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A Playbook for Employee Ownership in Sub-Saharan Africa

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Introduction

The roots of employee ownership (EO) can be traced back centuries and across the globe. But while there are many examples of successful employee-owned companies, today they still make up only a tiny fraction of the global economy.

There are indications, though, that this is about to change. A growing number of businesses are making employees part of their ownership structure, with some transitioning as much as 100% of the ownership to employees. Governments across the world are exploring and introducing new policies that promote EO,[1] while investors, including some of the world's largest and most historically traditional funds, have begun to introduce broad-based EO strategies throughout their portfolios.[2] And there is a rising focus on this trend from media and civil society, who see the potential impact of enabling every employee to benefit from economic and corporate growth in a way they haven't in recent decades.

This emerging renaissance of EO is happening at a time of growing appreciation for longstanding economic and social challenges. Mounting global inequality – not just between but within countries – has been exacerbated by the K-shaped recovery of COVID-19, which exposed massive inequities in the labor force, particularly for frontline workers. Meanwhile, the ensuing great resignation laid bare decades of issues around workforce engagement, productivity, and turnover. At the same time, technology appears to be radically transforming the workplace.

While EO is not a panacea for vast structural issues such as these, it can be an important part of the solution for policymakers and the private sector. EO not only more fairly rewards employees and enables their participation in economic growth, but it enhances alignment between investors, companies, and their workers. This alignment in turn improves employee engagement and fosters a more equitable workplace, even during periods of technological change.

However, the momentum behind EO is mostly concentrated in mature economies, such as the US, UK, and Canada. Efforts to grow adoption elsewhere, especially in emerging markets, are more fragmented and less organized, despite a pressing need and significant potential.

[1] Fieldfisher, "How the UK Is Encouraging Employee Ownership Internationally," Fieldfisher, June 24, 2022, https://www.fieldfisher.com/en/insights/how-the-uk-is-encouraging-employee-ownership-inter.

[2] Lydia DePillis, "Private Equity Is Starting to Share with Workers, Without Taking a Financial Hit," The New York Times, January 28, 2024, https://www.nytimes.com/2024/01/28/business/economy/kkr-private-equity-employee-ownership.html.

This Playbook for Employee Ownership in sub-Saharan Africa (the "Playbook") is the outcome of a project carried out by the Predistribution Initiative (PDI) and funded by the Sorenson Impact Foundation to catalyze the growth of EO across sub-Saharan Africa (also referred to subsequently as the "subcontinent"). It provides a roadmap to pursue EO across seven countries and offers an analytical approach that could be replicated in other regions where EO remains nascent.[3] Our team at PDI has commissioned legal research and engaged with a broad set of regional experts to more deeply understand how EO can drive impact across the subcontinent, including by:

1. **Reversing and preventing inequality**
2. **Incentivizing local talent**
3. **Increasing community reinvestment**
4. **Deepening capital markets**
5. **Accelerating economic progress**

It is important to emphasize, however, that just because EO has worked elsewhere doesn't necessarily mean it will work in any sub-Saharan African nation, let alone across the entire subcontinent. In an effort to create a successful roadmap, we have worked extensively with on-the-ground stakeholders to identify success stories and consider localized approaches to EO that fit distinct economic, social, political, and cultural realities.

In this Playbook, we discuss how to ensure that programs are accessible to local workers, create near-term benefits, invest in worker engagement and education, leverage the unique resources of each market, and develop the right incentives. We draw on the collective experience of a broad group of EO experts to highlight tested models and explore how they can be meaningfully applied in a sub-Saharan African context. PDI recognizes that this is just the beginning of an effort that will be informed by local experience over time. Feedback we receive will be taken into consideration for future editions of this Playbook.

Employee ownership is not just a possibility in Sub-Saharan Africa, it is an actionable opportunity. It can lead to greater financial security for workers, improved performance of companies, and enhanced exit options for investors. By capitalizing on the employee ownership opportunity, investors, governments and development partners can deliver on the promise of inclusive growth.

[3] Countries included in scope were South Africa, Kenya, Uganda, Rwanda, Tanzania, Nigeria, and Ghana, chosen based on similar legal foundations and their significance in investor portfolios. We intend to expand the countries covered in subsequent iterations of this Playbook. While this Playbook is focused on sub-Saharan Africa, PDI is available to connect with any organizations interested in applying the learnings from this project to other countries or regions.

Demystifying Employee Ownership

Employee ownership as a concept is often misunderstood. There are multiple approaches and structures, and as a result it can fit a broad range of companies, industries, and transactions. It is important therefore to not look at EO as a niche opportunity for specific companies, but as a broader lens that can be applied across the economy as a whole. Before exploring the details of different ownership structures, there are some important points to emphasize up front to frame the opportunity:

1. EO, by our definition, is a **broad-based program**, meaning that ownership is spread widely among the workforce rather than concentrated at the top. In broad-based programs, most if not all employees across an organization are given the opportunity to benefit from ownership in a company either directly or indirectly (e.g., in a trust). For the purposes of this report, we are not including plans with a narrow group of employee shareholders, such as a management buyout.

2. There are **multiple types of structures** for EO, many of which do not require employees to make cash contributions (including for taxes). Particularly in a sub-Saharan African context, the accessibility of an EO program will be highly dependent upon the ability of employees to participate with no up-front cost.

3. EO does **not necessarily mean democratic governance**. As outlined above, there are different kinds of structures, as well as a spectrum of governance approaches, ranging from those that are traditional (in a capital markets context) to those that are highly democratic (e.g., the "one worker, one vote" model of cooperatives).

4. EO is **not necessarily a zero-sum or concessionary economic model.** There is ample research demonstrating how it can drive stronger financial performance and benefit all stakeholders, after accounting for any dilution that comes from implementing ownership programs (i.e., despite shareholders giving away equity to employees).

5. EO programs can provide employees with **share ownership, profit sharing, or a combination of the two.** As a result, these programs can be designed with a near-term and/or long-term benefit, depending on what best fits the needs of workers and the company.

6. EO programs can include **minority ownership or majority ownership.** As a result, plans can range from providing employees as little as 5-10% ownership to as much as 100% ownership.

Why Employee Ownership

Employee ownership is attracting a broad coalition of support, including from politicians across the political spectrum, both impact and traditional investors, and a diverse group of business owners. Incentivizing this broad coalition is an array of benefits and a unifying narrative that when employees and shareholders are aligned, we can:

1. **Build Stronger Companies:** US research[4] has shown that, when coupled with workforce engagement strategies, EO can lead to faster revenue growth, higher profitability, and improved workforce productivity. In addition, these programs can attract and retain talent, particularly when offered as incremental compensation above and beyond wages and benefits.[5] Together, these commercial advantages have helped make employee-owned businesses more resilient in economic downturns.

2. **Improve Outcomes for Workers:** Another US study found that employee owners have 92% higher net worth than peers who work for non-employee-owned businesses and that outcomes for women and workers of color are especially pronounced.[6] Beyond the financial advantages provided to workers, EO can also lead to greater job satisfaction and engagement. For impact-oriented investors, these are all highly measurable outcomes. Wealth or distributions to employees can be tracked objectively, while surveys of workers can validate the positive outcomes.

3. **Drive Economic Transformation:** Impacts of EO can be observed beyond the worker and company level. Employee-owned businesses can also lead to stronger communities, as workers are more likely to reinvest their benefits in the local economy. EO often provides a more stable, long-term oriented ownership structure, putting greater emphasis on protecting and creating local jobs, as well as preserving a company's purpose in the long term. This is especially true when EO is used as a transition[7] strategy, where a company becomes 100% employee owned.

The evidence for these outcomes comes predominantly from the US, where there is a robust history of research. However, it is important to highlight that this research generally finds that EO is only one part of the equation. To achieve the strongest benefits, it is critical that the economic incentive of EO be coupled with other initiatives targeted at workforce engagement and education.

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[4] Rutgers School of Management and Labor Relations, "Institute for the Study of Employee Ownership and Profit Sharing," Rutgers, May 31, 2024, https://smlr.rutgers.edu/faculty-research-engagement/institute-study-employee-ownership-and-profit-sharing.

[5] PDI promotes the practice of offering living wages where financially feasible in addition to more contingent forms of compensation such as profit sharing and share ownership. Offering a living wage is a foundational element of upholding human rights.

[6] National Center for Employee Ownership, "Research on Employee Ownership," NCEO, May 31, 2024, https://www.nceo.org/article/research-employee-ownership.

[7] As described later, a "transition" strategy is used to refer to a transaction in which a shareholder (e.g., entrepreneur, investment fund) is looking to sell, or exit, their ownership position to employees. This also includes a succession transaction in which a retiring business owner sells a company to employees.

Background: Employee Ownership in South Africa

Employee ownership has a long history in South Africa, in large part due to supportive government policies. In the 1990s, Black Economic Empowerment (BEE) policies were introduced, culminating in the Broad-Based Black Economic Empowerment (BBBEE) Act of 2003.[8] As part of these policies (which remain in place today), companies receive incentives to promote Black ownership and management.[9] To the extent that it is deployed in predominantly Black workforces, EO has been one viable path to qualifying for BBBEE incentives, leading to many advantages including in government procurement contracts.[10]

The South African Competition Commission has also shown support for the BBBEE, which in turn has led to EO. There are cases of large mergers, such as AB InBev's acquisition of SABMiller, where the Competition Authority has made the implementation of an EO plan a condition for approval.[11] There are also sector-specific policies, such as the South African Mining Charter, which mandates a minimum of 30% Black ownership for mining rights and encourages the use of small EO plans (approximately 5% of equity).[12]

These policies have given rise to a significant number of EO plans, particularly within publicly traded companies in the mining and financial services sectors. The predominant model for EO in South Africa is referred to as an Employee Share Ownership Plan, referred to subsequently by PDI as an SA-ESOP. Under these plans, it is most common for a small percentage of stock to be transferred to a trust of which employees are beneficiaries.

For example, Kumba Iron Ore, which is partially owned by Anglo-American Ashanti, a flagship mining company in South Africa, implemented an SA-ESOP in 2006 via a broad-based employee share participation scheme set up through the Envision Trust.[13] Each eligible employee received share units that entitled them to receive dividend payouts from the company's profits combined with a lump sum payout every five years. Kumba found an effective way to communicate the payout process and basic financial principles to the beneficiaries via a series of financial literacy comics distributed weekly to all beneficiaries, covering topics like paying taxes, budgeting, investing, insurance, and reducing debt. In 2011, Kumba Iron Ore paid its workers a 5-year dividend of between R55 000 and R350 000.[14]

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[8] The Department of Trade, Industry and Competition (dtic), "Broad-Based Black Economic Empowerment," Republic of South Africa – dtic, May 30, 2024, https://www.thedtic.gov.za/financial-and-non-financial-support/b-bbee/broad-based-black-economic-empowerment/.

[9] The Department of Trade, Industry and Competition (dtic), "Republic of South Africa Government Gazette No. 36928," the dtic, October 2013, https://www.thedtic.gov.za/wp-content/uploads/BEE-code_gud_practice10102013.pdf.

[10] Corey Rosen, "Employee Ownership Making Strides in South Africa," National Center for Employee Ownership, April 23, 2024, https://www.nceo.org/employee-ownership-blog/employee-ownership-making-strides-south-africa.

