



Various financing instruments for the ECOWAS market

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Credits and loans are not the only instruments to finance projects. For instance, factoring and crowdfunding are other channels that can be an opportunity to get financial support. "Unfortunately, many people come naïve and unprepared, which impairs the chance to get financial support.

Preparation is the key," - says Ms. Chiara Felicitas Otto, Managing Director of Exficon GmbH. Exficon provides classical financial advisory for project and export finance with a focus on Africa in general and West Africa in particular. They work with medium sized as well as DAX 30 companies, which makes for a wide variety of clients. Many of them, as Ms. Otto states, have business ideas that do not go along with their specialized knowledge from former work experiences. This of course limits the project prospects and therefore the funding prospects. As a financial consultancy is not an information provider in the first place, a certain amount of expertise is expected from the customer before the actual consulting starts. The plans to enter the ECOWAS region should already be well-engineered and the level of information appropriate. She also claims that if the clients are well prepared, **there will always be ways and means to finance business opportunities** in the ECOWAS region. The only challenge is to find the right financing instrument and to stay flexible.

Loans

The government of the Federal Republic of Germany is committed to encouraging its entrepreneurs to get loans or export guarantees in order to conduct business activities easily. The state-owned credit institute named KfW (Kreditanstalt für Wiederaufbau), and its subsidiary, DEG (Deutsche Investition- und Entwicklungsgesellschaft mbH), bear the responsibility for investing abroad. DEG has the duty to facilitate the market entry of private companies that **are going to invest** or **are already investing** in developing countries. Furthermore, it promotes business initiatives in developing and emerging market countries as a contribution to sustainable growth and improved living conditions of the local population. To this end, it makes **long-term financing and advice** available to private enterprises investing in these countries.

Entrepreneur Credit from KfW (KfW-Unternehmerkredit)		
Objectives	Conditions	Contact
<ul style="list-style-type: none"> • Acquisition of land and buildings • Costs of commercial construction • Purchase of machinery, equipment, vehicles and facilities • Office furniture and equipment • Acquisition of assets from other enterprises 	<ul style="list-style-type: none"> • Headquarter is located in Germany • Liabilities can be financed up to 100% of the investment cost • Up to 20 years of term 	KfW Group Palmengartenstraße 5-9 60325 Frankfurt am Main

Figure 1: Detailed information for Entrepreneur Loan from KfW

Guarantees

PwC AG provides guarantees for direct investing abroad (Bundesgarantie für Direktinvestition im Ausland) and guarantees for untied loans (Bundesgarantien für Ungebundene Finanzkredite). The first service is addressed to investments run by companies that have their headquarters located in Germany. This includes stake in foreign companies, quasi-equity loan of a partner or a third party, capital equipment of unincorporated branches (endowment capital), or operational German entrepreneurs sites, as well as other asset rights (claims from concessions, debentures / bonds or rights to purchase oil or gas).

Federal guarantee for direct investment abroad		
Objectives	Conditions	Contact
<p>Covered risks:</p> <ul style="list-style-type: none"> • Nationalization, expropriation or confiscatory interventions. • Break fairly stable commitments of government, state guided or controlled bodies. • War, other armed conflict, revolution, insurrection or in connection with such terrorist events. • Payment bans, moratoria, restrictions on conversion or transfer of capital and income. 	<ul style="list-style-type: none"> • Headquarter is located in Germany. • Duration of Guarantee up to 15 years. • Requests for assumption of a guarantee, up to a maximum of 5 million euros (funded and yield cover) free of charge. 	PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft New-York-Ring 13 22297 Hamburg Tel.: 040 6378-0 Fax: 040 6378-1030

Figure 2: Detailed information for federal guarantee for direct investment abroad

Euler Hermes, as another example, provides export credit guarantees that support the companies from risk regarding default in payment from political and economic angles. The variety of export credit guarantees provided by Euler Hermes is:

Export credit guarantee (Hermesdeckungen)		
Objectives	Conditions	Contact
<p>Covered risks:</p> <ul style="list-style-type: none"> • Risks before shipping of the goods (manufacturing risk coverage) • Risks after shipping (export cover) • Economic risks • Political risks <p>Variants of export credit guarantees:</p> <ul style="list-style-type: none"> • Single cover secures receivables from an export contract with a foreign customer • Revolving export coverage ensures repeated deliveries from foreign clients to a maximum amount. • Export credit guarantee (APG: <i>Ausfuhr-Pauschal-Gewährleistung</i>) secures export receivable contract with several foreign customers in different countries. 	<ul style="list-style-type: none"> • Amount of fee depends on type of coverage, amount and currency of funded debt, the repayment period, and administration fee • Fee must be paid for the using of export credit guarantees and is also dependent on the country risk 	<p>Euler Hermes Deutschland Niederlassung der Euler Hermes SA Friedensallee 254 D-22763 Hamburg</p>

