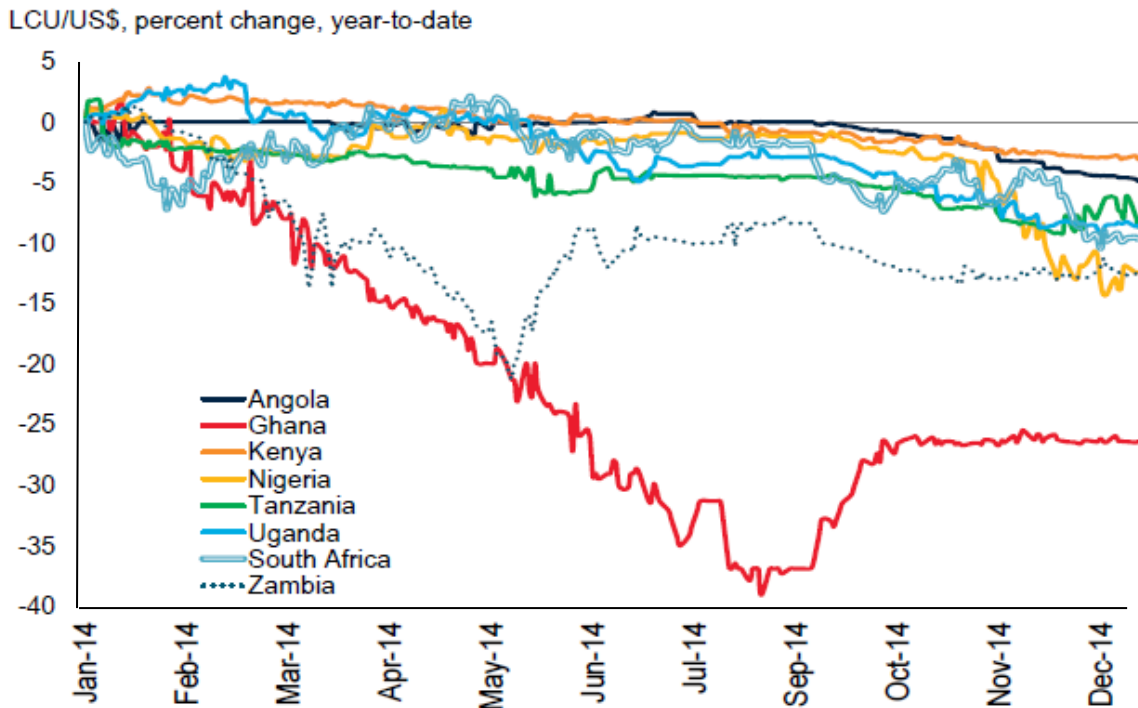
THE ECONOMIC ENVIRONMENT IN GHANA IN 2015

It is important to understand the economic environment in Ghana to fully appreciate the challenges and opportunities facing small & medium sized enterprises in Ghana in 2015.

Although Ghana registered economic growth in 2014, the economy and businesses in 2015 face major challenges in the form of a sharp currency depreciation, deepening energy crisis, deteriorating macroeconomic imbalance and rising inflation and interest rates. These factors and others have increased the challenges facing SMEs operating in Ghana.

Currency Depreciation: The Ghanaian Cedi continues to face rather sharp levels of depreciation. In 2014 the Cedi faced a decline of 24% against the US dollar. (The cedi depreciated by 26.7 percent between January and June 2014 but remained relatively stable during the second half of the year.) During the first 6 months of 2015, the Cedi declined by more than 30% but has since recovered. Expectations are the Cedi will depreciate between 27% and 29% in 2015.

Figure 1 - Depreciation (Local Currency Unit / US \$), Jan 2014-Dec 2014



Sources: Bloomberg and World Bank.

Figure 2 – Depreciation of Ghana ₵ vs US\$, Jan 2011 – August 2015

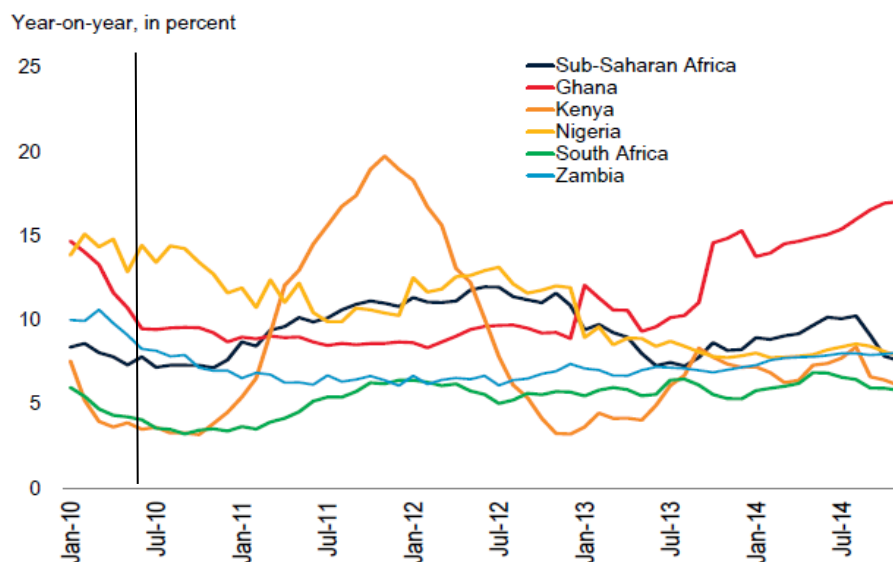


Sources: Bank of Ghana, World Bank

Deepening Energy Crisis: Ghanaians are currently going through a phase which has been nicknamed “DUMSOR” (translating to “off and on”) because of the erratic electricity supply. There is power rationing and various neighborhoods have been put on a schedule of 12 hours of power supply, 24 hours of darkness. However, during those 12 hours of light, the lights may go on and off a number of times. This obviously negatively impacts businesses in all sectors of the economy. Some in Ghana have turned to the use of electric generators to maintain a sense of normalcy. However, electricity from diesel generators is as much as 50% more expensive than electricity from city supply.

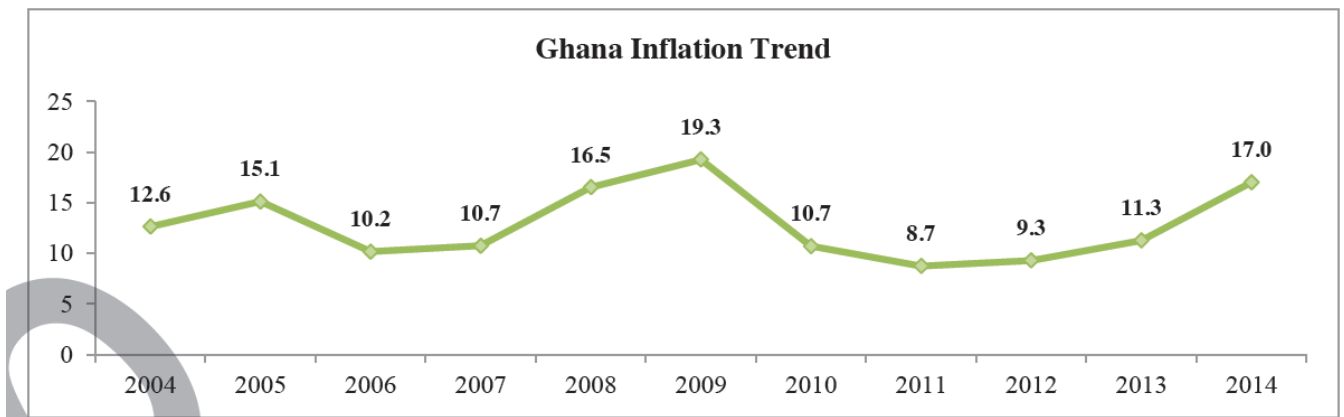
Rising Inflation & Interest Rates: Inflation continues to negatively impact Ghana and its SMEs. In 2013 inflation was 11.7% while in 2014 it was 17%. Inflation has remained high in 2015, despite the tighter monetary policy stance and slowdown in economic activity. Inflation rose to 17.3% in August from 16.4% in January, reflecting the sharp currency depreciation and fuel price adjustments. While inflation undergoes month to month variability, it is expected to average approximately 17% in 2015.

Figure 3 - Inflation, Jan 2010 – July 2014



Source: World Bank.

Figure 4 - Ghana Inflation, Jan 2004 – Sept 2014



Sources: Bank of Ghana, World Bank, Agricultural Development Bank Draft Prospectus, June 30, 2015.

Other Factors: Following a widened government budget deficit of over 10% of GDP since 2012, public debt rose sharply from 39.7% of GDP in 2011 to 55.3% in 2013 and further to 67.1% of GDP by the end of December 2014. Moreover, payment of debt service interest is highly skewed towards domestic debt service at over 80%. This has been mainly due to government’s reliance on short-term instruments, which typically carry coupon rates above 25%.¹ The massive availability of short-term government debt has “crowded out” the availability of credit in Ghana as most institutional investors simply purchase government debt instead of diversifying by offering loans to private sector businesses and SMEs.

Due in part to the increasing availability of high-interest government debt, banks and institutional investors have not aggressively sought offering loans to the private sector. Moreover, it is difficult for private sector firms to negotiate, compare, and obtain such loans. Banks that do offer private sector loans do with rates above 30% per year and these loans virtually always require a legally-binding pledge of collateral. Non-banking financial institution (NBFIs) including, microfinance firms, offer shorter term loans at interest rates as high as 60-96% APR per year.

Financial Markets: Capital markets and portfolio investment are gradually evolving. The government has become highly dependent on the domestic capital market to raise funds for its budget. The longest term domestic bonds debuted in 2013 with a seven-year maturity. Foreign investors were restricted to participating in bond auctions with maturities of three years or longer, although the government is considering plans to open up the short-term market to foreigners as well. Foreign investors hold over 83 percent of the total outstanding three-year and five-year bonds. A secondary market is emerging as 25,000 transactions valued at more than USD 3.2 billion have been registered at Ghana’s Central Securities Depository (CSD) since 2012, with three-year bonds being the most actively traded. Authorities are working to expand the secondary market to improve liquidity.

As of December 2014, the Ghana Stock Exchange (GSE) had 34 securities of listed companies, 4 government bonds and 1 corporate bond listed. Both foreign and local companies are allowed to list their securities on the GSE. The Securities and Exchange Commission regulates activities on the Exchange. Currently, capital gains for stocks listed on the GSE are exempt from taxation while there is an 8 percent tax on dividend income. Foreigners are permitted to trade stocks listed on the GSE

¹ For the week ending July 31, 2015 the Ghana Government 91-day T-Bill rate was 25.22%, 182-day rate was 25.89%. One year notes were priced at 22.5% and 2 year fixed rate notes were 23.0%. In September 2014, the 91-day rate was 25.5% vs. 19.2% in December 2013.

without restriction. There are no capital controls on the flow of retained earnings, capital gains, dividends or interest payments.