[11] Betsy Reed, "Regulator gives backing to AB InBev takeover of SABMiller," The Guardian, May 31, 2016, https://www.theguardian.com/business/2016/may/31/ab-inbev-purchase-of-sabmiller-given-conditional-approval.

[12] Investment Policy Monitor, "South Africa – Government adopted Mining Charter 2017 which raises black ownership threshold for mining firms," UN Trade and Development, June 15, 2017, https://investmentpolicy.unctad.org/investment-policy-monitor/measures/3097/south-africa-government-adopted-mining-charter-2017-which-raises-black-ownership-threshold-for-mining-firms.

[13] Julie Chandler, "Kumba's Simplified Share Scheme," Jincom, March 29, 2021, https://www.jincom.com/blog/employee-share-ownership-made-easy.

[14] At an average USD:ZAR exchange rate of 0.1386 in 2011, this equates to a range of approximately US$7,500 to nearly US$50,000.

Background: Employee Ownership in South Africa (cont.)

Unfortunately, five years later, the company's share price collapsed at the end of the commodities boom, and there was no payment after the second 5-year period. Even though the plan was successful during a certain phase, it ultimately was subject to problems outside of the company's control, which shows how susceptible these EO plans can be to market cycles.

While there have been many SA-ESOPs with positive outcomes, several common challenges have emerged over the last few decades. The statutory nature and increasing complexity of the BEE framework, of which EO is only one part, have led to a compliance mentality rather than genuine enthusiasm for an EO model that could narrow inequality. Moreover, these plans are most often initiated by large firms, both local and international, which have typically transferred a small amount of ownership (rarely exceeding 5%) to a large number of employees, given the workforce often numbers in the thousands. Generally, these models involve a combination of shares granted and shares sold, usually at a discount, to a shareholding trust. These shares are funded by debt, which then needs to be repaid in part or in full before any dividends flow to shareholders. Due to economic stagnation and global economic shocks, dividend flows have been limited, and in some instances, trusts have ended up holding shares worth less than the debt owed. Consequently, it is common that only limited benefits accrue to workers.

While government policies have been instrumental in promoting EO, they have also been constricting in specific ways. For example, companies without a majority Black workforce can struggle to qualify for BBBEE if trying to use a broad-based EO plan. For these reasons and others, it is more common for Black-owned investment firms to support companies in qualifying under BBBEE by holding an equity stake. However, these investment firms generally have highly concentrated ownership, rather than the broad-based ownership that comes with EO plans. In addition, companies often settle for the minimum ownership thresholds required for BBBEE, and as a result there are rarely circumstances of significant EO or where workers are provided enhanced voice or representation (i.e., Board representation).[15]

There are many opportunities for South Africa to build on its experience and increase the number of employee owners in the country. First, the government can explore other structures for EO, such as those more commonly found in the US and UK, and develop policies to support these specific models. Second, current BBBEE approaches could be revised to more directly promote broad-based EO, simplify regulatory frameworks, and provide tax incentives — shifts that could especially benefit small- and medium-sized businesses. Finally, the government can unlock essential capital to support EO transactions, for example, through blended finance mechanisms that combine public and private resources. Taking a holistic approach to the regulatory, financial, and educational barriers to EO has the potential to make these policies even more integral to South Africa's economy, thereby promoting inclusive growth and economic empowerment. PDI would be pleased to engage on these topics in greater detail with interested stakeholders.

[15] David Ellerman and Michelle Galloway, "Employee stock ownership plans – a viable option for South Africa?," Daily Maverick, March 22, 2019, https://www.dailymaverick.co.za/article/2019-03-22-employee-stock-ownership-plans-a-viable-option-for-south-africa/.

Employee Ownership as a Growth or Transition Strategy

While there are many structures for employee ownership (e.g., stock option plans, phantom shares, employee trusts), they are generally deployed in two distinct contexts: growth and ownership transitions (exits).

Growth-oriented EO plans are designed to allow employees to participate in the upside of a company, but are typically structured with a dedicated exit or liquidity event in mind. In these situations, employees are usually provided with some form of upside sharing, which can be in excess profits from annual operations or a sale event. The case study below provides more detail on how EO can be used as a growth strategy .[16]

[16] EO as a "growth strategy" is not to be confused with growth equity investments. As described in the text, an EO plan designed as a growth strategy is intended to allow employees to participate in the upside of a company leading up to a dedicated exit or liquidity event. This approach can be used in most investment strategies, including buyouts, growth equity and venture capital.

Growth Strategy Case Study: KKR / CHI Overhead Doors[17]

Since 2011, the private equity firm, KKR & Co. Inc. (KKR), has implemented employee ownership programs in over 40 portfolio companies, reaching over 60,000 non-management employees.[18]

One example is CHI Overhead Doors, a garage door manufacturer that KKR acquired from another private equity owner in 2015.[19] Upon acquisition, only 18 out of its 800 workers had ownership in the business, with over 50% of the corresponding sale proceeds going to two members of management alone.[20] Through an options plan, KKR restructured the business so that 100% of the workers received some level of equity ownership. This was structured as an incremental benefit for workers earning less than $100,000, in addition to benefits and wage arrangements. Truck drivers were also given the opportunity to invest up to $5,000 alongside KKR on the same terms as the firm.

While workers only shared in a small percentage of ownership of CHI, KKR instituted several programs and initiatives to enhance workers' sense of ownership. For instance, a certain degree of open book management enabled workers to understand how their efforts contribute to profitability. This, together with employee engagement initiatives, led to truckers coming up with more efficient delivery routes, improved intelligence on the competitive landscape, helpful feedback, and strengthened customer relationships. Factory workers informed corporate investments in various initiatives that improved worker health and safety, as well as morale.

[17] For further context on this case study and commentary on impact considerations, we encourage reading the following source: Sharmeen Contractor, Irit Tamir, and The Predistribution Initiative, "Getting Ahead of the Curve on Dynamic Materiality," Oxfam America, March 11, 2024, https://www.oxfamamerica.org/explore/research-publications/getting-ahead-of-the-curve-on-dynamic-materiality/.

[18] Shared Ownership - Investing in Ownership Culture | KKR," KKR, accessed December 18, 2024, https://www.kkr.com/invest/private-equity/shared-ownership

[19] How KKR Got More by Giving Ownership to the Factory Floor: 'My Kids Are Going to College!'," May 16, 2023, https://www.library.hbs.edu/working-knowledge/how-kkr-got-more-by-giving-ownership-to-the-factory-floor

[20] KKR and C.H.I. Employees Prove 'Ownership Works' With Sale of C.H.I. Overhead Doors to Nucor," May 16, 2022, https://www.businesswire.com/news/home/20220516005324/en/KKR-and%20C.H.I.-Employees-Prove-%E2%80%98Ownership-Works%E2%80%99-With-Sale-of-C.H.I.-Overhead-Doors-to-Nucor

Growth Strategy Case Study: KKR / CHI Overhead Doors (cont.)

KKR also opened financial accounts for workers to help them improve their personal finances and made efforts to pay dividends, with the total amount varying depending on time spent at company. Over the course of KKR's ownership, hourly workers and truck drivers received an average of $9,000 in dividends each, in addition to a payout on equity upon sale of the business.[21]

During the holding period, company performance improved, with EBITDA margin rising steadily from 21% in mid-2015 to over 30% upon announcement of KKR's exit, and revenue rising by close to 120%, also (in part) due to the construction of an additional plant. Working capital decreased significantly. Both the rate and severity of injuries declined by more than 50% since 2015. Reduced turnover and retention of workers during the slow season contributed to results (as workers did not have to be repeatedly trained). Procurement and scrap reduction also improved. Meanwhile, wages increased 7% in 2020 and 12.5% in 2021.[22] An employee engagement survey launched at the time of acquisition went from a 30% response rate with 90% of responses below benchmarks to an 80% response rate, with 60% of responses above benchmarks in 2017.

In May 2022, KKR announced the sale of CHI to Nucor Corporation valuing the company at $3 billion, or 10x KKR's initial investment. With total investment returns estimated at $2.7 billion, this resulted in an average payout of $175,000 for hourly workers and truck drivers, with some veteran truck drivers receiving over $800,000. This payout amortized over the years of working at the company (assuming four years) is approximately $44,000 per year.[23]

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[21] Ibid

[22] Ibid

[23] KKR Completes Sale of C.H.I. Overhead Doors," December 18, 2023, https://www.businesswire.com/news/home/20220516005324/en/KKR-and%20C.H.I.-Employees-Prove-%E2%80%98Ownership-Works%E2%80%99-With-Sale-of-C.H.I.-Overhead-Doors-to-Nucor

EO can also be structured as a transition strategy, enabling a shareholder (e.g., entrepreneur, fund manager) to sell (or exit) their ownership position to a broad-based group of employees. More and more entrepreneurs and business owners in particular see EO as the long-term ownership model best suited for their company. In these situations, a vehicle is created for which employees are beneficiaries or shareholders. Similar to a leveraged buyout, that vehicle arranges financing to purchase an interest in (or the entire ownership of) a company. Often there is a significant degree of vendor financing, as even in these structures employees are not required to invest cash. The Taylor Guitars case study below provides a detailed example of how EO can be used as a transition strategy.

Transition Strategy Case Study: Taylor Guitars[24]

Founded in 1974, Taylor Guitars has become one of the largest guitar manufacturers in the US. In 2021, the company employed over 1,200 people[25] and generated more than $150 million in revenue. When the company's founders, Bob Taylor and Kurt Listug, began considering succession options, they explored the idea of selling the business to their employees. For Taylor and Listug, preserving the company's independence and rewarding employees were important objectives, leading them to pursue EO over selling to a private equity firm or strategic buyer.

In December 2020, Taylor and Listug chose to pursue an Employee Stock Ownership Plan (ESOP) Trust with the help of their advisors, Chartwell Financial Advisory. ESOP Trusts, which have existed since the 1970s, are a leading model for EO buyouts in the US. As of 2021, the most recent data available, there are 6,533 ESOP-owned companies, with 36,355 participants holding $2.1 trillion in wealth.[26] Through an ESOP Trust, employees become beneficiaries of a trust, which arranges for financing to purchase all or part of the company.

Taylor Guitars' ESOP transaction was financed by a combination of third-party debt and seller financing. Social Capital Partners, in partnership with the Healthcare of Ontario Pension Plan (HOOPP), provided unitranche debt financing.[27] Combined with seller financing from Taylor and Listug, the Trust was able to purchase 100% of Taylor Guitars' shares and enable all workers, including those in the company's Mexican factory, to become employee owners. No employees were required to invest any capital to make this transaction possible.

Following the transition, Taylor Guitars employees now receive annual share grants within the ESOP Trust that they can sell back to the company should they leave or retire. The transaction provided Taylor and Listug with a financial exit option that not only protected their legacy but also created an unparalleled wealth building opportunity for workers. This innovative approach not only secures the founders' financial exit but also aligns the long-term interests of employees and investors, promoting sustained growth and shared prosperity.

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[24] Sharmeen Contractor, Irit Tamir, and The Predistribution Initiative, "Getting Ahead of the Curve on Dynamic Materiality," Oxfam America, March 11, 2024, https://www.oxfamamerica.org/explore/research-publications/getting-ahead-of-the-curve-on-dynamic-materiality/.