Figure 3: Detailed Information for export credit guarantee provided by Euler Hermes Deutschland

Other Support

The third option to receive financing support can be obtained from the Federal Ministry for Economic Cooperation and Development (BMZ): more precisely from the develoPPP.de program (PPP stands for Public Private Partnership). It supports the cooperation between industry, society and development cooperation. This program is performed on behalf of BMZ by DEG, the German Agency for International Cooperation (GIZ) GmbH and sequa GmbH.

This partnership combines the innovative power of the economy with the resources, knowledge and experience of development cooperation, so that the development in the partner countries of the BMZ can be advanced and the living conditions of people could be sustainably improved. Responsibility, costs, and risks are shared among the partners in these community projects. The aim is to link private and public activities in developing and emerging countries together, so that both partners achieve their goals better, faster and cheaper.

Basically the following criteria that must be fulfilled: The project must comply with the principles of development policy of the Federal Government:

- The project has to have a clear relevance to development
- The project has to be of an environmentally and socially responsible nature
- A case for public support on the side of the private partner must be existent
- The private partner has to contribute to the development partnership at a significant financial and/or personal contribution of at least 50 percent of the total costs

Factoring

In factoring, a business owner sells accounts receivable at a discount to a third-party funding source to raise capital. With this classical financing method, the company should not have to worry if its debtor is unable to pay the debt. Moreover factoring is believed to bring more advantages like reducing independence on house banks and lowering the risk that may happen if the partner as debtor cannot pay receivable as well as ability to respond faster to market trends.

Creditreform for example provides Crefo Factoring with immediate payout of 80-90% of the bought receivable. It was designed specifically for SMEs with gross turnover of between EUR 300,000 and EUR 5m p.a. (exceptions include construction, construction-related and project business). Crefo Factoring from Creditreform might be useful applications for hedging of export transactions, financing of investment and expansion projects as well as protection against bad debts. Additionally, Creditreform will take the nonpayment risk 100%.

Crowdfunding

Crowdfunding is an option that could be used to finance certain projects in the ECOWAS region. It is very attractive because the process is very easy – especially for startups, less time consuming and not so tedious. It results in a diversified investor base.

The process is fairly simple. The firms post ideas on one of the crowdfunding platforms and then share it amongst the members. This gives you the chance to attract as many investors as possible to fund your idea till you receive the initial investment needed.

There are four kinds of crowdfunding:

- Equity based (when the investor gets compensation via equity, revenue or profit share arrangements),
- Lending based (when the investor is financially compensated via fixed repayments and he gets back the initial invested amount),
- Reward based (when the investor funds a project not because he wants a financial compensation, but because he is looking for a non-financial reward)
- Donation based (when the investor funds a project because he supports the cause behind the project).

Companisto, Innovestment, and Seedmatch seem to be booming crowdfunding platforms nowadays and can help German SMEs and startups in financing their investment and trading activities in the ECOWAS region.

An example of a German company who used crowdfunding (via online platforms and social media) for projects in Africa is EinDollarBrille. The mission of this company is to provide the world's poorest people with affordable visual aids in Africa. This association was founded in June 2012 and is officially recognized as a charity organization.

Conclusion

All in all, one can conclude that when it comes to financing your business, there are a lot of supporting and promising tools that can get you through the establishment and funding of your business in the ECOWAS region. However, seeking business financing may not always lead to successfully applying for and obtaining the financing. Therefore, one must be well prepared and have a solid understanding of the business. Whether it is through a bank, an angel investor, crowdfunding or factoring, you must make sure that all information is gathered and presented properly in order to encourage successful securing of financing.

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Sources of Information

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Interview with Mrs. Mrs. Chiara Felicitas Otto, Managing Director of Exficon GmbH.

Official website of DEG - www.deginvest.de/Internationale-Finanzierung/DEG/

Official website of develoPPP - www.developpp.de

Official website of Creditreform – www.en.creditreform.de/portfolio/receivables-management/factoring.html