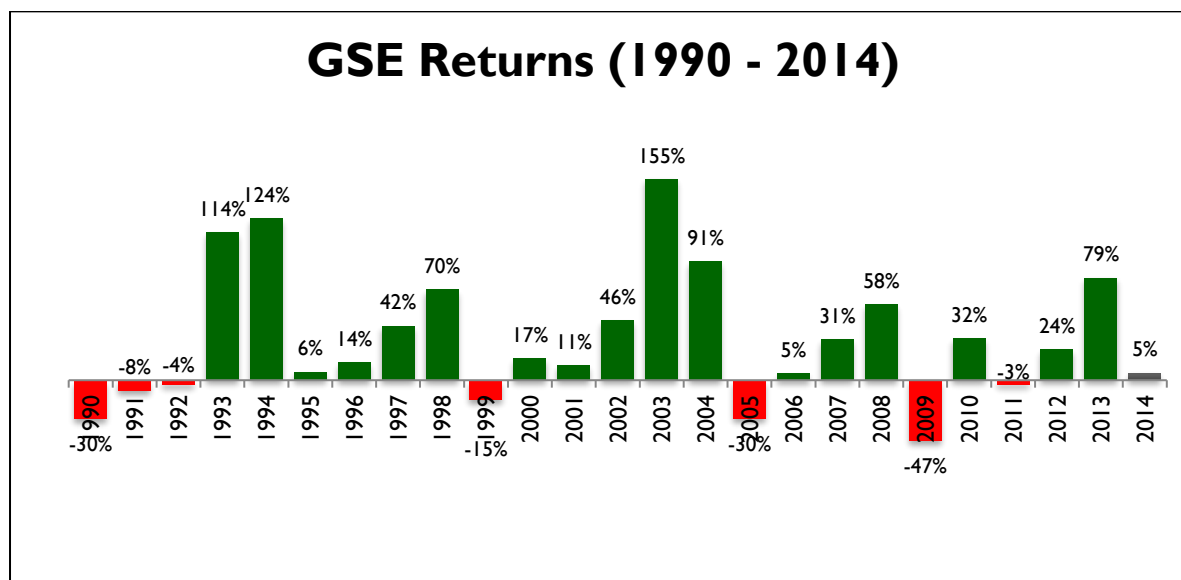
The GSE composite index (GSECI) has exhibited mixed performance. Performance in US dollar terms diverges significantly from the performance of the market index in local currency terms. For example, in 2013 the GSECI returned 79% in local Cedi currency but returned 54.9% in US dollar terms. In 2014, GSECI returned 5% in local currency while losing 22.5% in US dollar terms.

Table I - Ghana Stock Exchange Statistics

	2007	2008	2009	2010	2011	2012	2013	2014
S&P Global Equity Index Ghana (annual % change)	21.6%	-10.4%	-42.7%	94.1%	-22.8%	7.7%	54.9%	-22.5%
Market cap. of listed companies (current Million US\$)	\$ 2,380	\$ 3,394	\$ 2,508	\$ 3,531	\$ 3,097	\$ 3,465		
Market capitalization of listed companies (% of GDP)	10.0%	11.9%	9.7%	11.0%	7.8%	8.3%		
Listed domestic companies, total	32	35	35	35	36	34	34	35
Stocks traded, total value (current Million US\$)	\$ 109	\$ 150	\$ 58	\$ 102	\$ 137	\$ 54	219.3	108.11
Stocks traded, total value (% of GDP)	44%	53%	22%	32%	35%	13%		
Stocks traded, turnover ratio (%)	3.9%	5.2%	2.0%	3.4%	4.1%	1.6%		

Source: World Bank, World Development Indicators, Author's Calculations, ASEA 2014 Annual Report & Statistics

Figure 5 - Ghana Stock Exchange Index Annual Returns (GH¢ currency)



Pre-2011 | GSE All Share Index, Post 2011 | GSE Composite Index. Source: Ghana Stock Exchange

2. THE GHANA ALTERNATIVE MARKET (GAX)

The Ghana Stock Exchange (GSE) was incorporated in July 1989 with trading commencing in 1990. Established in 1990 with 9 listings, the GSE has grown over the past 25 years to now include 41 listed equities. These 41 equities are listed on the website of the Ghana Stock Exchange.

After its launch and operation, the GSE included three Official lists (See table below). The largest and most profitable companies were envisaged to be on the First Official List, while medium sized and small companies were envisaged to be on the Second and Third Official Lists, respectively.

Table 2 - GSE Listing Requirements (early 1990s)

	First List	Second List	Third List
Stated Capital	¢100 million	¢50 million	¢20 million
Minimum Public Share Offer	¢30 million	¢15 million	¢5 million
Public Share Float (%)	25% of Total Issued Shares		
Published Accounts	5 Years	3 Years	1 Year (May be Waived)
Profitability	Profitable on aggregate during previous 5 Years	Profitable on aggregate during previous 3 Years	Not necessary but company must demonstrate potential to be profitable

In 1999, Camelot Ghana Limited became the first and only company to utilize the Second Official List to raise equity capital. The GSE has made a further effort to facilitate the entry of SMEs to the exchange by creating the Provisional List, which allows companies to list provisionally for six months during which they are guided by the GSE and financial advisers to meet the requirements for full listing.

Because of a lack of demand for the Third and Provisional Lists (small companies), these were later dropped from the GSE. A major impediment for small companies to conduct an IPO was the high costs associated with undergoing the listing process. As a result, little equity capital was available for SMEs in Ghana.

In order to once again encourage SMEs to launch IPOs, the Ghana Stock Exchange created a parallel market in May 2013 to stimulate more activity and once again encourages SMEs to engage with the GSE. The GAX was created to help develop and provide additional access to capital for Ghana's small & medium enterprises (SMEs). The GAX has fewer requirements, faster procedures, and additional incentives for businesses to consider listing and raising capital than the larger GSE.

The minimum capital requirement to list on the GAX post-flotation is GH¢ 250,000² (~US\$66,667), compared with GH¢ 1 million on the GSE (~US\$266,667). Prospective companies are only required to have 1 year of audited financial statements, and this requirement can be waived if the prospective company can provide a 3 year viable business plan that shows profitability by year 3. The GSE requires three years of audited financial statements to list with few exceptions.

GAX companies are required to have a minimum of 20 shareholders post-listing vs. 100 shareholders for GSE-listed companies. The GAX also requires its listing broker (Licensed Dealing Member, LDM) to underwrite the sale of 20% of the organization. In other words, the listing broker must guarantee the sale of 20% of shares even if individual or institutional investors are unable or unwilling to participate.

The African Development Bank included the successful launch of the GAX as part of its strategy for public sector growth in Ghana from 2012-2015. Its original goal was to see 17 listed companies on GSE and at least 10 on the GAX by 2015.

The GAX-SME Listing Support Fund is a new innovation and incentive for SMEs to raise capital on the GAX. The GH¢ 700,000 (US\$186,000³) fund was created with contributions from the African Development Bank (AfDB), the Ghana Venture Capital Trust Fund (VCTF), and the GSE. Interested companies apply for approval from the revolving listing fund. Once approved, the companies' partner with appropriate market participants (lawyer, brokers, advisors, auditors, accountants, etc.) to structure and launch the initial public offering (IPO). Costs are contained because total IPO fees are capped at 5% of the total issue by the SEC Ghana. Market participants often work unpaid with the expectation of a success fee that obtained after a successful IPO. (Once the capital is raised, the company repays the revolving listing fund with proceeds from the IPO.) An additional incentive is that this "loan" is offered interest free to the sponsored SME. (Note it was reported on October 20, 2015 that the AfDB contributed an additional GH¢ 760,000 to the GAX-SME Listing Support Fund.)

An interesting phenomena in Ghana (and in Africa as well) is a culture that does not traditionally value, support or socially recognize successful partnerships or joint ownership organizations. In Ghana there is a pervasive belief that owning 100% of a business is preferable to sharing ownership of a business with other stakeholders. As Ghana more fully integrates with the global markets, this cultural belief is being challenged and case studies of Ghanaian companies growing from sole proprietorships to national and multinational corporate successes.

The Ghana Alternative Market (GAX) was set up in 2013 as a parallel market operated by the Ghana Stock Exchange, focusing on businesses with potential for growth. The GAX accommodates companies at various stages of their development, including start-ups and existing small and medium sized enterprises.

There is a severe shortage of long term financing in Ghana, so issuers (i.e., an SME) conducting an initial public offering (IPO) on the GAX could potentially obtain longer term financing through listing

² The exchange rate on September 30, 2015 was 3.75 Ghana Cedi to the US dollar. This exchange rate will be used throughout this report unless otherwise noted. (Source: <http://usd.fxexchangerate.com/ghs-exchange-rates-history.html>)

³ \$186,000 using the September 30, 2015 exchange rate. It is not clear what exchange rate was used when the initial transfer was made in 2014 or in what form (US\$ or GH¢) the contribution was made.

equity, as this is permanent capital. The GAX was created and established as a securities market to trade equity, but over the past couple years SMEs have successfully listed debt (corporate bonds) as well. The debt listings on the GAX were able to tap the GAX Listing Support Fund and other incentives.

In parallel with the increased focus on stimulating listings (debt and equity) on the GAX, the GSE moved forward to create the Ghana Fixed Income Market (GFIM) in June 2015. (**Section 3** lists the 6 listings thus far on the GAX. Two of these are corporate debt offerings totaling GHC 180 million (US\$48m) and four are equity listings totaling GHC 21 million (US\$5.6m). Numerous strategic decisions need to be made, announced, and enacted that clarify the relationship between the GSE, GAX and the GFIM. For example, GFIM was announced to be a secondary market for all fixed income securities.⁴ It is unclear how the two corporate debt securities will be transferred to the GFIM.

While the creation and launch of the GFIM is a positive for the Ghana fixed-income market, the listing and trading fees that would otherwise go to the GAX will now be earned by the GFIM. This Marketing Plan does not address strategic, financial or continuing concern challenges for the GAX. **Section 7** contains a listing of more than two dozen additional areas of possible support by USAID and/or other donor organizations in the area of financial markets. One such area of possible support is to create a traditional business plan for the GAX that addresses corporate governance, decision making, and financial strategies. (For example, is the GAX self-sustainable in terms of revenues and expenses? Will GAX continue to be staffed by GSE personnel? What entity, individual, or organization is responsible for the successful operation, oversight, and marketing of the GAX?) Similar work could be commissioned so the GFIM and GSE also contain traditional business plans.

⁴ <http://www.theafricareport.com/West-Africa/ghana-launches-e-bond-trading-system.html>, 30 September 2015

3. MARKETING AT THE GAX

The Ghana Alternative Market (GAX) Marketing Project (Analysis, Findings & Next Steps) was created to provide assistance to the newly created GAX to better attract qualified and capable SMEs to engage in the listing process. The GAX was launched in June 2013 according to news reports⁵, but few companies move forward to list their shares on the new exchange. After an extended absence of any listings on the newly created GAX, increasing numbers of news reports began to emerge criticizing the GAX.

An October 14, 2013 a report in Modern Ghana⁶ stated reported on the inactivity at the GAX. That report stated, “In spite of the proven benefits of listing on the GAX, why are no local SMEs willing to be listed?” Often repeated reasons were cited by the article for the lack of new listings: (1) Ghana’s culture of 100% ownership, (2) The reluctance of entrepreneurs to report the true financial status of their businesses, (3) The perception that stock exchange listing is for large, established companies and not SMEs, (4) Concerns that founders of some SMEs with perceived close relationships to political parties would suffer complications with the changes tides of political power in the country.

In September 2014, the first SME listed securities on the GAX. Although the GAX was created as an equity stock exchange, IZWE Loans listed GH¢ 80 million (US\$21.3 million) of notes (corporate debt) on the GAX. Notably, the expenses listed in its prospectus were 2.62% of the capital raised (1,810,000 GHC) by the loan program. (The GAX caps expenses at 5% of any issue.) Presumably, IZWE was able to secure support of the SME Listing Support Fund as well as the free listing fees.