[25] Taylor Guitars, "About Taylor Guitars," Taylor Guitars, June 12, 2024, https://www.taylorguitars.com/about.

[26] National Center for Employee Ownership, "Employee Ownership by the Numbers," NCEO, accessed July 16, 2024, https://www.nceo.org/articles/employee-ownership-by-the-numbers#:~:text=Resources%20and%20Graphics-,How%20Many%20ESOPs%20Are%20There%3F,assets%20of%20over%20%242.1%20trillion.

[27] ESOP Association Blog, "Will Taylor Guitar's Unique ESOP Funding Resonate With Other Companies?," The ESOP Association, June 3, 2021, https://www.esopassociation.org/articles/will-taylor-guitars-unique-esop-funding-resonate-other-companies.

Between the wide range of structures and opportunities to apply them during growth or transition phases EO is a highly versatile tool. Family-owned businesses, venture capital or private equity backed businesses, and privatizations are all candidates for EO programs. Whether a company is stable and cash generative or high growth and cash strapped, there are EO models that can be made to fit.

A Localized Approach

It is important to emphasize again that while employee ownership programs have been successful in the US and other mature economies, the same approaches cannot be assumed to work in every country in sub-Saharan Africa. There is no shortage of distinct challenges in the region, including the cost of capital, macroeconomic risks, and business-level challenges in the operating environment. However, the potential benefits could be even wider ranging and more significant than in any other market. Specifically, in these countries, EO programs have the potential to:

1. **Reverse and Prevent Inequality:** Inequality is a critical issue globally, but it is especially pronounced in sub-Saharan Africa. The continent has 16.7% of the global population but only 1.2% of global wealth.[28] That small share of wealth is captured disproportionately by a select few, with the richest 0.0001% owning more than 40% of wealth on the continent.[29] Beyond the relative inequality, in absolute terms there are over 413 million people living in extreme poverty.[30] While EO is not a panacea for systemic challenges like these, it can provide a powerful lever for workers to participate more fully in the growth of companies and the economy at large. Even small EO programs could have a dramatic impact on the lives of individual workers and families.

2. **Incentivize Local Talent:** Attracting and retaining top talent is challenging in all markets, but one specific roadblock in sub-Saharan Africa is the migration of highly educated workers to other countries and regions. There are many factors that contribute to this "brain drain," and similarly, EO cannot resolve them all. But by providing greater upside and participation within companies and improving the engagement of workforces more generally, there is an opportunity to retain more talented workers and potentially attract workers to the subcontinent.

3. **Increase Local Reinvestment:** A significant share of capital investment in sub-Saharan Africa comes from foreign sources. And while this capital is crucial to the broader economic development of the subcontinent, the returns generated on these investments are often repatriated overseas. EO won't remove the need for foreign capital, but it will allow for more of the value generated from growth to be captured locally and reinvested in communities. Whether through small EO programs alongside foreign investors, or 100% transitions to EO, there can be a greater share of proceeds kept in the hands of low- and middle-wage workers who have a higher propensity to spend within their local economies.

[28] World Bank Group, "Population Total – Sub-Saharan Africa," World Bank, June 12, 2024, https://data.worldbank.org/indicator/SP.POP.TOTL?locations=ZG.

[29] Max Lawson, Joab Okanda, and Emma Seery, "A Tale of Two Continents: Fighting Inequality in Africa," Oxfam, September 2019, https://www-cdn.oxfam.org/s3fs-public/file_attachments/bp-tale-of-two-continents-fighting-inequality-africa-030919-en.pdf.

[30] David Suttle, "Rural Poverty in Developing Countries: Issues, Policies and Challenges," International Fund for Agricultural Development, March 2020, https://www.un.org/development/desa/dspd/wp-content/uploads/sites/22/2020/03/Suttie-Paper.pdf.

4 **Foster Stronger Civic Engagement and Democracies:** As workers gain more economic stability and ownership stakes, they are more likely to participate in civic life, bolstered by a greater sense of agency and investment in their communities. Broad-based wealth creation through EO also promotes social cohesion and trust, which are key ingredients for stronger civic engagement. This, in turn, strengthens democratic processes by ensuring that more citizens are economically empowered to engage politically.[31] In essence, EO fosters both economic inclusion and active citizenship, reinforcing the foundations of healthy democracies.[32]

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5 **Deepen Capital Markets:** One of the biggest criticisms of the African private capital markets is the lack of liquidity or exits. This is not only a deterrent to attracting more foreign capital, but it also has a dampening effect on returns. In many cases, sales to foreign buyers are one of the preferred exit opportunities, but even these are only possible for a small number of companies. EO can provide an additional avenue for exits and liquidity to complement the opportunities of financial or strategic acquisitions and the public markets. While only a handful of companies will have the characteristics to support an EO exit (e.g., stable management team, strong cashflow profile), this new exit alternative could benefit investors while also supporting local economies and putting power in the hands of workers.

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6 **Accelerate Economic Progress:** Cracks have emerged in the economic policies of mature economies. In the US, for example, the pathways to asset building for lower- and middle-class families have been disappearing.[33] Quantitative easing and interest rate cuts have led to a surge in asset prices[34] while wages have largely stagnated,[35] furthering the divide between those who own assets and those who can't afford to acquire them.[36] This is showing up across all asset classes, from real estate to public equities to private company ownership and more. And while political disenfranchisement is not solely the result of these economic trends, they are interrelated. For economies and societies to be strong and resilient in the long term, people need to believe that they have agency and voice and that they stand to benefit from economic growth and success. EO is just one tool for achieving this, but if countries throughout sub-Saharan Africa adopt these models at an earlier stage in their economic development, they could avoid some of the intractable challenges observed across mature economies in the West.

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31 Daron Acemoglu and James A. Robinson, Economic Origins of Dictatorship and Democracy (Cambridge University Press, 2005), https://www.cambridge.org/core/books/economic-origins-of-dictatorship-and-democracy/3F29DF90519971B183CAA16ED0203507.

32 Frederick Solt, "Economic Inequality and Democratic Political Engagement," American Journal of Political Sciences 52, no. 1 (2008): 48–60, https://www.jstor.org/stable/25193796.

33 Ashleigh Maciolek and Hannah Van Drie, "Monitoring the middle class: How the American middle class is really doing," Brookings, February 11, 2021, https://www.brookings.edu/articles/monitoring-the-middle-class-how-the-american-middle-class-is-really-doing/.

34 Marcin Kolasa and Jesper Linde, "The economic implications of quantitative easing during Covid," International Monetary Fund, March 11, 2024, https://www.elibrary.imf.org/view/journals/002/2024/071/article-A004-en.xml.

35 Efraim Benmelech, Nittai K. Bergman, and Hyunseob Kim, "What's causing wage stagnation in America?," KelloggInsight, December 2, 2019, https://insight.kellogg.northwestern.edu/article/wage-stagnation-in-america.

36 Renuka Diwan, Evgeniya A. Duzhak, and Thomas M. Mertens, "Effect of asset valuations on US wealth distribution," Federal Reserve Bank of San Francisco (FRBSF) Economic Letter, August 30, 2021, https://www.frbsf.org/research-and-insights/publications/economic-letter/2021/08/effects-of-asset-valuations-on-us-wealth-distribution/.

These shifts can be transformative for all stakeholders. Investors can benefit from stronger companies, capital markets, and economic environments. Workers can benefit from higher earnings and more job stability. Governments can benefit from higher tax revenues, with more domestic spending and ownership as well as stronger social stability.

Achieving this ambitious vision of economic transformation through EO requires a localized approach (e.g., structures, education) that fits the specific needs of the companies, shareholders, workers, and economies most impacted. The following section will outline what we've gathered from on-the-ground experts, along with the first iteration of a roadmap toward proving and scaling EO across sub-Saharan Africa.

Case Study: Fenix International & Delta40

Fenix International ("Fenix") was an off-grid energy company founded in 2009 in Zambia and Uganda. Fenix leveraged the rapid improvement of battery storage technologies and mobile payments platforms to offer affordable, reliable, and expandable solar home systems in the region. Fenix's flagship product, ReadyPayPower, provided lighting, phone charging, and power for TVs and radios and was offered on a lease-to-own basis so that customers could finance their power system through micro installments over mobile money.

Lyndsay Handler, Fenix's founder and CEO, held the longstanding belief that people are the engines of innovation and growth in a business. Her family's roots were in the American automotive industry, where workers were ultimately responsible for building vehicles faster and more affordably. Handler believed that the key to unlocking Fenix's growth and profitability was no different, and that broad-based employee ownership could help unlock the business' potential.

While Handler and her leadership team had been interested in introducing EO since the earliest days of the business, it ultimately took more than five years to put the plan in place. One of the major issues the company faced was investor and board support. Investors, many of whom were impact oriented, believed that equity needed to be concentrated with key people, that inclusive ownership plans were expensive and complex to manage, and were concerned that employees would not value a share ownership plan. Typical lawyers and accountants were quick to dismiss the idea for similar reasons and because of concerns for the tax and administrative burdens.

However, during a capital raise in 2015, an employee who wanted to help the company mobilize funds asked, unprompted during an all-hands team meeting, whether workers could buy shares in Fenix to support the company's growth. Other employees joined in and expressed a shared belief in the company, which helped build enthusiasm for EO. Handler, motivated by this experience, sought the support of a key board member and aggressively advocated for a broad-based EO plan with her board to drive growth, customer experience, market share, team retention, and profitability. Fenix's law firm, Wilson Sonsini, created an innovative legal structure to optimize the costs, taxes, and scalability of the program.

Case Study: Fenix International & Delta40 (cont.)

By late 2015 Handler had announced the plan to her team, and in subsequent months developed the finer details with the support of trusted advisors. In 2016 Fenix launched its inclusive EO program called "Fenix Flames," which was a phantom share scheme. Under this plan, employees earned a participation interest in profits and exit benefits without conferring legal share ownership. Phantom share owners do not appear on a company's cap table as individuals and can be regarded as "synthetic equity," with rights mirroring the benefits of stock ownership but without voting rights. To establish a phantom share scheme, a company sets aside a pool of shares from the overall cap table for distribution to employees and often registers a trust to govern the shares via a trust deed. The phantom share scheme allowed the company to avoid the burden of issuing legal share certificates as well as to remove any tax liability upon issuance of the phantom shares for the company, employees, and trust. It also made it possible to continually add new employees to the pool without going back to the Board for issuance approvals.

As part of Fenix's program, every employee earned a number of phantom shares, referred to as Flames, for each quarter of employment, based on their salary and level of responsibility in the company. To recognize tenured employees, Flames were allocated from the starting date of their full-time employment, rather than from the starting date of the program. The Flames vested after one year, and their allocation was not tied to individual job performance, as the company had other mechanisms for performance management. It was not possible to exercise the Flames until and unless there was an exit event; that is, employees could not turn them into cash or trade them before an exit took place. But employees could retain their Fenix Flames if they left Fenix on good terms and continued to be a positive ambassador for the company.

Investing in communication and education was critical to the success of the Fenix Flames program. The company ensured that trusted managers fully understood the program's mission and structure in order to be able to champion the initiative and address questions from employees. Fenix leadership also made the company's financials transparent and available to employees to build trust and ensure employees knew how to create value for shareholders. The leadership team outlined how the plan worked, which at the most basic level involved every employee earning ownership units. These units, the leadership team explained, would have no value unless there were profits, dividends, or proceeds from an exit, but could be worth multiples of gross salary under various scenarios. Ultimately this communication strategy was successful, and the Fenix Flames experience disproved the concern that African workers were not able to understand or value a complex share plan.