Following the IZWE Loans debt listing, there were several other additions to the GAX. The GAX listings as of September 2015 include:

Table 3 – Debt & Equity listings on GAX from Inception through October 2015

Company	Listed on	Debt or Equity	GH¢ Raised	US\$ Raised*
IZWE Loans	Sept 2014	Debt	¢80,000,000	\$21,300,000
Samba Foods	May 2015	Equity	¢2,500,000	\$666,667
Meridian Marshalls Holdings	June 2015	Equity	¢2,500,000	\$666,667
AfB Ghana	July 2015	Debt	¢100,000,000	\$26,666,667
HORDS	July 2015	Equity	¢4,000,000	\$1,066,667
Intravenous Fluids	Oct 2015	Equity	¢12,000,000	\$3,200,000
Total Capital Raised on GAX thru 9/2015			¢201 million	\$53.6 million
Total Debt Capital Raised			¢180 million	\$48 million
Total Equity Capital Raised			¢21 million	\$5.6 million

Source: Author’s Research

* For simplicity, all GH¢ funds raised are converted to US\$ at the September 30, 2015 exchange rate of 3.75 GHC to 1 US\$.

⁵ The Report: Ghana 2013, by Oxford Business Group

⁶ <http://www.modernghana.com/news/498591/1/the-ghana-alternative-market-gax-and-the-developme.html>

The GAX primarily relies on the 20 Brokers registered with the Ghana SEC. However, it is mindful that any Licensed Dealer Member is eligible by law to sponsor an IPO on the GAX. Thus, when the GAX receives an inquiry about listing on the GAX, the GAX recommends the interested company contact one of the Licensed Dealer Members – which may be found on the SEC website (www.sec.gov.gh). These include not only the 20 Brokers but also more than 50 investment advisors. By providing open access to all Licensed Dealer Members, the GAX shows that it is impartial.

The GAX also believes that the Broker Dealers will benefit from receiving listing fees from companies that list on the GAX. Thus, the prevalent view is that Broker Dealers are primarily responsible for marketing the GAX to interested companies.

Partially as a result of the above, the GAX has not invested heavily in marketing. (Also, it appears that the GAX does not maintain an independent set of financial statements but rather is loosely managed as an individual initiative within the GSE.) The GSE created a 10 page booklet that assists companies with understanding the advantages, costs, and process of listing on the GAX. **Appendix II** contains this 10 page booklet.

Additional marketing has been conducted via numerous newspaper articles that have tracked the progress and growth of the GAX. Newspaper and magazines have printed articles about the 6 companies that have listed debt and equity on the GAX. And, some interviews and television stories have focused on the GAX and its benefits for small businesses. **Appendix III** contains a 59 page PPT presentation entitled “Ghana Alternative Market” authored by Ekow Afedzie, Deputy Managing Director of the GSE. The GSE PPT mainly focuses on explaining the numerous listing requirements for SMEs to list on the GAX. It also discusses the handful of incentives provided to help companies complete the listing process.

This presentation (with minor changes) was given at the five marketing seminars sponsored by USAID-FinGAP as part of this project. The seminars included three SME seminars, Institutional Investor seminar, and Broker-Dealer Seminars conducted in August and September 2015.

During the project implementation, the GAX noted that they are constrained in expanding marketing activities due to resource limitations. To help raise the profile of the GAX, GSE leadership reached out and received primary support from the African Development Bank (AfDB).

Three GAX Information Seminars for SMEs

Obtaining AfDB support for seminars was reported to rather cumbersome and time consuming by the GSE Marketing Department. The Director of Marketing at the GSE said that it took almost 12 months to finalize the agreement with the AfDB whereby AfDB will pay for eight seminars in Accra and other regions to market the GAX to interested companies. These eight seminars are to be organized by the AGI, the Association of Ghana Industries.⁷ The first seminar was conducted on August 18, 2015 with 100 attendees in Takoradi⁸, a coastal city that has grown significantly due to the recent discovery of Oil off the coast of Ghana. Additional SME Seminars were conducted in Accra (September 17th) and Kumasi (September 23rd) and are explained and documented in more detail in **Section 6**.

Online Marketing

⁷ <http://www.agighana.org/>

⁸ Sekondi-Takoradi, a city comprising the twin cities of Sekondi and Takoradi, is the capital of Sekondi Takoradi Metropolitan District and the Western Region of Ghana.

The GAX does not have a web page. It also does not distribute electronic marketing materials or offer download of electronic marketing materials.

GSE Website

The GSE has a website that lists all equity and debt securities that can be bought and sold in Ghana. There is little distinction between stocks or bonds that is traded on the GAX vs. stocks and bonds that are traded on the GSE. The only distinction is that there are some printed releases by the GSE and some corporate press releases by GAX-listed companies that mention a stock or bond was listed on the GAX.

However, once listed, a company's connection to the GAX is lost for all practical purposes. The stock or bond is listed alongside other stocks and bonds on the GSE website. GSE equity and debt listings are required to report quarterly financial statements and a single annual audited financial report. GAX equity and debt listings are required to report financial results every six months and report audited financial statements one per year.

Stock and bond listings online at the GSE do not distinguish between a GAX-listed security and a non-GAX listed security.

GAX Marketing

Marketing of the GAX is handled as an additional duty by the GSE Marketing Department. The GSE Marketing Department is responsible for all marketing of the Ghana Stock Exchange in addition to marketing and advertising of the GAX. The major marketing effort is contained in a GAX brochure, mentioning the listing requirements and the incentives or benefits to listing on GAX. Appendix II contains a 10 page marketing brochure for the GAX.

4. MARKETING PROCESS AND ROADMAP

Appendix I contains the 6-page Scope of Work for the International Capital Markets consultant. The “Ghana Alternative Market (GAX) Marketing – Analysis, Findings & Next Steps” Project includes numerous deliverables, including delivery of several conferences designed to highlight the benefits of the GAX as a means by which SMEs may attract investment capital.

A logical sequence for delivery of the project is as follows:

- (a) Analyze history and current positioning of the GAX within Ghana as a provider of financing for SMEs.
- (b) Analyze GAX, its operations, and its pre-project marketing strategy.
- (c) Deliver a series of conferences for SMEs, institutional investors, and market participants and regulators that will increase the visibility and understanding of the GAX as a source of financing for SMEs. These conference may or may not incorporate the recommendations formulated in (d) above depending on the ability to get approval and consensus agreement of the improved marketing strategy.
- (d) Based on information learned and analyzed in steps (a), (b), and (c) above, recommend improvements to the GAX marketing strategy and formulate a marketing plan that could be implemented to maximize marketing impact. (This marketing strategy will be referred as “the improved marketing strategy” vs. “pre-project marketing strategy.”)

The project’s findings will be summarized in this section using these four discrete sequence steps.

a. Analyze history and positioning of GAX within Ghana as a provider of financing for SMEs.

The earlier Sections provide a summarized history of market position of GAX within Ghana as a provider of financing for SMEs. This summarized history and positioning are further illustrated in the 3 different GAX Marketing Seminars delivered during project implementation: One for SMEs, another for Institutional Investors, and a third for market participants. It must be noted that another investor workshop for Retail Investors was put forth in the SOW. However, due to the time constraints and reluctance of the GAX to put this workshop on during the consultant’s timeframes, it was agreed with the COP of USAID-FinGAP that this retail investor workshop be scrapped, and instead, a third SME-issuer workshop was inserted into the work activities.

In short, the GAX is a viable and highly attractive option for accessing finance for SMEs. Its attractiveness for raising debt exceeds its attractiveness for raising equity. The reason for this conclusion is that debt listings on the GAX receive the benefit of the GSE-GAX Listing Support Fund. The cap of 5% of the IPO for listing expenses was set based on a review and estimate of listing fees for an equity listing only. Debt listings have listing expenses that are substantially less than equity listings (as expressed as a % of funds raised).⁹ Many studies exist to support this fact. For example, a 2004 research paper¹⁰ documented that in Chile total costs of an equity IPO were 1.8 times higher than the

⁹ It is widely known within the securities industry that the cost of issuing debt is cheaper than the cost of issuing equity. In reality, the cost of issuance decreases as the total assets that are raised increases. The average debt raised on the GAX from its 2 issuances was GH¢ 90 million (US\$24 million). The average equity raised on the GAX from its 4 equity issuances was GH¢ 5.25 million (US\$1.4 million).

¹⁰ Zervos, Sara, Author. World Bank Policy Research Working Paper 3424, October 2004. “The Transactions Costs of Primary Market Issuance: The Case of Brazil, Chile, and Mexico.”

total costs of a debt IPO. That paper documented that in Mexico the total costs of an equity IPO were 3.3 times higher than the total costs of a debt IPO.

b. Analyze GAX, its operations, and its pre-project marketing strategy.

Some of the insights and recommendations contained in this report lie outside the Scope of Work which focuses on delivering only a Marketing Plan. In reality, a marketing plan is created after an organization has a specific, actionable, and sound organization and product. As these are absent, the Marketing Plan delivered to GAX (contained in **Appendix VI**) provides a higher-level marketing plan than may have been expected by the GAX or USAID-FinGAP. These facts that were absent during project implementation include:

- (1) The product that GAX is offering has not been defined. It is now listing both equity and debt primary issuances. It appears there is a working assumption that the two debt issuances will be transferred to the GFIM. Thus, the Marketing Plan focuses exclusively on attracting equity listings.
- (2) There has not been a business plan for the GAX specifying (among other things) its competitive positioning (for debt), financing & solvency plan, annual budgets, operations plan, and organizational strategy. Such information is beyond the scope of this project. The absence of such information limits the ability to provide more concrete marketing recommendations. **Figure 6** below illustrates that a Marketing Plan is an integrated part of firm’s business plan.

Figure 6 – Elements of a Business Plan (Page 8 of Marketing Plan)



- (3) The project was implemented under the possible assumption that the GAX is a loss-leading endeavor by the Government of Ghana and supported by international development organizations. A logical next step would be to create a business plan for the GAX that illustrates organizational needs, targets, and cost estimates. The Ghanaian Government and international donor organizations may then collaboratively make decisions about the targets, goals, costs, and incentives to be offered to attract SMEs to list. Presently, such a comprehensive plan has not been created. Thus, the GAX suffers from non-existent budgets

and fragmented decision making and accountability. For example, it was difficult to get agreement that a separate logo ought to be created for the GAX. Also, GAX-listed debt and equity are listed on the GSE side-by-side with GSE listed debt and equity. The GAX also lacks a website, a public presence, and effective independent leadership.

- (4) The GSE appears to not have an accurate accounting or analysis of the costs of launching and operating the GAX. For the above reasons, the Marketing Plan delivered to GAX (contained in **Appendix VI**) provides a higher-level marketing plan than may have been expected by the GSE or USAID-FinGAP, or GAX Governing Committee.

c. Deliver a series of conferences

The project was structured with an initial 2 week diagnostic visit to the GSE and GAX to gather pertinent information, laws and regulations, and to interview the stakeholders that the Consultant would be interacting with. It was the goal of the Consultant to establish a schedule for delivery of 7 conferences as outlined in the Scope of Work. These 7 conferences were recommended to be delivered according to the following schedule.

Table 4 – Initial Project Conference Schedule

<u>Type of Conference</u>	<u>Day</u>	<u>Date</u>	<u>Topic / Message</u>
Retail Investment Conference	Thurs	Aug 19 th	Why retail investors should invest in GAX companies
Institutional Investor Conference	Wed	Aug 19 th	Why institutional investors should support the GAX
1st SME Issuer Conference	Wed	Aug 26 th	Why SMEs should list on the GAX – Tokradi
2 nd SME Issuer Conference	Wed	Sept 2 nd	Why SMEs should list on the GAX – Kumasi
3 rd SME Issuer Conference	Wed	Sept 9 th	Why SMEs should list on the GAX - Accra
3 Hr. GAX/GSE Capacity Building Conf	Thurs	Sept 17 th	Capacity Building - GAX / GSE
3 Hr. SEC Regulatory Conference	Wed	Sept 23 rd	Capacity Building - Regulator

Due to a variety of circumstances, the above schedule needed to be revised and amended. One circumstance was the need to fit the conferences around several official and unofficial national holidays. Another circumstance was that many senior Ghanaian market participants needed to be in Côte d'Ivoire for a meeting of the "Committee for the Integration of West African Securities Markets." Personal schedules, meeting conflicts, and other circumstances also affected the schedule. The resulting training program and conference schedule was ultimately delivered by the project.

Table 5 – Actual Project Conference/ Training Schedule

<u>Type of Conference</u>	<u>Dates</u>	<u>Topic / Message</u>
Guest Lecturer – 2 "Fundamentals of Securities Market" courses for Brokers	Jul 28 th	Why SMEs should list on GAX for Brokers
Guest Lecturer – 2 "Investment Management & Security Analysis" courses for Brokers	Jul 29 th	Why SMEs should list on GAX for Brokers
Takoradi SME Issuer Conference	Aug 18 th	Why SMEs should list on the GAX – Takoradi
WACMIC Conference Accra	Aug 19 th	Overview of an Improved GAX Marketing Program
Institutional Investor Conference	Sept 15 th	Why institutional investors should support the GAX
2 nd SME Issuer Conference	Sept 17 th	Why SMEs should list on the GAX –Accra
3 rd SME Issuer Conference	Sept 23 rd	Why SMEs should list on the GAX – Kumasi

Informal one-on-one capacity building	Jul-Sept	GSE, GAX, & SEC Why retail investors should invest in GAX companies
Three Radio Interviews	Sept 22 nd	Why founders of SMEs should list GAX equity or debt

It should be highlighted that the conferences that were delivered were well received, well-executed, and well attended. They were successful in highlighting the importance of the GAX as a source of SME financing (both debt and equity) and delivered an important message regarding the necessity of a streamlined, consistent marketing program for the GAX.

These conferences and training programs are more fully documented in **Section 6**.

d. Recommend an improved marketing strategy and plan for the GAX (deliverable for project).

The existing marketing strategy at the GAX was found to be fragmented in nature. The Head of GSE Marketing was given the job of marketing the GAX as a collateral duty. It appears that the only actual marketing costs incurred by the GAX were invested in the creation of a 10-page brochure (included as **Appendix 2**). No resources were spent on developing unique set of GAX-materials such as a logo, a website, electronic marketing materials, marketing the GAX via Internet, or establishing a formalized marketing process.

A few basic questions were asked at the outset of the project.

Question 1 to GAX/GSE Marketing: How many companies have contacted the GAX for information about possible future listings?

Answer 1: The GAX is not responsible for attracting SMEs to list their securities. The Broker Dealers earn fees from preparing SMEs to list on the GAX – thus Brokers ought to be responsible for marketing the GAX out of their revenues and profits.

Question 2 to GAX/GSE Marketing: Can you briefly describe your marketing plan for the coming 12 months?



Answer 2: We have been working for almost a year with the AfDB to sponsor a series of 8 SME marketing seminars around Ghana. We have been fortunate to obtain a grant from the AfDB to conduct these seminars provided we do so in coordination with the AGI (Association of Ghana Industries.) AGI is an umbrella organization supporting SMEs throughout Ghana.

The existing marketing program to attract SMEs to list on the GAX was found to be extremely fragmented and marred by competing interests. For example, brokers were disappointed that the GAX has not provided effective leadership and direction with regard to attracting SMEs to list. The GAX did not believe it was responsible for primary marketing of the GAX to attract SMEs. The GSE/GAX officials believed that Brokers need to drive the primary marketing and outreach to SMEs. Moreover, the GAX stated that the law provides that any of the approximately 100 licensed dealing members¹¹ may serve as a sponsor of an SME-IPO on the GAX. Aligning the interests of all 100 possible IPO sponsors is a daunting task – thus it is best left to the Licensed Dealer Members (LDMs) to sort it out.

¹¹ There are about 20 broker dealers and 80 investment advisors in Ghana – all of which share a title of “Licensed Dealer Member.”

As a result, early in the project the consultant mapped out a more effective and manageable marketing program and message to attract SMEs to list on the GAX, described later in this report.

Figure 7 – Refined and focused targeting of SMEs capable of listing on the GAX



III. Market Positioning of GAX

Profile of Ghanaian Companies can do an IPO

=> Post-IPO Stated Capital >250,000 is the limiting Criteria

1. Annual Revenue (in 2015) needs to be **GH¢ 500,000 or greater.**
2. Company should be at or near profitability.
3. Company should have total assets > total liabilities. That is, a company with positive equity.

IPOs of companies outside these guidelines carry extreme risk and uncertain valuations. Capital from private equity or venture capital are more appropriate sources a public market.

5

Figure 8 – Illustrative Registration of SMEs interested in learning more about the GAX




4. How will we convert prospects to applicants to GAX listed companies?

Illustrative example

Register here to learn more about listing on the GAX.

a. Enter company name, address, phone number, email

b. Estimate of Last Year Revenue: >5 million
 1- 5 million
 500,000 – 1 million
 < 500,000

c. Profitability estimate: Unprofitable
 Profitable or nearly profitable
 Profitable

d. Solvency estimate: Total Liabilities < Total Asset
 Total Liabilities ~ Total Assets
 Total Liabilities > Total Assets
 Uncertain or Unknown

e. Name of contact person at company, email address, phone number

f. Have you selected a sponsoring Licensed Market Dealer?
 Yes No

↓

**Pull Down Menu:
List of All LMDs Here**

Illustrative example

Figure 9 – Improved Process for Marketing GAX to interested SMEs

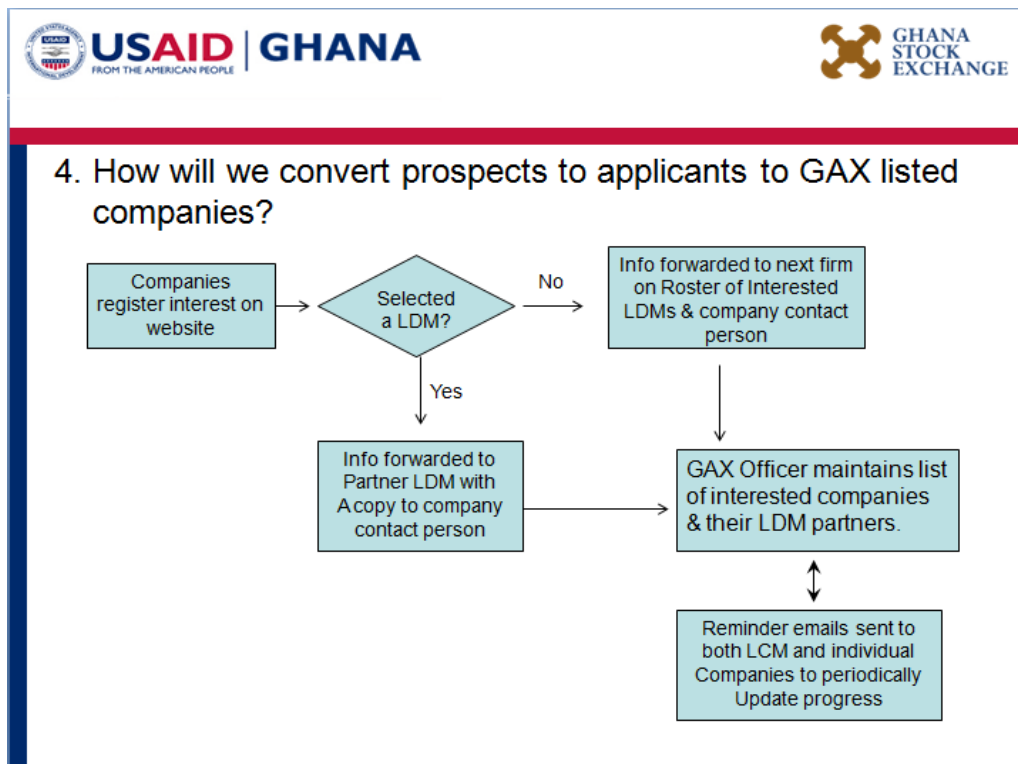






Figure 10 – GAX Marketing Roadmap (2 Slides)



4. What does the timeline & process look like?

<h3><u>1-2 months</u></h3> <ul style="list-style-type: none">* Hire GAX Officer* Gain consensus on Guidelines* Gain consensus on Website & Process* Launch Prospect Website• Conduct Marketing Seminars in person, on TV, & in Print Media• Possible consultant guidance, mediation, tracking & training• Develop printed and web-based, downloadable marketing materials with key message to our target market.• Recommended: Begin work on a GAX Business Plan, GFIM Business Plan, and GSE Business Plan.	<h3><u>3-6 months</u></h3> <ul style="list-style-type: none">• Measure, track & report marketing statistics. Create scorecard with appropriate measures:<ul style="list-style-type: none">- # of inquiries- # of firms signing LDM agreements- Ave time from registration to LDM agreement- # of Firms applying for Listing Fund Support- Listing Fund Support statistics• Report, revise, and update process and strategy
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Figure 10 – GAX Marketing Roadmap (2 Slides)



4. What does the timeline & process look like?

7-9 months

- * Report, revise, and update process and strategy
- * Align GSE, GFIM, and GSE Strategies, measures, targets, and scorecards
- * Expand GAX marketing to target (a) Companies that have registered interest on website, companies that are already listed on the GSE, and companies that are outside the 3 key guidelines
- * Begin process of reducing the number of LDMs authorized to sponsor a GAX IPO.
Too many firms are authorized by Law to sponsor a listing but few LDMs are capable of sponsoring a GAX listing
- Expand, deepen, and stabilize the GAX Listing Support Fund.
- Revisit business plans and strategies based on additional tactical information

5. MARKETING RECOMMENDATIONS

This section contains six specific marketing recommendations to improve the marketing and communications strategy for the GAX. These recommendations were carefully formulated and listed below in order of perceived importance, impact, and priority.

(1) Establish a clear, linear, online tool that integrates Licensed Dealer Members (LDMs) with prospective SMEs

Management thinker Peter Drucker is often quoted as saying that "you can't manage what you can't measure." Drucker means that you can't know whether or not you are successful unless success is defined and tracked.

A rather simplistic and basic measurement tool is now employed by market participants (GSE, GAX, Brokers, SEC, others) to gauge the success of the GAX: the number of securities that are listed on the GAX. Using this tool, there have been four equity listings and two corporate bond listings since GAX was formed in May 2013. Thus, over the past 28 months the GAX has averaged one listing every four to five months. If one restricts the measurement to only equity listings, the pace of equity listings has averaged a single equity IPO every seven months.