In 2017 Fenix was acquired by ENGIE, one of the largest global energy companies based in France. At the time of the exit, the total number of Flames an employee had earned represented their portion of the ultimate value of the pool of options. Upon ENGIE's acquisition, Fenix's employees received a significant reward, especially those with a long tenure who received 2-5x their annual salary. The team also implemented a management retention plan where managers received additional payouts at year two and year four if there was a successful integration and shared milestones were achieved. Fenix's EO program is referenced as one of the most successful outcomes of broad-based EO across sub-Saharan Africa, especially due to the results it provided for the company and its employees.

Case Study: Fenix International & Delta40 (cont.)

The impact of Fenix Flames was felt on many levels. First, Fenix employees with shares worked harder to make the core business more profitable, scalable, and impactful. Employees actively suggested and executed strategic budget cuts and strategies for improving customer retention. The strength and commitment of the team across Africa was one of the reasons that ENGIE selected Fenix over other potential M&A targets. Finally, after the exit, Fenix employees often invested their payouts in many different impactful ways from enrolling their children in better schools, investing in land or real estate, or saving in high interest investment accounts the company helped them set up. Many Fenix alumni started or joined other high-impact companies after the exit, ranging from small- and medium-sized enterprises to equity-backed technology companies such as BasiGo, Holocene, Grounded, Adia, Working Trees, and PowerUP. Other former Fenix employees have remained in the ecosystem in Africa, holding key roles in impactful companies such as SunKing, d.Light, Talus, Cross Boundary, UpEnergy, One Acre Fund, Turaco, and many more.

This ecosystem impact is very powerful and can act as a flywheel for attracting more talent and capital into the next generation of ventures.

Following the success of Fenix, Handler started an early-stage venture capital fund and venture studio called Delta40. All portfolio companies of Delta40 are encouraged to dedicate a portion of their capital structure to broad-based EO and receive support to set up inclusive plans. Handler believes that well-structured EO programs can deliver 5-10x gross salary to workers in the event of an exit or sustained profitability, helping to attract top talent and ensuring that returns are re-invested in the ecosystem over time. In addition to giving all its employees shares, Delta40 is also providing founders with shares in the fund and venture studio to drive collaboration and help entrepreneurs diversify their risk. Through this program and others, Delta40 aims to be the ally founders need to introduce broad-based EO, realize successful growth, and create win-win exits for investors, customers, employees, and the broader ecosystem across sub-Saharan Africa.[37]

> *"I believe that well-structured EO programs can deliver 5-10x gross salary to workers in the event of an exit or sustained profitability, helping to attract top talent and ensuring that returns are re-invested in the ecosystem over time. At Delta40, we aim to be the ally founders need to introduce broad-based EO, realize successful growth, and create win-win exits for investors, customers, employees, and the broader ecosystem across sub-Saharan Africa."*
>
> **– Lyndsay Handler, Founder and CEO of Fenix International and Delta40**

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[37] All information for this case study was provided by the Delta40 team.

Key Risks and Challenges

Growing employee ownership in sub-Saharan Africa is not without its own set of unique risks and challenges. These fit into three core categories: market uptake, impact integrity, and execution complexity.

In terms of market uptake, the below table outlines some fundamental differences between the opportunities for EO in North America and Europe and those in sub-Saharan Africa:

	North America & Europe	Sub-Saharan Africa	Implications
Corporate Stage	• Diverse economies with many early stage and mature companies • Significant number of large, cash generative, and mature businesses	• Many smaller businesses in fragmented industries • Investors focused predominantly on growth-stage companies • Limited number of large cash generative businesses; often family-owned	• Market may skew more toward EO as a growth strategy • EO exits may be more rare/limited
Debt Markets	• Deep debt capital markets to support companies of all sizes	• Corporate debt less available and more expensive	• Distinct lending product will be needed for EO exits
Demographics	• “Silver tsunami” of aging business owners seeking third-party exits	• Significantly younger population • Business owners who are retiring may be more inclined to keep their business within the family	• Retiring business owners less likely to be catalyst for EO transactions
Political Support	• Relatively significant support for EO, with tax incentives	• Virtually no government programs or recognition of EO (outside of South Africa)	• EO cannot become mainstream in the short term by primarily relying on government
Macro Conditions	• Relatively stable economic environment (at the operating level)	• Business often subject to unpredictable macro and logistical challenges	• EO plans in sub-Saharan Africa must be able to withstand earnings volatility and less liquid markets during transitions

In addition, the table below provides a high-level overview of key considerations to implement EO plans that drive meaningful benefits for lower- and middle-income workers. PDI anticipates further refining these concepts in future guidance co-created with diverse stakeholders, including investors, companies, workers, and others:

1 Limited Regulations for Employee Ownership Plans

RISKS

Given the lack of regulations, EO could be used as a tool to negotiate wage, benefit, or collective bargaining and freedom of associations concessions, or to sell portfolio companies at inflated valuations.

MITIGATIONS

This Playbook outlines the need for EO to be broad-based and incremental to the existing wages and benefits workers receive (ideally living wages if a company can afford it). It also highlights the importance of ensuring that key terms (e.g., valuation, financing) are structured to ensure employees receive a tangible benefit. Ultimately, if an EO plan fails to internalize these recommendations, it is unlikely to generate the benefits highlighted and can even have negative impacts, as well as business and investment risks.

2 EO Literacy & Expectations

RISKS

Lack of EO literacy, particularly for workers, is a risk to growing the market and benefitting employees. This includes unrealistic expectations, such as how equity value changes given market dynamics and capital structures.

MITIGATIONS

Throughout this Playbook, workforce engagement and education are highlighted as critical factors to the success of EO. Fenix International is profiled as an example of a company that had managed this risk. While EO literacy and expectations will be company specific, this is an important area for additional technical assistance.

3 Accessibility for Marginalized Groups

RISKS

There is a risk that marginalized groups, such as women and informal workers, may face challenges to participate in EO.

MITIGATIONS

It will be critical to consider equitable compensation ratios when structuring EO opportunities when it comes to race, ethnicity, and gender differences across the workforce. Furthermore, the opportunities identified in this Playbook include structures that are well suited to the participation of informal workers, as the structures themselves do not require a formal employment arrangement. In addition, the emphasis on broad-based plans and workforce engagement and education are intended to ensure that marginalized workers are not left behind by EO growth.

Finally, there are numerous challenges related to execution that need to be addressed, including but not limited to:

1. **Jurisdictional Complexity:** Not only are there limited government incentives for EO across the subcontinent (outside of South Africa), but there are also inconsistent tax and legal regimes that impact issues such as how and when employees are taxed. These inconsistencies can make it particularly challenging to implement plans in cross-border businesses.

2. **Regulatory Uncertainty:** In many countries within scope for this project, there are no explicit regulatory opinions related to EO plans. In other cases, such as in Lagos State (Nigeria), there have been legislative changes that have heightened risk and uncertainty for the tax treatment of these plans.[38] In either case, the regulatory uncertainty poses challenges for companies looking to introduce them.

3. **Lack of Experienced Service Providers:** Accounting, tax, and legal professionals are crucial advisors in EO transactions. Given the nascency of the EO market in sub-Saharan Africa as well as the regulatory uncertainty, there are a limited number of advisors with the required experience and comfort to support EO plans. In particular, given that EO as a transition strategy is highly uncommon in the region, there are few advisory professionals familiar with designing and executing these transaction structures.

While none of these issues individually or collectively prevent EO from being introduced and scaled in sub-Saharan Africa, they do necessitate a patient, long-term perspective to grow this market. To build momentum for EO in sub-Saharan Africa, it is also necessary to be strategic about where to focus efforts in the short term. PDI's research suggests that impact investors and Development Finance Institutions (DFIs) have the greatest potential to catalyze growth in EO in sub-Saharan Africa, due to their demonstrable commitment to impact, flexibility in capital structuring, and broad influence in the private sector. Early examples of success in this community are likely to generate outsized awareness in other parts of the economy.

Building and sustaining a vibrant ecosystem will require a long-term commitment and the development of localized approaches to employee ownership that reflect the distinct realities for workers, companies and investors across the continent.

[38] Bloomfield LP, "Company Law issues around employee share-based compensation in Nigeria," Lexology, March 28, 2023, https://www.lexology.com/library/detail.aspx?g=b60f535d-6092-4816-9b92-c60ffbd2b2ad.

Case Study: fairafric

fairafric is a German-Ghanaian social enterprise that produces and processes high-quality organic chocolate entirely in Ghana. The company is part of the FairChain movement which advocates leaving the entire production process of goods in the country of origin of the raw materials, in this case cocoa and chocolate. By manufacturing "from tree to bar" in Ghana, fairafric aims to retain value within the local economy, create well-paying jobs, and contribute to sustainable development.

fairafric is deeply committed to fair employment practices, social sustainability, and climate action. The company is dedicated to offering fair and competitive working conditions to its 148 employees. It pays wages that are significantly higher than the local minimum wage – at least four times higher. Additionally, it provides health insurance not only for its employees, but also for their families, enhancing the overall well-being of the community. Moreover, it offers free commuting and subsidized food to all its employees.

The company is committed to environmentally friendly practices throughout its production process. This includes sourcing organic cocoa beans to ensure no harmful chemicals are involved in farming or production, operating a solar-powered factory to significantly reduce its carbon footprint, and using compostable packaging materials which support the company's commitment to sustainability from production to final product delivery.

To supplement its commitment to fair wages and working conditions, fairafric first pursued a broad-based employee ownership program in 2020.

Under the original program, the company sought to provide workers in Ghana with participation in the German holding company stock option program. Unfortunately, there were several challenges in rolling out that program. First, cross-border tax was a major administrative impediment to rolling out the plan to all workers. Second, Ghanaian workers expressed a strong preference toward cash-based compensation, instead of share-based compensation.

As a result, in May 2024 fairafric rolled out a new EO program that incorporated feedback from Ghanaian employees. Under the new program, management and German employees continued to participate in stock options in the German holding company, and Ghanaian workers participate in a local profit-sharing program. This approach has been much more positively received by employees and has been coupled with significant capacity-building, education, and new communication strategies by the management team. fairafric hopes that this new structure will not only provide employees with a strong wealth building opportunity, but also support the company's long-term growth through a highly engaged and aligned workforce.

fairafric is an investee of ThirdWay Capital, an investment manager and holding company that invests in growth-ready small and medium-sized enterprises throughout Africa. ThirdWay Capital is an advocate for broad-based employee ownership and works with portfolio companies to adopt and implement EO structures where possible. They are currently exploring EO transitions as an exit strategy.

Localization Principles

As a part of our research and interviews with a broad range of stakeholders, clear trends began to emerge on how to enable the success of employee ownership in sub-Saharan Africa. Given how few examples we were able to identify of companies that have implemented broad-based plans, these ideas are better framed as hypotheses that need to be reevaluated over time as experience builds and programs are explored and implemented. Nevertheless, these are the core, common principles to designing a locally optimized approach to EO:

1. **Ensure Accessibility:** In certain EO structures, workers are required to purchase shares or pay tax up front on the shares they are granted. In low-income regions like sub-Saharan Africa, these approaches can be a significant obstacle to broad-based ownership. Many workers, especially those at the lowest income levels, often lack savings for critical life events such as major health issues, let alone for investing in something like an EO program. As a result, it is important to ensure that there is no upfront cost for an employee to participate in these programs, which will likely lean toward particular models such as stock option plans, profit sharing, or trusts.

2. **Create Near-Term Benefits:** When discussing EO with stakeholders, there were two related messages we heard consistently. First, low-wage workers tend to view shares as less valuable for a number of reasons, including that they can't make an impact on immediate needs. Second, EO models that rely on exit events in which shareholders - including employees - sell the company to realize gains may be less successful given the limited numbers of exits in the market. As a result, it can be beneficial to design plans that distribute near-term cash-based rewards to workers, even if those rewards start small, as they make EO more tangible. That doesn't necessarily mean that programs that are share-based or tied to exits should be entirely avoided. As Fenix International's experience shows, plans tied to share ownership can be tremendously impactful. However, share-based plans require a strong commitment from leadership to support the workforce and communicate how value is growing, as well as transparency about any potential risks to growth. Companies can also explore hybrid approaches that incorporate profit-sharing and shares, where the allocation varies depending on the level of seniority or pay (i.e., lower-wage workers can have a high proportion of profit-sharing interests over shares).

3. **Invest in Worker Engagement and Education:** Research from the US has shown that the best performance results are delivered when companies complement the financial incentives of EO with strong worker engagement strategies. This may be challenging in some contexts where there are lower rates of financial literacy, limited knowledge of EO programs, and higher degrees of mistrust between workers and management. While there are learnings from other markets on employee engagement strategies that can be translated to sub-Saharan African contexts, in any geography, the influence of cultural and social factors on what resonates with employees will be critical to consider.

4

Leverage Each Market's Unique Resources: Each region or country has a distinct set of factors that create opportunities for EO. For example, in North America, demographics and relatively low interest rates are creating a significant opportunity for EO exits. In interviewing stakeholders from different countries, a distinct set of opportunities has emerged that require further exploration. In South Africa, strong political support for and experience with EO create a stronger policy opportunity. Through our interviews which informed this Playbook, we also heard suggestions for opportunities for governments to use EO as an alternative to traditional privatizations. More research is required to surface these opportunities, but what appears to translate across markets are both the need for new exit alternatives and the commitment to impact among some of the subcontinent's largest investors.

5

Create The Right Incentives: When creating an EO program, the incentive design can materially alter motivations of employees. For example, short vesting periods on stock options can make it less attractive for employees to remain with a company long-term, unless additional options are issued regularly. Similarly, if profit-sharing only incorporates a single year of performance into the payout formula, it can disincentivize reinvestment or retention because it encourages employees to have a short-term focus on cash payouts. As a result, it is important to carefully consider how plans are designed to ensure that the right mix of incentives are created. Specifically, plans need to be designed to encourage employee retention, foster a long-term outlook, and balance individual and group performance. When it comes to liquidity for employees, it is important to ensure that plans are not designed in a way that leads to concentrated ownership with a small group of employees[39] or engenders a lack of trust in liquidity mechanisms, which could create pressure to sell the company. Incentives are a crucial factor in successful EO and need to be carefully considered when designing a plan.

[39] Certain employee-owned companies have created secondary markets where one employee can sell to another, which has led to situations of highly concentrated ownership.

Background: Worker Engagement

Economic ownership is just one part of what makes employee ownership work. The other crucially important part is employee engagement strategies, which foster a sense of belonging, commitment, and alignment among employees that can help drive improved performance. When employees feel informed and valued, they are more likely to embrace their roles as owners and contribute positively to the company's success. There are many approaches to promoting employee engagement, but three stand out: transparent communication, education, and involvement in decision-making.

Transparent communication is often the starting point for employee engagement and focuses, at a basic level, on ensuring that all employees understand the structure, benefits, and responsibilities of ownership. Many companies pursue even greater transparency by introducing open-book management, which involves sharing financial performance widely inside a company.[40]

[40] John Case, "Opening the Books," Harvard Business Review, March-April 1997, https://hbr.org/1997/03/opening-the-books.

Background: Worker Engagement (cont.)

Similarly, education plays a significant role in empowering employees to have an ownership mindset. Financial literacy programs are particularly important, as they equip employees with the knowledge needed to understand company finances and the impact of their contributions on overall performance. Leadership development initiatives further engage employees by preparing them to take on more significant roles and responsibility, fostering a culture of continuous learning and growth. By investing in the professional development of their workforce, companies ensure that employees are not only skilled but also deeply invested in the company's success, driving innovation and productivity. By inviting employee participation in decision-making processes – for example, establishing employee advisory councils and suggestion programs – companies encourage employees to voice their ideas and take part in shaping the company's direction, enhancing engagement as it relates to ownership and broader corporate strategy. This inclusive approach both leverages the diverse perspectives and expertise of the workforce and reinforces employees' sense of ownership and responsibility. Additionally, recognition programs and profit-sharing schemes tangibly link company performance to employee rewards. These strategies collectively create an environment where employees are motivated, engaged, and committed to the long-term success of the company.

SRC Holdings[41] is an employee-owned, US-based business and market leader in the remanufacturing sector. Central to SRC's success with EO is the company's commitment to open-book management, as outlined in "The Great Game of Business."[42] This approach empowers SRC employees by teaching them to understand financial statements, business metrics, and the direct impact of their efforts on the company's financial health. Transparency is equally crucial, with SRC maintaining a system that regularly shares financial and operational information. Weekly huddles and regular meetings keep employees informed about key business metrics and progress toward goals, fostering a culture of trust and alignment.

Additionally, SRC Holdings has emphasized that their success relies on involving employees in decision making and recognizing their contributions. The company encourages active participation through structured programs and informal channels, valuing employee input in business operations. This involvement is complemented by a gain-sharing program that links bonuses directly to the company's financial performance, motivating employees to work toward common goals. These strategies collectively foster a strong ownership mindset, leading SRC Holdings to be a model of successful EO.

While SRC provides a strong case study on how to enhance employee engagement, it is important to remember that the approaches that work in an American context may not be directly transferrable to other contexts. As a part of growing the field for EO on the African continent, it will be crucial to develop locally led approaches to employee engagement that factor in the social and cultural dynamics that underpin organizational success. It will also be important for companies to dedicate adequate attention to uncovering where distinct challenges to employee engagement exist, the resources for addressing these challenges, and sharing best practices widely within the community.

[41] SRC Holdings, "Employee-Owned Manufacturing Since 1983," SRC Holdings Corporation, June 11, 2024, https://www.srcholdings.com/.

[42] SRC Holdings, "The Great Game of Business," SRC Holdings Corporation, June 11, 2024, https://www.srcholdings.com/great-game-of-business.

Employee Ownership Structures

With the support of Norton Rose Fulbright, we evaluated four common employee ownership structures across seven countries[43] in sub-Saharan Africa to reach an important conclusion: EO is an actionable opportunity. While the legal, tax, and regulatory details vary from country to country, we see clear opportunities to introduce EO that do not rely on political intervention. In general, stock option plans and share purchase plans are already widely available across the countries in scope, while worker cooperatives are not. With the exception of Ghana, trusts are also available throughout the region, though the ability to utilize a trust as a transition vehicle will require work with local law professionals, as this model has not commonly been employed.

Stock Option Plans (and Synthetic Equity)

Stock option plans are one of the most common models for employee ownership. For the purposes of this report, we have focused on stock options when looking at the broader category of synthetic equity, which can include restricted share units, share appreciation rights, and other forms of "phantom" equity. These plans are generally similar in that they give employees a right to participate in the equity growth of a business, which is typically captured during a liquidity event. In some cases that appreciation may be crystallized and paid out prior to a liquidity event, but in a broad-based context that can be more challenging given the cashflow demands for companies.

Underpinning the popularity of stock option plans is the favorable tax treatment they tend to receive. Employees are typically not taxed when they are granted a stock option, but only when they exercise or sell, which is important for accessibility. In addition, employees often receive capital gains treatment on at least a portion of the appreciation. However, they rarely receive any governance rights under this model given that they do not hold shares directly.

Stock option plans and other forms of synthetic equity are one of the most broadly applicable solutions for EO, including for growth stage companies that are not yet profitable. That said, stock option plans and similar approaches are also favored by large private equity firms that invest in larger, more mature, cash-generative companies. Given the high degree of knowledge among advisors and regulatory clarity on stock option plans, they can be a strong choice in many settings. However, stock option plans are not well suited for ownership transitions because they are not a mechanism for transferring shares between shareholders, but for providing ownership through dilution.

Appendix A outlines the availability of stock option plans across the markets we have researched. In general, these plans are a widely available EO solution with a high degree of regulatory certainty. Stock option plans, or other forms of phantom equity, can also be used in conjunction with other employee ownership structures. For example, we encourage readers to evaluate Delta40's approach of combining phantom equity with trusts.

[43] Countries included in scope were South Africa, Kenya, Uganda, Rwanda, Tanzania, Nigeria, and Ghana, chosen based on similar legal foundations and their significance in investor portfolios. We intend to expand the countries covered in subsequent iterations of this Playbook.

Share Purchase Plans

Employee share purchase plans (ESPPs) are another common form of employee ownership. The simplest approach to an ESPP is to utilize payroll deductions to allow employees to purchase a small amount of shares using a predetermined valuation methodology. However, some companies have utilized loan mechanisms to support employees in purchasing shares without any upfront cash outlay. In these circumstances, employees repay the loans utilizing dividend proceeds. However, there can be tax or cashflow issues for employees if the loan is provided at a below market interest rate or if employees do not have the cash to pay interest on these loans.

Given that employees hold shares directly, it is reasonable to expect ESPPs to confer some degree of governance rights, though that is rarely the case in practice. ESPPs can also be used across both growth scenarios and as a potential ownership transition strategy, but this can be difficult for several reasons. First, relying on cash investments from employees can result in a very long timeframe for an ownership transition, given that it is constrained by the financial assets of workers. Second, if individual loans are utilized, they can have a high administrative burden. Third, direct share ownership can be challenging to sustain in the long run if employees choose to leave the company and cash out their shares at a time when the company cannot afford to make repurchases through cashflow. In these events, it is not uncommon to see employees apply pressure to sell the company to a third-party buyer.

Appendix A outlines the availability of ESPPs across the markets we analyzed. In general, ESPPs are also a widely available EO solution with a high degree of regulatory certainty.

Worker Cooperatives

Cooperatives have a long history of supporting communities across the world. From producer cooperatives such as the Kenyan Tea Development Authority, to retailer cooperatives such as Ace Hardware and worker cooperatives such as Mondragon, these models are often first in mind when discussing the topic of EO.[44] A key feature of a cooperative is its typical "one member, one vote" governance model. In the case of worker cooperatives, all employees are typically treated equally in terms of ownership regardless of their position, salary, tenure, or other factors. In its most commonly known form, a worker member buys an interest in the cooperative for a nominal price when they join, and for as long as they're an employee, they can participate in dividend distributions.