Certainly a reply to this observation could be that the "pace" of listings has increased. That is, the first listing appeared in September 2014 – 16 months after GAX was formed. With two listings during 2Q 2015 and others on the horizon, things must be going better for GAX. However, the problem with this analysis is that it does not inform stakeholders about what is going right with regard to the GAX, what is going not so well, and what needs to be changed, improved, or altered to achieve better outcomes.

Figure 9 (Improved Process for Marketing GAX to interested SMEs) contains a process flow diagram of an improved marketing process that can be quickly adopted and align the interests of GAX stakeholders. The process has been described at length to GSE officials, the five-member GAX Governing Committee, and other market participants.¹² It may be beneficial to partner with USAID to implement such a marketing process. Besides funding, GAX could use assistance to (1) implement the website, (b) pay for the initial upgrade and ongoing website and marketing maintenance.

(2) Separate and distinguish GAX as a separate entity from the GSE. This will take effort, work and persistence. GAX and GSE are vastly different in terms of budgets, targets, outcomes, and capabilities.

From a marketing perspective, the GAX suffers from an identity crisis. Its structure and management have worked hard to distinguish the GAX as a successful and growing stock exchange for small and

¹² A common observation from many is that small companies do not have access to email and/or the management of newly created companies are uncomfortable sharing information via the Internet. While these facts may be true, it is also true that an SME that desires to conduct an IPO ought to have email access, be comfortable gathering and sharing information on the Internet, and adopting a better, cheaper way of doing business.

medium enterprise businesses. But basic fundamental qualities of a separate stock exchange are lacking. For example:

- (1) Stock exchanges improve based on competition. Because the GAX is structured as a subsidiary of the GSE, the benefits of competition are challenged and may not materialize. As a business entity, it could be concluded that the GSE is better off if the GAX does not succeed.
- (2) No single individual or entity is charged with the responsibility of making the GAX successful. A single responsible leader would also potentially improve governance and decision making at the GAX. Admiral Rickover was adamant that responsibility reside in individuals and not in committees. He is credited with this famous statement:

“Responsibility is a unique concept... You may share it with others, but your portion is not diminished. You may delegate it, but it is still with you... If responsibility is rightfully yours, no evasion, or ignorance or passing the blame can shift the burden to someone else. Unless you can point your finger at the man who is responsible when something goes wrong, then you have never had anyone really responsible.”

- (3) The GAX does not its own unique logo. Rather, the Ghana Stock Exchange logo appears on all GAX advertising and literature. When asked about the decision making surrounding the GAX and establishing a brand identify, responses included, “We make all GAX related material green” and “it is not possible for the GAX to have a different logo than the GSE because it is against the law.”¹³ Developing a unique logo would be a first step in establishing a brand identify for the GAX. It is possible that (USAID-FinGAP) could provide assistance to GAX with developing a unique brand identify and logo.
- (4) Virtually all communications (GSE website, news articles, press releases, etc.) describe the GAX as follows: “In the first quarter of 2013, the Ghana Alternative Market (GAX) was launched as a parallel market operated by the Ghana Stock Exchange . . . “

This definition is confusing, inexact, and difficult to comprehend. In fact, it was not possible to find any other stock market worldwide that is referred to as a “parallel market.” Given that the stock exchange have different target markets, different listing requirements, and different reporting requirements, it is difficult to understand how the GAX could be thought of as “parallel” to the Ghana Stock Exchange.

Some options that will help to distinguish the GAX as a separate entity include: (a) developing and using a logo independent of the GSE logo, (b) identifying an individual as the “President,” “Managing Director” or “Leader” of the GAX,¹⁴ and (c) establishing the GAX as a separate organization from the GSE with its own leadership, budget, strategic plan, and profit and loss statement.

- (5) Given that the newly created Ghana Fixed Income Market will likely assume 90% of the assets of the GAX, the sustainability of the GAX comes into question. Options to address this outcome include: (a) closing the GAX and reopening a new SME Stock market with a different structure, leadership, and funding, (b) separating the GAX from the GSE with its own leadership, budget, and independent decision making, or (c) commission the creation of a

¹³ There is an incorrect perception that to have a logo, an organization needs to be independently registered, authorized, and approved by the Government. This is not true. For example, consider the various brands and logos that exist within Coca Cola: Coca Cola, Diet Coke, Coke Zero, etc.

¹⁴ The current practice is to have Ekow Afedzie, Deputy Managing Director of the GSE, as spokesman for the GAX.

business plan for the GAX that identifies and incorporates best-practices with regard to stock exchange management, responsibility, budgeting, and reporting.

(3) Establish and grow online presence for the GAX.

Leveraging the internet as a tool to market, distinguish, and report its successful growth is an effective and inexpensive method to define and differentiate the GAX from the GSE. All GAX-launched securities are now listed on the GSE website without any differentiation from other securities. A separate webpage, website, and content would promote the growth and success of the GAX. (Note: The GSE website is www.gse.com.gh. The website www.gax.com.gh is available and has not been registered as yet.)

A possible observation that could be used to resist the creation of a separate online presence is that the GSE lacks the funding, personnel, and capabilities to launch and manage a website. In fact, the GSE has outsourced the development and management of its own website. If this is the rationale for not moving forward to leverage the capabilities of the Internet, the leaders of the GSE and Government of Ghana may wish to revisit its commitment to operating and growing an SME stock exchange.

(4) Improve marketing materials (online, PDF, printed) and marketing distribution (via email) to four exclusive audiences.

Section 3 summarizes the limited marketing that has been implemented by the GAX. Distinctive marketing programs ought to be implemented to communicate, educate, and mobilize four key stakeholder groups that are keys to the future success of the GAX.

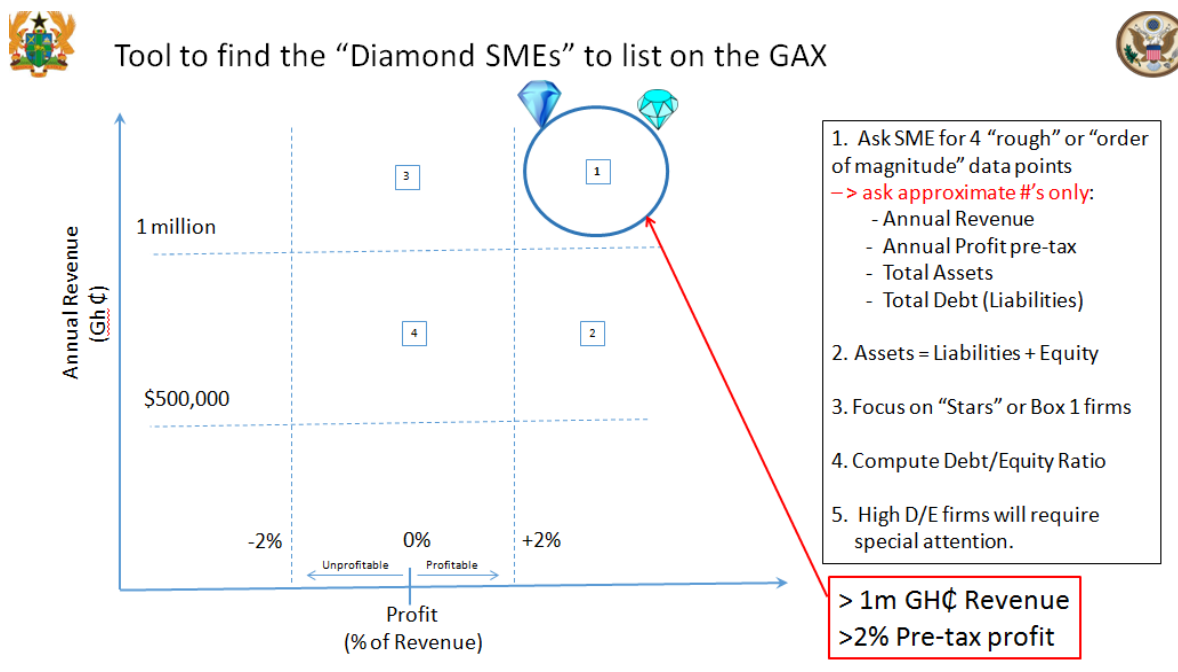
The obvious marketing campaign has been already discussed in this Final Report: **The first exclusive audience includes potential SMEs that may list their securities in the future.** SMEs that register their internet will have their information captured and routed to the appropriate recipient. This information may be prioritized according to **Figure 11** – Tool to find the “Diamond SMEs” to list on the GAX. Prioritization could be accomplished by classifying SMEs as follows:

- a. “Diamond SMEs” – the best and most likely candidates for listing. Such SMEs are profitable (>2% of sales in pre-tax profit) and have revenues in excess of GH¢ 1 million. These firms are the most desirable listing candidates. Such a firm may be able to list on the GSE as well as the GAX. Or the firm may list on the GAX (to minimize the cost of the listing process) and then later petition to be included on the GSE.
- b. “2nd Category” SMEs are those with revenues between GH¢ 500,000 and 1 million but with >2% of sales in pre-tax profit. These are profitable SMEs with sufficient size and scale to attract investment capital.
- c. “3rd Category” SMEs are those with revenues above GH¢ 1 million and marginal profitability (between + 2% and -2% of pre-tax profit).
- d. “4th Category” SMEs are those with revenues between GH¢ 500,000 and 1 million along with marginal profitability as defined immediately above.

Each of the above categories must be further analyzed to ensure the SME is solvent and ideally has total assets greater than total liabilities (positive equity). It is not appropriate for a start-up to raise

capital on the GAX because of the extreme risk associated with new companies that have not proven the concept of their business. Venture capital and private equity investors are more appropriate sources of capital for those organizations.

Figure 11 – Tool to find the “Diamond SMEs” to list on the GAX



Source: Christian C. Johnson

The 2nd exclusive audience that can be marketed to includes LDMs that are interested and capable of serving as “Sponsors” for GAX IPOs. Because these LDMs are an integral part of the GAX Listing value chain, these LDMs need to be actively managed and supported by the GAX.

Tension and competition exists among the LDMs. However, it is apparent that only the top 5 brokerage firms are capable of sponsoring an SME that wishes to undertake an IPO. It therefore makes sense to focus efforts, support, training, and collaboration with these top 5 brokers. Smaller firms and those firms with less capacity, staff and resources may be involved but are not primary stakeholders for the GAX.

The 3rd exclusive audience that can be marketed to include SMEs that are currently listed on the GAX. These SMEs are important because the success of these firms will directly reflect on the success of the GAX. Also, the more promotion, marketing, and awards these firms attract will positively reflect on the GAX. Lastly, these SMEs need to be championed to serve as ambassadors for new SMEs that are considering to conduct and IPO on the GAX.

The 4th exclusive audience that can be marketed to includes newspapers, television stations, magazines, government leaders, and development institutions. This audience is the “public face” of the GAX and a focused, well managed, and consistent marketing message will help to increase the confidence, profile, and status of the GAX.

(5) Upgrade and improve GAX decision making, governance, and reporting.

This recommendation has been highlighted earlier in this Final Report.

(6) Improve branding of the GAX.

This recommendation has been highlighted earlier in this Final Report. A professionally branded GAX will attract the attention of the GAX's target market (SMEs with greater than 500,000 that are at or nearly profitable.). Once the target market has been identified, the target market needs to be educated on the listing process, listing requirements, as well as the costs and benefits of conducting an IPO on the GAX.

The GAX Marketing Plan includes an overarching timeline for steps to be conducted by the GAX over the coming nine months. This timeline is listed below.