While PDI explored the potential of worker cooperatives in sub-Saharan Africa, our legal and regulatory research determined that outside of Rwanda, and possibly Ghana, there are significant impediments for companies and investors to pursue this route. Our initial research suggests that the vast majority of cooperative activity on the subcontinent is in the form of producer cooperatives, which involve members who do not have a traditional employee-employer relationship. Appendix A provides additional detail on our legal findings.

[44] Nebraska Cooperative Development Center, "Types of Cooperatives," University of Nebraska-Lincoln, October 21, 2024, https://ncdc.unl.edu/typescooperatives.shtml.

Employee Trusts

As outlined in the Taylor Guitars case study, trusts have become an increasingly popular model for EO. While their popularity is on the rise in the US, UK, and Canada, they have a long history of success. In the US, the predominant model for ownership through trusts – Employee Stock Ownership Plan trusts (US-ESOP trusts) – dates back to the 1950s[45] and is utilized by high profile companies such as Publix Super Markets, Amsted Industries, and Coborn's Inc.[46] In the UK, the dominant model is the UK Employee Ownership Trust (UK-EOT), which dates back to the early 20th century[47] when introduced by the John Lewis Company. In both the US and UK, the growth of these markets can be traced back to specific public policy interventions. For example, tax incentives for US-ESOP trust companies, along with business owners who sell to them and banks that lend to them, have helped grow the market dramatically. In the UK, tax incentives and regulatory changes introduced in 2014 have led to a 90%[48] growth of the EO sector since 2014.

There are two differing approaches to employee trusts. First is the American model, which involves individual share ownership by employees inside a trust. Under this approach, employees are allocated shares each year through a trust, and when they leave or retire those shares are repurchased by the company. Second is the British model, which is a profit-sharing trust. Under this model, all employees are part of an aggregate group that owns shares in the trust, and on an individual level participate in annual profit (or dividend) sharing.

There are important trade-offs to the American and British approach. For example, the American model more easily offers a long-term incentive for employees and ensures that they benefit during periods where there is less cashflow available (e.g., due to debt repayment or reinvestment). However, the American approach faces significant liability in repurchasing shares and can come with greater complexity. The British model is very simple to administer and communicate and does not require shares to ever be repurchased. Even so, economic benefits for employees are closely tied to the available cashflow during their period of employment. It is also worth noting that the American model faces a much more significant regulatory burden, though that is not necessarily a reflection of the underlying structure but rather a function of when and how legislation was passed[49].

Both the US and UK approaches are most often used in ownership transitions (although can also be used to structure EO alongside other investors) and are mechanically quite similar. Typically the trust is set up on behalf of employees and arranges financing to buy out the company from existing shareholders. Financing can come from third-party lenders or investors, but a significant portion often comes from the selling shareholders who provide a vendor note that is repaid out of cashflow over time. Under both models, employees benefit as the company grows and debt is repaid.

[45] John D. Menke, "The Origin and History of the ESOP and its Future Role as a Business Succession Tool," Menke & Associates, Inc., May 12, 2011, https://www.menke.com/esop-archives/the-origin-and-history-of-the-esop-and-its-future-role-as-a-business-succession-tool/.

[46] National Center for Employee Ownership, "The Employee Ownership 100: America's Largest Majority-Owned Companies," NCEO, October 2023, https://www.nceo.org/articles/employee-ownership-100.

[47] John Lewis Partnership, "Our History," John Lewis Partnership, August 20, 2024, https://www.johnlewispartnership.co.uk/about/who-we-are/our-history.html.

[48] Employee Ownership Association (eoa), "Research," the eoa, August 20, 2024, https://employeeownership.co.uk/Site/Site/content/News-and-Insights/Research/Research.aspx?hkey=1c415376-cfbd-46a6-89c6-6e5904622c7c.

[49] The US-ESOP was formalized in legislation as a part of the Employee Retirement Security Act of 1974, and as a result is regulated as a retirement plan.

Case Study: Kinvest

Kinvest Venture Partners (Kinvest)[50] is currently raising a fund – the Capstone Kinvest Impact Fund – which seeks to build and operate farms with a focus on sustainable agriculture and local ownership. They have used the proceeds from their first closes to purchase land and begin developing three farms, totaling 605 hectares of coffee, avocado, banana, and multiple varieties of chili peppers and beans. These farms are located in Nyagatare district, a rural community in Rwanda, and combine regenerative agriculture practices with professional management and market access to enhance productivity and foster thriving communities. Unique to Kinvest's strategy is a predetermined exit to local workers through an employee ownership trust, which is designed to help workers build capital assets over time. The fund aims to generate market rate returns for investors and has raised capital to date from individuals, corporations, donor advised funds, and both private and public foundations. Kinvest is targeting a commercial rate of return generated through the cash flow yield over the life of the fund.

The idea for Kinvest emerged from the founders' experience in Africa's charitable sector. Ray Sawatsky, Kinvest's President, had grown disillusioned with his work for a leading charity on the continent because he felt that it lacked a focus on helping create jobs and capital assets for workers. In Sawatsky's view, creating new pathways to quality employment and appreciating capital assets was critical to sustainable economic development, and new solutions were needed to address this. In early 2020, Ray and his partners set out to address this gap and had an early focus on creating a business that could eventually incorporate employee ownership.

Designing the Kinvest fund concept and its EO approach was complex and without precedent. The founders evaluated several business models and sectors before settling on agriculture due to its fundamental role in rural economies, where more than 60% of sub-Saharan Africans live.[51] They conducted extensive surveys in rural African villages, which highlighted the need for capital assets like land ownership to create wealth. However, Kinvests's founders recognized the importance of designing an EO structure that would fit a rural agricultural context, which needed to be different from the complex share schemes that are designed for executives.

After engaging multiple law firms and communicating directly with the Rwandan Business Development Fund,[52] Kinvest was able to navigate regulatory frameworks to develop a trust structure allowing employees to gradually gain ownership of the land initially purchased by Kinvest and operated by the local farmers. Embedded in Kinvest's fund structure is a requirement that investors exit to employees, with the stake and timeline dependent on returns.

The potential impact on workers is significant. Kinvest's model allows employees to gradually earn ownership in the farm operations, leading to financial security and wealth creation. By the end of the partnership term, Kinvest must transfer 70-80% of its shares to employees at cost, significantly improving their financial standing. This model not only provides stable livelihoods but also fosters a sense of ownership and empowerment among workers, particularly women,[53] thereby transforming rural economies and creating lasting financial assets.

What makes Kinvest's model unique is the fact that the company structured an initial and binding commitment to EO at the start of operations. Through careful planning and a commitment to sustainable development, Kinvest aims to generate high returns for investors while significantly improving the livelihoods and economic prospects of rural communities in Africa.

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[50] Kinvest Partners, "Investment Strategy," Kinvest Partners, July 16, 2024, https://kinvestpartners.com/.

[51] Jean-Marc Faurès and Guido Santini, "Water and the Rural Poor: Interventions for Improving Livelihoods in sub-Saharan Africa," International Fund for Agricultural Development, 2008, https://www.fao.org/4/i0132e/i0132e.pdf.

[52] Business Development Fund (BDF), "Ikaze Muri BDF," BDF Rwanda, July 16, 2024, https://bdf.rw/.

[53] Kinvest Venture Partners, "In a world where employers are at the apex of the economic pyramid...," Linkedin, December 2023, https://www.linkedin.com/posts/kinvest-venture-partners_how-gig-work-exploits-instead-of-empowers-activity-7135613392253325312-QURw/.

Appendix A outlies the findings of our legal and regulatory research on trusts. With the exception of Ghana, our primary finding was that trusts are available across the markets in scope. However, they remain relatively new in an ownership transition context. In Kenya and South Africa, trusts have been implemented, but typically for smaller ownership programs or as a holding vehicle for other models such as stock option plans. While there is no precedent for using employee trusts in an ownership transition, our research found no clear obstacles that would make this model impossible. In fact, fund managers such as Kinvest Venture Partners are showing that, with commitment and the right legal advice, a new path can be trailblazed.

There are many important factors that must be considered for anyone seeking to facilitate an employee trust in sub-Saharan Africa as a transition strategy. First, the right company needs to be identified. Financially, this company will need to be highly cash generative and stable, while operationally, it will need a clear succession plan with independent managers who can continue to operate the business moving forward. Second, the right advisors will be essential in addressing country-specific legal and tax issues. For example, in each country, a separate approach will need to be designed, allowing for transaction financing to be the obligation of the company (secured by its assets) while also allowing the trust to buy shares from existing shareholders. Given the potential impact for employees and the ability to create a new exit strategy for asset managers this is a high upside opportunity that PDI will continue to explore and support.

Other and Hybrid Solutions

Profit-sharing plans were not separately evaluated, as there is rarely a legal or tax impediment to introducing what are effectively cash bonuses for employees. While it is possible that incentives may be available in certain countries to issue broad-based profit-sharing plans, this was not part of the scope of this iteration of the Playbook. However, profit-sharing plans are an important opportunity for broad-based employee ownership, particularly when coupled with other models, such as an employee trust, that can preserve the integrity of the program over a long period of time.

Finally, it is important to highlight that these plans are not mutually exclusive. For example, stock options can be held inside trusts (and in fact this is often observed in certain countries like Kenya), or they can be utilized in the same company as a separate incentive structure alongside ownership by an employee trust. These hybrid solutions are often well suited to companies that have highly diverse workforces, where certain employees are better incentivized through share ownership and others through profit sharing.

Opportunities

While our legal and regulatory research identified many structures available for employee ownership investments, the number of opportunities begins to narrow when incorporating the localization principles identified above. These opportunities broadly fit into two categories of EO; first, during investment periods and second, as an exit strategy.

Aligning Employees During an Investment Period

Incorporating employee ownership during investment periods can help drive alignment and employee engagement, and in turn improve company performance. The exact structure to utilize during an investment period will vary based on the characteristics of a business.

For example, if a company has a high probability liquidity event (i.e., majority owned by a fund manager with a 10-year fund life), then stock option plans or hybrids such as the Kenyan trust model can provide the simplest path to an EO arrangement that is highly accessible for employees. These plans can generally be utilized regardless of the stage or industry of a company, as they do not rely on that company having significant cashflow. In order for these plans to be designed appropriately, we encourage:

1. Ensuring the plan is broad-based, with a transparent formula for allocations to employees.

2. Vesting schedules that promote retention (i.e., proportional vesting over multiple years) but are not punitive to employees who have made significant contributions before leaving the company (i.e., cliff vesting after a 5-year period).

3. Exercise requirements that do not penalize employees without significant cash resources (i.e., no requirement to exercise shares within three months of departing the company).

One challenge with stock option plans, as highlighted in the localization principles, is that they rarely provide near-term rewards that are meaningful to lower-wage workers. To the extent possible, companies can complement stock option plans with profit-sharing arrangements or dividend rights that demonstrate the benefits of ownership early on. Even small profit-sharing bonuses, equal to 10% of payroll for eligible workers, can be meaningful to the extent possible given the cashflow characteristics of a business. In certain circumstances it may make sense to design a profit-sharing program for low-wage workers that management does not participate in, and to supplement managers with greater participation in a stock option program.

Both stock option plans and profit-sharing programs offer flexibility and ease of implementation. Not only do these programs work for a wide range of companies, but their terms can also be customized to fit the nature of the business and workforce. These plans can be small or large in scale, presenting a strong opportunity to explore EO for companies of any size.

Delivering Value to Stakeholders Through Exit Strategies

The second category of opportunities involves utilizing employee ownership trusts as a high impact exit strategy. Given the challenges that fund managers face with exits, this can be a win-win that enhances liquidity for investors while creating an unparalleled wealth building opportunity for workers.

When considering EO exits, there are two key barriers important to keep in mind. The first is the ownership structure of a company – specifically that while it is possible to exit a minority stake to an EO trust, doing so is more complicated than a majority or 100% sale. Minority sales are often impacted by governance restrictions (for example a right of first refusal) and if debt financed can impact the value of equity held by other shareholders.

The second, and more significant barrier, is identifying the companies that are a good fit for this strategy. To be a strong candidate for an employee trust exit, it is important for companies to have strong and predictable cashflow to repay the debt financing associated with the transaction. Furthermore, given that these transactions generally result in a gradual change of control, it is important that the company has stable manage-ment in place who can ensure the transition is well managed, including by committing to broader worker engagement. While there may be a limited number of companies that fit these requirements in sub-Saharan Africa today, the few that do can have an outsized impact on employees and the market as a whole by inspiring business leaders and governments with the potential of EO. In addition, as economies and capital markets mature, there will likely be an increasing number of candidates for employee trust exits over time.

Both the US model and UK models for EO exits have been profiled in this Playbook, but it is likely that the UK model of profit-sharing trusts will have more support in sub-Saharan Africa than the US model of share ownership. This is driven in part by legal and tax constraints that make individual share ownership inside a trust more challenging, and more importantly, by what we heard from local experts who report the preference for near-term reward, especially among lower-wage workers.[54] With that said, these exits can also benefit from hybrid structuring. For example, stock option plans can be utilized alongside a profit-sharing trust to reward all employees, especially management, with a longer-term, share-based incentive.

There is an employee ownership model for every company, regardless of its stage, industry or financial profile. EO is a cross-cutting strategy that can drive performance and impact. Whether a company is venture-backed and undergoing significant growth, mature and owned by a multi-generational family, private equity firm or even government, employee ownership is possible.

[54] Arabo K. Ewinyu, David Francis, Zoheb Khan, Etumeleng Mogale, Stuart Theobald, and Imraan Valodia, "The Inequality / Financial Markets Nexus: Implications for Developing Metrics for Voluntary Disclosures," Southern Center for Inequality Studies, January 2024, https://wiredspace.wits.ac.za/server/api/core/bitstreams/679e2572-20a2-425a-8b1b-3af4bd648fff/content.

Beyond selecting the right candidates for an EO trust exit (e.g., cashflow profile and management team), there are a number of other design choices that can help ensure success:

1. Similar to the profit-sharing and stock option plan guidance, a broad-based plan with a transparent allocation formula is critical.

2. Experienced advice on transaction structuring, particularly as it relates to valuation and financing, is important to ensuring that the former shareholders can exit and that value accrues to employees.

3. One of the primary drawbacks to a profit-sharing trust is the tension it creates between long-term investments and the short-term profit sharing. In order to create sustainable, long-term oriented profit sharing plans, companies can integrate multi-year performance metrics in profit-sharing targets, allocate a greater share of profits to more tenured employees, and ensure there is an ability for new employees to join the profit-sharing plan.

4. In situations where shares are utilized, including stock option plans, it is essential to develop an allocation formula and liquidity mechanism that do not create unnecessary pressure to sell the company in the future. Specifically, it is important that the scale of shares granted to employees be repurchased through available cashflow, as well as allocated over time so that there is not a concentrated demand to repurchase shares from a specific generation of workers. In addition, company cashflow should be the exclusive mechanism to provide liquidity to employees, given that secondary sales can often lead to concentrated ownership.

5. Given that an exit to employees is often intended to be a long-term ownership structure, it is important to adequately engage the broad set of stakeholders who will ultimately steward the company. This often begins post-transaction, where employees and their representatives (i.e., trade unions)[55] can begin to play an increasing role with the governance of the company as is best suited to the business. However, in some situations, employees may be represented earlier in the transaction, such as with the conversion of Homeland Food Stores in the US.[56]

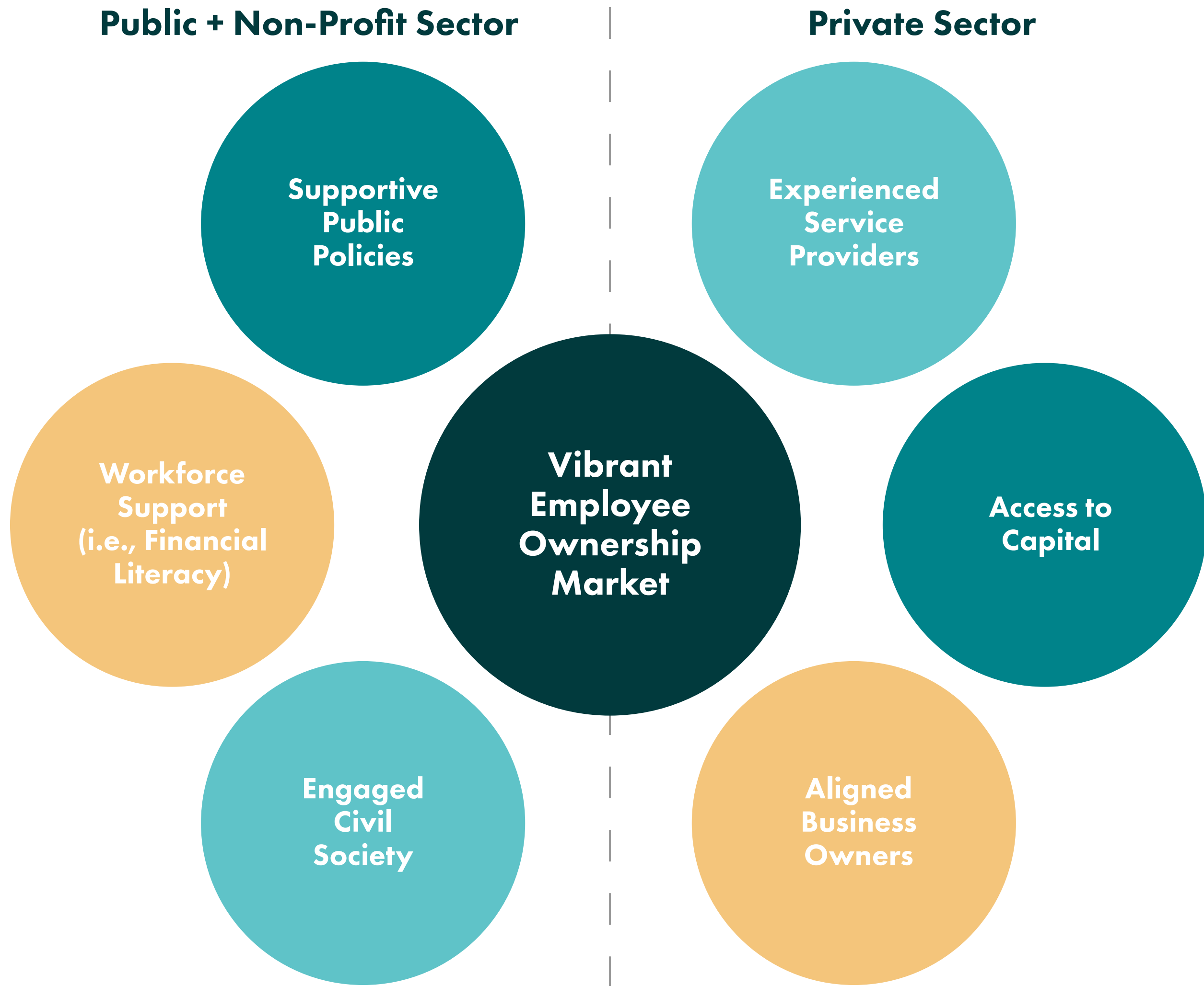
There are additional design choices that need to be considered as a part of an exit, and pilot transactions can help establish best practices and precedents in sub-Saharan Africa. While these are undeniably complex transactions that require appropriate advisory support, there is higher certainty of closing these transactions given that the sale process is driven by existing shareholders, internal stakeholders, and their advisors. This complexity can also be minimized over time as the market gains familiarity with these transactions. In any case, the potential benefits for shareholders and workers are significant and create an exciting opportunity for businesses in sub-Saharan Africa.

[55] PDI intends to pursue further research and field-building to advance best practices that incorporate the voice of workers and their representatives into the design of EO structures in sub-Saharan Africa.

[56] Sharmeen Contractor, Irit Tamir, and The Predistribution Initiative, "Getting Ahead of the Curve on Dynamic Materiality," Oxfam America, March 11, 2024, https://www.oxfamamerica.org/explore/research-publications/getting-ahead-of-the-curve-on-dynamic-materiality/.

Growing the Market

Growing employee ownership in sub-Saharan Africa will require concerted effort from a myriad of stakeholders. The graphic below highlights each of the components needed for EO to flourish.



A near-term focus on actionable opportunities can help pave the way for structural changes in the long term. In particular, stakeholders need to come together to:

1. **Build a Community:** EO is becoming a movement relevant to many stakeholders. Policy makers, business owners, employees, investors, tax professionals, lawyers, accountants, and others have an important role to play in this ecosystem. As a result, it is important to create a broad coalition of support to grow EO in each country in sub-Saharan Africa, as well as across the region as a whole.

2. **Popularize an Ownership Lens:** In North America, impact investors are increasingly adopting an ownership lens, which incorporates an evaluation of the ownership of a fund or company into investment decision-making. Fund investors and direct investors alike have an opportunity to incorporate this ownership lens. For example, a fund investor can consider both the ownership of the general partner of a fund and the structure of ownership at the underlying portfolio company. It is important to acknowledge that this lens is not just about broad-based EO, but about considering diverse and local (vs. expatriate) ownership as well. In the case of real assets like infrastructure, this may also include community ownership models.[57]

3. **Develop Technical Assistance Facilities:** There is no shortage of opportunities for technical assistance, given the early stage of the EO market. Four areas that merit particular attention are workforce engagement strategies, incentives design, professional advisory support, and co-created impact standards to help avoid unintended negative consequences of various terms and approaches. There is significant research that can and should be done on how to identify and refine localized approaches to workforce engagement. Similarly, there may be distinct social and cultural factors that influence how EO plans are designed, which technical assistance can help explore. Finally, advisory support for EO (e.g., tax, legal) will be much more expensive initially than over time, and technical assistance can help subsidize what are more like investments in the advisory community. There are other opportunities for technical assistance, but each of the above are key to developing the EO market.

4. **Execute Pilot Transactions:** Arguably the most impactful short-term opportunity to grow EO will be in executing pilot transactions, which can create employee-owned companies as examples for other businesses and policymakers. Pilot transactions can prove the benefits of EO and dispel concerns about whether these models can work in a sub-Saharan African context. While companies such as Fenix, fairafric, and Kinvest can serve as beacons, more are needed, especially in countries where successful examples of EO have not yet emerged. In addition, pilot transactions can help accelerate the development of dedicated financing facilities by highlighting the types of capital needed and demonstrating a sustainable path forward. In any pilot transaction - as the case studies demonstrate - it will be important for employees to be engaged.

[57] PDI intends to pursue comparable research on community ownership opportunities in sub-Saharan Africa as a follow-on project to this Playbook.