Initial Marketing Steps: 1-2 Months

- Hire GAX Officer.
- Gain consensus on the Target Market for GAX. Identifying and marketing to the Target Market will help the marketing team to better serve the target market.
- Gain consensus on Launching a GAX Website & Online registration of SMEs interested in learning more about listing on the GAX.
- Launch Prospect Website & Online registration website.
- Conduct Marketing Seminars in person, on TV, & in Print Media.
- Develop printed and web-based, downloadable marketing materials with key message to the 4 target audiences outlined above.
- **Recommended: Partner with an international donor to create a GAX Business Plan** that documents the needed resources, best practices, government policies, and staffing needed for a successful SME securities exchange.

Mid-Term Marketing Steps: 3-6 Months

- Measure, track & report marketing statistics.
- Expand GAX marketing to target
 - (a) SMEs that are interested in learning about listing on the GAX,
 - (b) LDMs that are able to sponsor new SME IPOs on the GAX,
 - (c) SMEs that are currently listed on the GAX,
 - (c) Newspapers, television stations, magazines, government leaders, and development institutions. This audience is the “public face” of the GAX and a focused, well managed, and consistent marketing message will help to increase the confidence, profile, and status of the GAX.
- Create scorecard with appropriate measures:
 - # of inquiries
 - # of firms signing LDM agreements
 - Ave time from registration to LDM agreement
 - # of Firms applying for Listing Fund Support
 - Listing Fund Support statistics
- Report, revise, and update process and strategy.

Longer-Term Marketing Steps: 7-9 Months

- Report, revise, and update marketing process and strategy.

- Align GSE, GFIM, and GSE Strategies, measures, targets, and scorecards.
- Expand, deepen, and stabilize the GAX Listing Support Fund.
- Revisit business plans and marketing strategies based on additional tactical information.

6. PROJECT OVERVIEW & SPECIFIC ACTIVITIES

The information below provides relevant information and statistics regarding implementation of the “GAX Marketing – Analysis, Recommendations & Next Steps” Project.

Below is a list of the eight specific deliverables contained in the consultant scope of work. For each, the date completed is provided along with additional explanatory comments.

Table 6 – Table of Project Deliverables and Completion Dates

<u>Project Deliverable</u>	<u>Date Completed / Explanation / Comments</u>
1) One implementation plan	August 24, 2015 - Implementation Plan Email in Appendix 7
2) One marketing plan	October 23, 2015 - Marketing Plan in Appendix 6
3) Half day GAX capacity building conference	No GAX employees. GSE employees engaged & educated at 5 conferences and via one-on-one on the job training.
4) Three SME/issuer conferences	Takoradi - Aug 18; Accra - Sept 17; Kumasi - Sept 23
5) One institutional investor conference	September 15, 2015 - Accra
6) One retail conference	Conducted 3 Radio Interviews on GAX & SME Financing. Broker Conference conducted on August 19th
7) One Draft Final Report	October 28, 2015
8) One Final Report	This report

Table 7 below summarizes the Conferences and training programs conducted during the course of the project. Note that a Retail Investor conference was not conducted after discussions with the GSE and USAID FinGAP. Outreach and education of retail individual investors is important, however it was felt this was better accomplished by conducting 3 one-hour radio interviews. Also, the half day GAX capacity building conference was determined to be redundant as most GSE leaders working on behalf of the GAX attended most and in many cases all of the SME Conferences, Institutional Investor Conference, & Broker Conference.

Table 7 – Summary of Training Programs & Conferences

<u>Type of Conference</u>	<u>Total # of Attendees</u>	<u>Approx Length</u>
2 “Fundamentals of Securities Market” Courses	160	45 minutes
2 “Investment Management & Security Analysis” Courses	160	45 minutes
1 st SME Conference (Takoradi)	99	4 hrs
WACMIC Broker Conference (Accra)	85	1 hr
Institutional Investor Conference	62	4 hrs

2 nd SME Issuer Conference (Accra)	90	6 ½ hrs
3 rd SME Issuer Conference(Kumasi)	77	6 ½ hrs
Informal one-on-one capacity building	6	Various
Three Radio Interviews	~ 14,000 listeners	180 min total

Appendix VII contains the following:

- a. Copy of August 24, 2015 email containing implementation plan
- b. List of 99 attendees at the August 18, 2015 SME Seminar in Takoradi
- c. Listing of meetings conducted in July 2015 to architect project implementation

The most impactful seminars were the three seminars for SMEs seeking to improve their business operations and raise capital. The first seminar was conducted on August 18, 2015 with 99 attendees in Takoradi¹⁵, a coastal city that has grown significantly due to the recent discovery of Oil off the coast of Ghana. That seminar was conducted on August 18, 2015. Additional SME Seminars were conducted in Accra (September 17th with 85 attendees) and Kumasi (September 23rd with 77 attendees).

SME Seminar in Takoradi

The seminar attendees appeared to be rather small, entrepreneurial enterprises – which seemed to be the target market for the GAX. However, closer interaction with the attendees revealed that many were either single operator enterprises or individuals that are in the process to forming a business for a new idea.

USAID-FinGAP was able to coordinate and contact a local-based USAID oil and gas Implementing Partner based in Takoradi that invited about 12 enterprises to the Takoradi seminar. These 12 enterprises were all larger, more formal businesses that are possible listing candidates for the GAX. These 12 enterprises were invited to remain at the Seminar Venue after lunch for a longer, more in depth discussion of the GAX and the opportunities to access finance.

One enterprise was very much engaged and requested assistance with getting started with the listing process. That enterprise (All Needs Ghana, www.allneedsgh.com) was put in touch with both the GAX and CAL Brokers, a broker that attended the Takoradi seminar and explained the steps involved in listing on the GAX.

The SME Seminar in Takoradi revealed that AGI's membership is centered on SMEs that have less than 5 employees. The invited SME leaders were lacking in basic financial knowledge and the basics of SME management. While such attributes may be common to most entrepreneurial SMEs, it clearly illustrated the need for the GAX to reset and rethink how it is marketing the GAX and approaching SMEs.

As a result of this conference, the GSE/GAX was urged to change its marketing messaging and target market. The following are the current and suggested improved marketing messages for the GAX.

Current Marketing Messages:

- a. Here are the eight requirements to list on the GAX. Any start-up or SME that meets these eight requirements can list debt or equity on the GAX.
- b. Raising capital on the GAX can be cheaper than obtaining a bank loan.

¹⁵ Sekondi-Takoradi, a city comprising the twin cities of Sekondi and Takoradi, is the capital of Sekondi Takoradi Metropolitan District and the Western Region of Ghana.

- c. There are several incentives to help SMEs cover the costs of preparing to list.
- d. Contact any of the 100 licensed dealing members to learn more. You can find these 100 LDMs on the SEC website.

Improved Marketing Messages:

- a. If your SME has greater than 500,000 GH¢ in annual revenues and is at or nearly profitable, you should consider listing debt or equity on the GAX.
- b. Raising capital on the GAX will make your firm successful and help you to grow your firm.
- c. You can raise growth capital on the GAX at cheaper rates and with better terms than with bank loans.
- d. Register on the GAX website to learn more and get your questions answered.

Current Marketing Process:

LDMs are responsible for marketing the GAX and attracting SMEs to list on the GAX. With AfDB's assistance, the GSE will conduct eight marketing seminars over the coming 12 months at various sites around Ghana with the assistance of the AGI.

Improved Marketing Process:

Partner with the top five brokers in Ghana to launch a GAX informational website. This website can provide electronic marketing materials that are specific to SMEs desiring to learn more about listing equity on the GAX.

The improved marketing process will allow both the Broker Dealer Association and the GAX to measure and manage its marketing program. (If you can't measure it, you can't manage it!) The slides below from the GAX Marketing Plan illustrate the improved marketing message and marketing process.

The single most impactful educational and learning tool was a slide that was created in advance of the Accra and Takoradi SME Conferences. This slide follows on the next page as Figure 12 – SME Financing Options.

Figure 12 – Pros & Cons of SME Financing Sources in Ghana

Pros & Cons of Different SME Financing Sources in Ghana

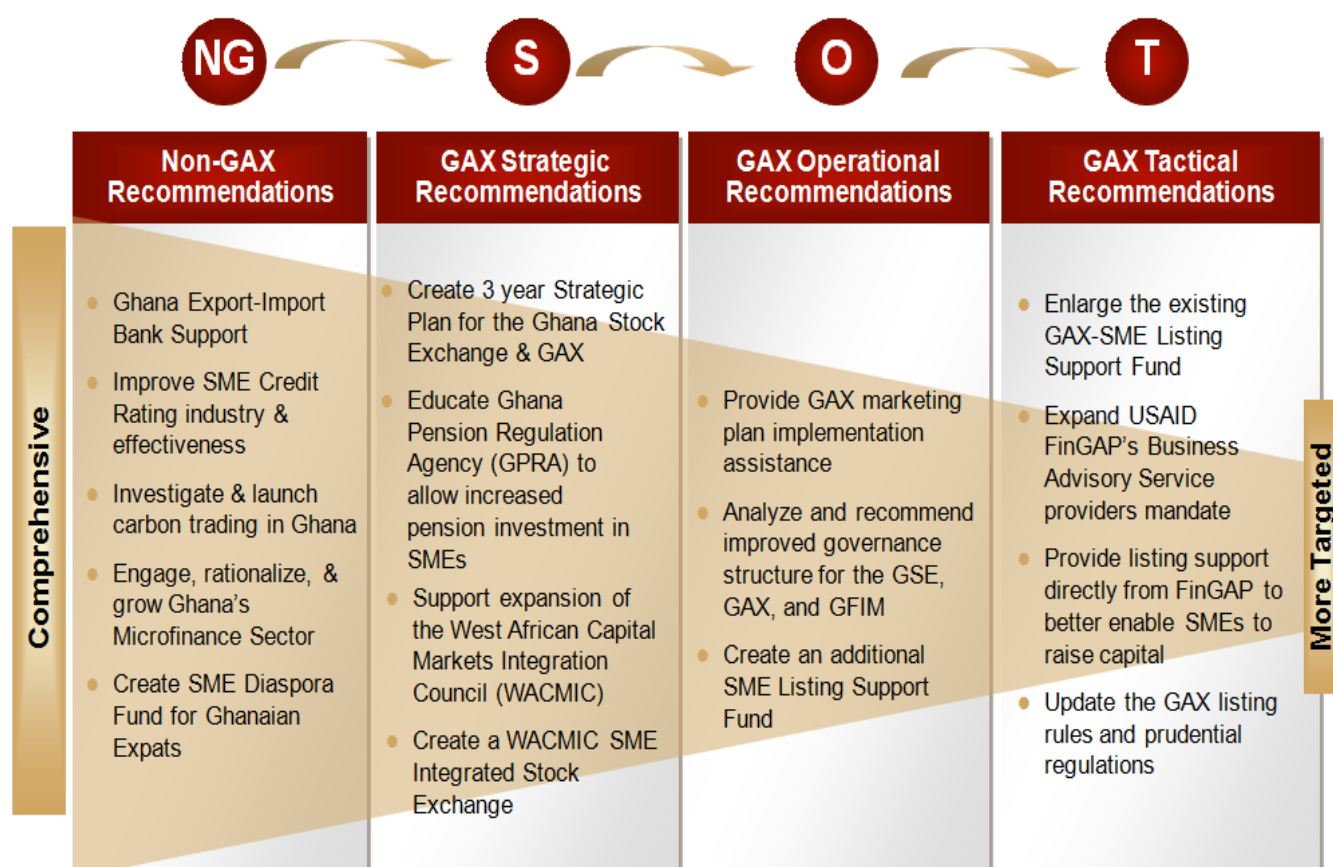
	Sell Financing (Friends & Family)	Microfinance Bank Loans	Commercial Bank Loans	Private Equity or Venture Capital	Selling Equity on GAX	Selling Debt on GAX
Time Required	Immediate	Days	Weeks	Months	6 months 2 mo thereafter	6 months 2 mo thereafter
Collateral Requirements	None	None	High	Low	None	Likely None
Financing Available	Limited Strained Relations	Initially High Level Limited by Int. Rates	Limited by Interest Rates	Very Limited	Dictated by Available Partnerships	Limited by Profits & Profile
Interest Rate (Disclosed)	Limited Strained Relations	"Flat" Rates 35-60% APR	35-45% APR	Debt that results in Loss of Control	None	Variable But Less than Bank Rates
Fees, caps, penalties	None	Many & High	High & Hidden	High - Aim is to take control	5% of Issue (Listing Fund) Repaid by Capital Raised	5% of Issue (Listing Fund) Repaid by Capital Raised
Covenants	None	Few	Some	Many	None	None
Terms & Duration	Varies	Short	Under 1 year	Varies	Most Flexible	Seller's Choice
Strategic Alignment	None	None	None	Medium	High if pre-sold to Stakeholders	High if pre-sold to Stakeholders
Future Financial Flexibility	None	Limited by Interest as % of Income	Decreases as rollover balances Increase	Varies	High Initially	High

Source: Christian C. Johnson
cjohnson@emfinance.com

7. AREAS OF ADDITIONAL SUPPORT & COLLABORATION

One primary goal of this Final Report was to identify and recommend additional areas of support to assist with expanding access to finance for Ghanaian agribusinesses. The table below summarizes the findings:

8. Figure 11 – Improving Access to Finance for Ghanaian SMEs



Tactical T-1	Enlarge the existing GAX-SME Listing Support Fund ₵1 million (~\$250,000). Besides providing additional leverage, USAID could also better optimize its terms, conditions, and operations. The Listing Support Fund provides interest-free loans to companies preparing to list on the GAX. Once listed, funds are repaid interest-free to the revolving fund.
T-2	Expand USAID-FinGAP's Business Advisory Service providers mandate to provide pre-listing services, education, and financial planning services to SMEs seeking to raise debt and equity capital on the GAX. Clear guidelines and approval mechanisms would need to be enacted to ensure checkpoints, spending throttles, and specific outputs.

T-3	<u>Provide listing support from USAID-FinGAP to better enable SMEs to raise capital.</u>
T-4	<u>Create an SME “Access to Finance” website.</u> A one-stop shop listing the various SME funds, bank loans, venture capital, capital markets, etc. to raise capital. The website would be created and financed by USAID and provide a neutral vehicle for increasing visibility and penetration of numerous government and international programs for SMEs.

Operational O-1	<u>Provide implementation assistance with the expansion of the GAX marketing plan.</u> Activities include capacity building for the new GAX Officer, upgrading and publication of new marketing materials, & additional GAX seminars and conferences.
O-2	<u>Analyze and recommend an improved governance structure for the GSE, GAX, and GFIM.</u> Lacking governance structures significantly impedes the operation, decision making, and growth of these markets.
O-3	<u>Update the GAX listing rules and prudential regulations.</u> This was a request directly from GAX and the GSE. The legal framework encompassing the capital markets has become dated and would benefit from review, updates, and alignment with neighboring countries.

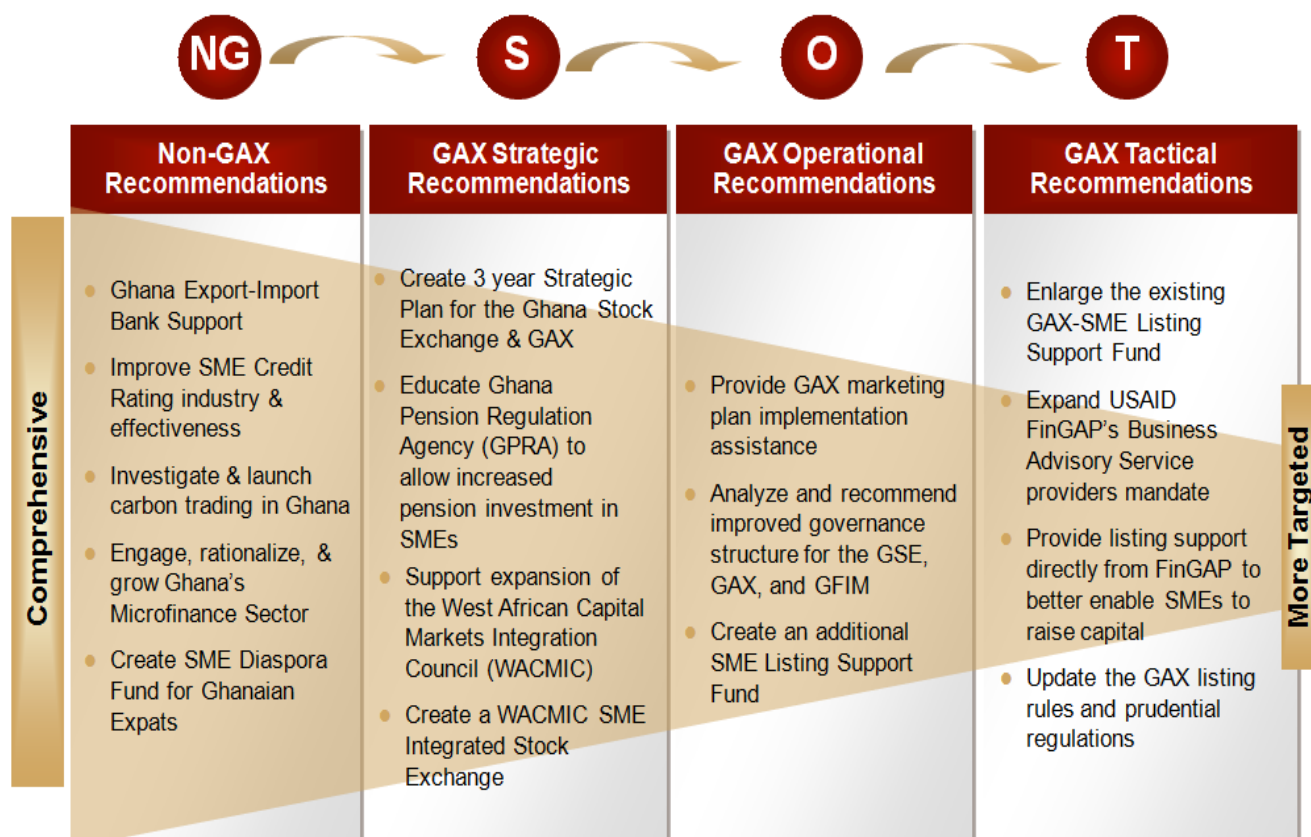
Strategic S-1	<u>Create a publish-ready, three-year strategic plan in partnership with the GSE.</u> This plan would clearly identify the opportunities, financial sustainability, and separate markets for the GSE (large companies with three years of past audited financials), GAX (SMEs with only one year of past audited financials), and GFIM (Ghana Fixed Income Market – a debt-specific market for government & corporate debt).
S-2	<u>Provide education, analysis, and advisory support to Ghana’s National Pension Regulatory Authority (NPRA).</u> Aimed at increasing the flexibility for pension assets to be invested outside Ghana Government Debt. Currently dramatic restrictions are in place preventing pension investment managers from diversifying their client portfolios.
S-3	<u>Provide strategic, communications, and marketing support with the expansion of the West African Capital Markets Integration Council (WACMIC).</u> WACMIC member countries include Ghana, Sierra Leone, Nigeria, Cote d’Ivoire, and eight Francophone West African countries.
S-4	<u>Create an additional SME Listing Support Fund.</u> Fund would assist SMEs that do not qualify for assistance under the existing AfDB/VCTF GAX-Listing Support Fund. This option gives USAID more control over the fund, its operations, and activities.
S-5	<u>Create a WACMIC SME Integrated Stock Exchange.</u> A one-stop shop listing the various SME funds, bank loans, venture capital, capital markets, etc. to raise capital. The website would be created and financed by USAID and provide a neutral vehicle for

	increasing visibility and penetration of numerous government and international programs for SMEs.
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Non-GAX Related NG-1	<u>Provide strategic planning assistance with the legislative and tactical formation of the new Ghanaian Export Import Bank.</u> This Ghana EXIM Bank is to become the principal financing institution for both imports and exports. Members of the creating task force include Bank of Ghana, Ministry of Trade and Industry, Ministry of Finance, Attorney General's Department, Exim Guaranty Company, Export Finance Company and Association of Ghana Industries, Export Promotion Authority, Export Development and Agricultural Investment Fund, Ghana National Chamber of Commerce and Industry and Federation of Ghanaian Exporters.
NG-2	<u>Examine, improve alignment, and consolidate the existing four existing credit rating bureaus in Ghana.</u> There also is an informal credit rating database used by microfinance providers. All would benefit from consolidation, concentration, and cooperation.
NG-3	<u>Investigate the appetite and feasibility of introducing carbon-trading to the Ghana Stock Exchange.</u> This is a broad strategic initiative aimed at improving access to finance by monetizing the benefits of energy efficiency and alternative green energy generation, distribution, and utilization. The project's outcome could be used to expand carbon trading through ECOWAS countries.
NG-4	<u>Provide assistance to microfinance sector.</u> There appears to be a lack of international donor support in the area of microfinance. Minimum capital requirements for microfinance providers have increased, thus many firms are exiting the market, others are consolidating operations with former competitors, and many microfinance firms are being shut down by the regulator.
NG-5	<u>Create an SME Diaspora Fund for Ghanaians living overseas.</u> Diaspora funds could for example be matched by USAID to create a venture capital fund whereby Ghanaian expats could co-invest, co-sponsor, and upgrade the skills and operations of small Ghanaian businesses.

8. RECOMMENDATIONS FOR NEXT STEPS

Section 7 contains 11 GAX-related recommendations and five non-GAX-related recommendations. These 16 recommendations were placed in four groups: Tactical, Operations, Strategic, and Non-GAX Related. The illustration below summarizes these 16 recommendations:



The four tactical recommendations provide quicker-targeted assistance designed to quickly and effectively improve listings of SMEs. Due to the unique structure of Ghana's economy, virtually all SMEs are directly or indirectly engaged with or impacted by the agricultural sector.

Greater USAID engagement and deeper improvements to Ghana's GAX & SMEs may be stimulated by pursuing an additional three operational improvements listed above. Governance improvements to the GAX, GSE, and GFIM are also possible by pursuit of the 3 operational improvements.

More comprehensive assistance to the Ghana's capital markets may be captured by adopting the four strategic recommendations listed above. Specifically, strategic engagement will provide improvements to both Ghana as well as among the other 11 members of the WACMIC – specifically, Sierra Leone, Nigeria, Cote d'Ivoire, and eight Francophone West African countries.

The final grouping of recommendations is entitled "Non-GAX Recommendations." These five recommendations were grouped together because they target SME access to finance improvements outside of assistance to the GAX.

APPENDIX I: SCOPE OF WORK

A. Background

The USAID-Financing Ghanaian Agriculture Project (USAID-FinGAP) addresses a key constraint to the development of commercial agriculture and obtaining full food security in Ghana – access to finance necessary to enable investment in agricultural value chains. USAID-FinGAP uses a comprehensive approach to facilitate agriculture related investment, engaging a broad range of Ghanaian Financial Institutions (banks, private equity firms, leasing companies, investment funds, etc.) in providing agricultural oriented financing, in partnership with strategic investors and buyers of rice, maize and soya in Northern Ghana. USAID-FinGAP will also facilitate investment in the agriculture sector in Ghana that will complement other Government of Ghana (GOG) and donor programs aimed at expanding commercial agriculture.

Since being selected as a Partnership for Growth (PFG) country, the Government of Ghana (GOG) has engaged in extensive analysis and consultations with the U. S. Government (USG) in developing a Joint Country Action Plan (JCAP) to assist Ghana to sustain and broaden its economic growth by addressing two key constraints that inhibit private sector development and participation in the Ghanaian economy: unreliable and inadequate supply of electric power and lack of access to credit.

The two main goals of the PFG JCAP are:

1. to strengthen the power sector; and
2. to increase access to credit (especially for the SME sector) and strengthen the financial system.

A Joint Steering Committee, composed of members of the GOG and the USG, oversees PFG activities and monitors progress against the JCAP. Technical Working Groups (one on credit and one on power) organized by lead GOG and USG agencies are responsible for developing and implementing specific action plans and strategies to meet the goals set out in the JCAP. USAID is the USG agency primarily responsible for oversight of these Technical Working Groups.

The PFG Technical Working Group on Increasing Access to Credit (also known as the PFG “Access to Credit Team”) has 5 overall goals:

- 1) Reduce government engagement in the banking sector;
- 2) Strengthen Financial Sector regulation and supervision;
- 3) Develop the Financial Sector infrastructure;
- 4) Broaden and deepen the financial sector;
- 5) Encourage development finance and support SME access to finance.

PFG JCAP Goal 5, Encourage development finance and support SME access to finance, is the focus of this SOW through the promotion and marketing of the Ghana Stock Exchange’s Alternative Market, the “GAX” which was established to serve the needs of SMEs looking for alternative financing to bank loans, through the issuance of equity (via shares) and/or debt (via bonds) on the GAX.

Activities within the expanded scope of PFG JCAP Goal 5 include: Developing alternative financing

programs for SMEs that do not rely on bank lenders to help bridge the gap in financing that currently exists for SMEs. The banks in Ghana have not been lending to SMEs and generally seem uninterested in this market.

The Capital Markets Advisor's activities under this scope of work include:

- (1) Promotion of the GAX in general;
- (2) Promotion to issuers; and
- (3) Promotion to investors.

Promotion shall include the development written materials as well as conducting meetings and conferences to attract and educate the prospective SME issuers of Equity and Debt as well as educating investors.

As per the contract between USAID and CARANA Corporation, activities in support of the Partnership for Growth should include the provision for financial literacy. This SOW falls within this general activity to create public awareness and present alternative sources of financing to bank loans for SMEs. Where it is found that there are other IPs or DPs conducting financial literacy activities, this SOW may allow for certain collaborative activities in accordance with the COP guidance and approval.

B. Background of GAX

The Ghana Alternative Market (GAX) was set up in 2013 as a parallel market operated by the Ghana Stock Exchange, focusing on businesses with potential for growth. The GAX accommodates companies at various stages of their development, including start-ups and existing small and medium sized enterprises. There is a severe shortage of long term financing in Ghana, so issuers (i.e., an SME) listing bonds on GAX could potentially obtain longer term financing through listing equity, as this is permanent capital. To date, there has been only been one bond listed on GAX, and one equity listing completed (May 12, 2015), with less than a handful of issuers waiting to list. The Capital Markets Adviser will be engaged to advise potential issuers of the benefits (as well as the risks) of GAX-listing for raising capital, while at the same time will educate investors (particularly institutional investors like pension funds, mutual funds, insurance companies, and banks) on the benefits and risks involved in making investments on the GAX in either bonds or shares.

C. Objective of the SOW

The objective of this scope of work (SOW) is to assist the GOG in developing additional sources for financing in support to Ghanaian small and medium enterprises (SMEs). SMEs continue to face challenges in accessing financing and the listing of the SME's securities on the GAX, debt as well as equity, can provide SMEs financing sources which, to date, presents a major constraint to their growth.

Sources of financing traditionally come from bank loans, family and friends, and the capital markets. Commercial bank loans are available, yet the interest rates typically offered in today's Ghana are in the range of 35-40% per annum, which are prohibitive for businesses to survive on a long term basis. Debt offered currently is generally on a short term basis (a year or less) while SMEs generally need longer term financing in addition to short-term financing. NBFIs offer financing at even greater interest rates of 6-8% per month. Family and friends provide limited sources of financing, therefore,

the capital markets can provide the most efficient as well as a longer term source for sustainable financing to SMEs.

For sourcing financing from the capital markets, in this case, from GAX, the SMEs need to be aware of the benefits as well as risks or constraints to the financing on the capital markets; for a supply of capital markets instruments to be offered, there must be a demand of capital markets investors willing to make short term as well as long term commitments to these investments, which vary from type and size, to meet the investment objectives of the investors, whether they are institutional investors or retail investors.

To this end, support is required from an international Capital Markets Advisor to engage with the GOG through the Securities and Exchange Commission of Ghana and the Ghana Alternative Market to develop a strategy and work plan and build consensus for, a comprehensive and integrated marketing and educational support system for the GAX, which in the end, should provide a continuous pipeline of equity as well as debt issuers on the GAX. At the same time, the (institutional) investors must also realize benefits that can be gained by investing on GAX, which may include balance of assets within their portfolios as well as long-term investments to meet long term liabilities.

D. Activities and Tasks

The Capital Markets Advisor will perform research, planning, capacity building, marketing and promotion and report writing. Tasks under these activities include:

Research:

Review documents of the GAX (e.g., rules, brochures, etc.)

- Review the current financing alternatives available to SMEs in Ghana with a view towards targeting the GAX debt and equity products for issuers as well as investors.
- Review the operations and demand for the equity and debt on the Ghana Stock Exchange with a view towards optimizing promotion of the GAX as a complementary, parallel market.
- Review the laws and regulations that govern the GAX and note any changes, amendments, additions or deletions that may be needed.
- Review documents of institutional investors, particularly those of pension funds, or their regulatory bodies to determine the availability of GAX investments into the portfolios.
 - If needed, draft amendments to those rules or regulations, in concert with the staffs of the regulatory bodies.
 - Note other regulatory changes needed for SMEs to access credit at reasonable rates, e.g., tax benefits to issuers on GAX; to investors on GAX.

Planning:

Develop implementation plan for the assignment. After review of completing the research noted above, prepare an implementation plan including schedule of tasks, meetings, conferences, marketing and promotion plan, etc. and proposed milestones and outputs from the engagement.

Meet with executives of the GAX, the GSE, the SEC Ghana and the GOG (e.g., MOTI): to better understand and document the opportunities and challenges facing SMEs with regard to access to finance in the current Ghanaian macroeconomic environment. Also, if the SMEs make themselves available, meet with the SMEs that have listed on GAX and are in the process of listing, to determine

their reasons for listing and to hear their experiences for the listing, which can streamline the listing process for future listings. During these meetings, the consultant should note:

- Key constraints to access to financing
- Typical costs of financing from bank loans
- Other sources for financing and related costs

Capacity Building:

Develop and present a program for capacity building to GAX Officials; GSE as well as SEC officials, It is anticipated that this capacity building program shall be delivered via power point and presented to beneficiaries in a one-half a day to a full day session.

Marketing and Promotion:

Develop a marketing and promotion Plan for GAX, working with GAX in particular, plus the GOG as well as the SEC Ghana where necessary, for SME Issuers, investors and for the SEC GOG, Media, etc. The main focus of the Marketing and Promotion Plan is to attract SMEs to list on the GAX, shares and/or bonds. The secondary focus is the education of investors, particularly institutional investors, to the benefits of adding GAX listed securities to their portfolios.

The Marketing and Promotion Plan shall be executed through a series of conferences and/or events for issuers of equity or debt, and for investors:

For Issuers of equity or debt: Small and medium-sized companies that want to grow and find interest rates from banking institutions high should be attracted to list securities on the GAX; they would come to the GAX in order to raise capital through an equity offering (of at least 25% float of issued shares) or through a debt offering, which should be less costly than receiving bank-loan financing. Greenfield companies may also look to the GAX for financing.

The Capital Markets Advisor shall therefore present a minimum of three 'issuer conferences', one each in Accra, Kumasi, and Tamale to attract SMEs to learn more about listing on the GAX. Each conference shall be followed, either on the same day or the following day by one-on-one appointments which are requested by SMEs to get the specific details they need to better evaluate listing their securities on the GAX.

For Investors: the Capital Markets Advisor shall design and deliver one "investor" conference in Accra, to institutional investors that includes pension funds (managers), insurance companies, and mutual funds. The Capital Markets Advisor shall also conduct one "investor" conference to retail investors, presenting the benefits as well as risks of investing in SMEs on the GAX, whether bonds and/or shares.

The Capital Markets Advisor shall work with the GAX/GSE and the SEC to coordinate the conferences, to attract issuers as well as investors to the respective sets of conferences, and to present at the conferences. The Advisor shall also work with USAID-FinGAP in assistance to invite agribusiness Small, Medium, and Large Enterprises (SMiLEs) to the issuer conference(s). It should be noted that the USAID-FinGAP BAS providers who work with companies issuing shares and bonds may also participate in the conference as presenters.

The consultant is also asked to develop an implementation plan for the marketing and promotion plan, and to support GAX to undertake marketing and promotion activities

Report Writing

The Capital Markets Advisor shall develop a final report relating to activities, findings, conference and marketing materials, list of meetings and next steps, recommendations, inception and marketing plans, and plan for the Marketing and Support of GAX. This final report shall include a Marketing Plan for the GAX going forward, which may include a media plan. Prior to the delivery of the Final Report, the Capital Markets Advisor shall draft and submit a Draft Final Report to the COP of USAID-FinGAP. The COP may seek comments and/or edits from USAID and/or GAX to be incorporated into the Final Report.

E. Deliverables

The Capital Markets Advisor will produce the following deliverables in coordination with and support from the GAX and SEC Ghana (where applicable):

- 1) One implementation plan including a schedule of tasks, meetings, conferences, marketing and promotion plan, etc. and proposed milestones and outputs from the engagement.
- 2) One marketing plan
- 3) One (half-day or full day) capacity building program for GAX officials (can include GSE and SEC officials)
- 4) Three SME/issuer conferences, one each in Accra, Kumasi, and Tamale
- 5) Two investor conferences, one for institutional investors and one for retail investors, in Accra
- 6) Draft Final Report, which includes the marketing plan for GAX going forward, due two weeks before the completion date of the assignment.
- 7) Final Report, which incorporates comments and edits from USAID-FinGAP, and/or USAID, and/or GAX.

APPENDIX II: GAX MARKETING BROCHURE

APPENDIX III: GSE POWERPOINT ON GAX

APPENDIX IV: INSTITUTIONAL INVESTOR SUCCESS SEMINAR MATERIALS

APPENDIX V: SME FINANCE 101 SEMINAR MATERIAL

APPENDIX VI: GAX MARKETING MATERIALS

APPENDIX VII: PROJECT-SPECIFIC INFORMATION