These types of initiatives can help build a strong foundation for scaling EO in sub-Saharan Africa, developing a strong ecosystem of stakeholders, proving the concept, and enhancing market readiness. In addition, they each provide invaluable learning in a localization effort that this Playbook only begins to explore. With this strong foundation, longer-term initiatives can be pursued, including:

1. **Dedicated Financing Facilities:** Employee ownership, particularly in an exit context, can be dramatically scaled through access to capital. For example, in the US the availability of bank financing has helped make the US-ESOP one of the most prevalent models for EO, because it provides selling shareholders with the necessary liquidity for a transaction. Early pilot transactions can help identify the type and structure of capital needed for EO in a sub-Saharan Africa context. It is likely that impact-oriented investors, such as DFIs, will be needed in the early stages of the financing market. However, through loan guarantees and syndication opportunities, commercial capital – for example, from banks – could be crowded in at appropriate interest rates.

2. **Best Practice Guidelines:** While there are global best practices for EO, there are likely distinct local best practices in each region and country in sub-Saharan Africa. Through technical assistance programs and pilot transactions, local best practices can start to be developed to ensure that EO drives the intended commercial and impact benefits. Best practices could include commercial considerations, as well as impact standards.

3. **Enabling Public Policy:** Success stories and demonstrable market interest can help create the political appetite for policies to encourage EO. These policies – in particular, tax incentives – have proven instrumental in scaling the market for EO and encouraging its adoption. In the UK, qualified sales to EO trusts, for example, are exempt from capital gains tax, an incentive that has led to 90% growth in employee-owned businesses since 2014.[58] Similarly, in the US, qualifying 100% ESOP-owned companies are functionally exempt from corporate income tax, allowing them to accelerate the repayment of any transaction debt that facilitated their conversion to employee ownership.

   In addition to tax incentives, other policy programs have been utilized to increase access to capital for EO transactions. While the exact nature of incentives and policy supports will vary across each country in sub-Saharan Africa, building political support will be important to the long-term evolution of the market. Depending on how these incentives and programs are structured, it is also possible that the expenditures could be tax-revenue neutral or positive when considering the broader economic impact.

[58] Employee Ownership Association (eoa), "Research," the eoa, August 20, 2024, https://employeeownership.co.uk/Site/Site/content/News-and-Insights/Research/Research.aspx?hkey=1c415376-cfbd-46a6-89c6-6e5904622c7c.

It is hard to predict how long it will take to develop a robust EO ecosystem in sub-Saharan Africa and the size of the market opportunity. Most likely, each country and asset class (venture capital vs. buyout) will move at varying paces.

According to the African Private Capital Association, in the decade prior to 2023 there was an average of 264 private capital transactions totaling US$4.7 billion in value per year.[59] In recent years, most of these transactions have been in venture capital and private equity. For example, in 2023, venture capital and private equity made up 394 of 450 total private capital transactions, as well as US$3.8 billion of the total US$4.5 billion in transaction value.[60]

As EO scales, it may be reasonable to expect a significant majority of venture and private equity backed companies to introduce a small scale broad-based EO plan during an investment period. That could equal hundreds of companies per year, with significant long-term value for employees. However, it is more difficult to predict how many of these companies may consider an EO exit. Very few of these companies will have the characteristics (i.e., strong cashflow) to support an EO exit today, but as the economies in the region mature that is likely to change. With regard to the potential market size for EO, it is also worth noting that there are likely other company types (e.g., family-owned businesses, privatizations) where EO could play a role over time.

While the trajectory of EO in sub-Saharan Africa is hard to predict, one of the benefits of EO is that any individual transaction can contribute to longer-term growth in the market while having a tangible impact on the lives of workers. We encourage local stakeholders to be both patient and ambitious in scaling EO, and to celebrate wins along the way.

There are concrete opportunities to promote employee ownership, which a broad range of stakeholders can contribute to immediately. While some opportunities require significant investments and a long-term horizon, others offer potential quick wins that can build momentum for employee ownership. The time is now to commit to building a vibrant employee ownership ecosystem.

[59] African Private Capital Activity Report 2023, November 2024

[60] Ibid.

Opportunity: Development Finance Institutions

Development Finance Institutions (DFIs) have a longstanding history in catalyzing the growth of new markets, providing early and important investment in fund managers across the developing world, including in sub-Saharan Africa. In many ways, DFIs are the most important stakeholders in building momentum for employee ownership in sub-Saharan Africa. In particular, there are four core opportunities for DFIs:

1. **Ownership Lens Investing:** DFIs are some of the most influential fund investors in sub-Saharan Africa and are often approached early in a fund's lifecycle and fundraising process. They are also active direct investors, both in debt instruments as well as through minority equity investments. As a result, they are more likely than any other stakeholder to make investing with an ownership lens mainstream and can also leverage their experience in promoting Gender Lens Investing[61] to popularize Ownership Lens Investing.

2. **Equity Ownership Exits:** Given the mandate of DFIs to drive impact and local economic development, there may be no better exit strategy for an equity investment made by a DFI than to broad-based employee ownership. While minority sales to employees are complex, DFIs have the resources to demonstrate how these transactions can be successful and to more widely share learnings and best practices.

3. **Debt Financing for Employee Ownership Exits:** The cost of debt in sub-Saharan Africa, as well as the risk appetite of commercial banks, make DFIs a crucial source of capital for EO exits. Without DFI capital, it is likely that there will be no feasible third-party financing for these exits in the short term, creating a significant impediment to proving the concept. DFIs have the opportunity to support individual transactions, create dedicated financing facilities, or even provide guarantees to commercial banks to support these transactions.

4. **Stakeholder Mobilization:** Through technical assistance programs and collaboration with other related organizations (e.g., aid agencies, foreign affairs departments), DFIs can help mobilize stakeholders and build a coalition for EO. In doing so, DFIs can accelerate the development of the market.

[61] An example of Gender Lens Investing is the 2x Challenge: https://www.2xchallenge.org/

Conclusion

Employee ownership in sub-Saharan Africa is not just an idea; it is an actionable opportunity with clear benefits for a broad range of stakeholders. Proven possible by trailblazing companies such as Fenix International, Kinvest, and fairafric, the EO movement has the pieces to begin to build momentum across the subcontinent as its potential for transformative impact comes into focus.

Across this emerging economic ecosystem, all stakeholders have a role to play and stand to benefit considerably. Through EO, sub-Saharan African workers – who include some of the lowest-wage earners in the world – have the opportunity to achieve previously unavailable levels of wealth and security. EO presents one of the few opportunities for workers to capture a fairer share of the returns generated on capital. As the workforce becomes more successful, engaged, and aligned, investors too reap the benefits of increased productivity, improved company performance, and reduced risk. And with greater economic stability and inclusive growth, governments and their citizens will be less impacted by the pitfalls of inequality and ownership concentration that have become so deeply entrenched in mature economies.

In order to realize this vision, a concerted effort from diverse and local stakeholders is needed to grow the market. These stakeholders should consider near-term, actionable next steps, including:

1. **Coming together to build a community of support.**
2. **Advancing an ownership lens among investment leaders.**
3. **Building capital through technical assistance facilities.**
4. **Proving the concept through pilot transactions.**

In taking these initial steps, stakeholders will lay the groundwork for long-term development and growth. With the right support and collaboration, this market has the potential to drive significant commercial and social impact for companies, investors, workers, and other stakeholders across the region.

In this first iteration of the Playbook for Employee Ownership in sub-Saharan Africa, PDI provides an initial roadmap for this emergent community and the leaders who seek to pursue the transactions, research, and policy that will make EO core to the sub-Saharan African economy. As more companies adopt these models over time and further research becomes available on their impacts, this roadmap will evolve to include more detail and rigor, helping to spur the continued growth of EO and ultimately drive more equitable, inclusive, and favorable outcomes across the subcontinent.

Appendix A: Legal Structure Heat Map

EMPLOYEE STOCK OPTION PLAN | EMPLOYEE SHARE PURCHASE PLAN | WORKER COOPERATIVES | EMPLOYEE TRUST[62]

GHANA

Presents no major obstacles to the use of ESOPs and ESPPs. Worker cooperatives are, in theory, available where in practice employee trusts are not used.

KENYA

Presents no major obstacles to use of ESOPs and ESPPs. Listed companies are subject to certain approval requirements, but the disposal of listed shares can potentially be tax-free. Specific relief from tax is also available for certain start-ups ESOP arrangements. Worker cooperatives and employee trusts are not used, save that most share plans operate in conjunction with a specific form of trust (and listed company plans must operate in conjunction with such a trust).

NIGERIA

Presents no major obstacles to the use of ESOPs and ESPPs. There is some uncertainty surrounding the tax treatment of ESOPs, but the disposal of listed shares can potentially be tax-free. Worker cooperatives are not used. Nigerian law does accommodate employee trusts, although there is uncertainty around whether financial assistance (i.e., loans) would be lawful in the context of a takeover.

RWANDA

Equity incentivization and employee ownership are uncommon in Rwanda. Consequently, the Rwandan legal system does not have any significant regulatory framework but, equally, it does not impose any material obstacles on the use of ESOPs and ESPPs. The lack of familiarity with such structures is, however, a material point to consider before extending equity incentives into Rwanda, resulting in the Amber categorization for both ESOPs and ESPPs. Worker cooperatives are more commonly used. Employee trusts are not, in contrast, common, but there are no barriers to the establishment of an employee trust.

SOUTH AFRICA

Has a relatively developed regulatory framework reflecting the frequency with which companies use ESOPs, ESPPs, and employee trusts. Worker cooperatives are not, however, a feature of employee ownership in South Africa.

TANZANIA

Equity incentivization and employee ownership are uncommon in Tanzania. Consequently, the Tanzanian legal system does not have any significant regulatory framework but, equally, it does not impose any material obstacles on the use of ESOPs and ESPPs. The lack of familiarity with such structures is, however, a material point to consider before extending equity incentives into Tanzania, resulting in the Amber categorization for both ESOPs and ESPPs. Employee trusts are more commonly used.

UGANDA

Equity incentivization is common in Uganda, and while the Ugandan legal system does not contain any specific legislation, Ugandan law is generally permissive towards both ESOPs and ESPPs. Worker cooperatives are not a feature of employee ownership in Uganda, but employee trusts are used.

no material issues | structure feasible: administrative requirements to note | structure feasible: issues to consider | material issues

[62] Employee trust categorisation is split to reflect the position in relation to use of such trusts (i) to source shares for share plans (left) and (ii) to be used to effect a company buy-out (right).

Note: This color coding is based on a legal review from Norton Rose Fulbright in partnership with local law firms. However, as indicated earlier in this Playbook, we are aware of at least one case study where a trust model was used.

Appendix A: Final Thoughts

The findings in the report demonstrate that the selected countries are generally well equipped to support a range of employee ownership models operated by public or private companies. The feedback from the wider feasibility review shows that whilst legislation is not frequently amended to provide for EO models, the relevant authorities are willing to adapt to innovation by taking an accommodating approach to the operation of these models. Similarly, the market feedback received shows that EO structures are becoming more commonly used in these jurisdictions and there is no indication that this will change in the near future.

About PDI

The Predistribution Initiative (PDI) is a nonpartisan, multistakeholder non-profit that works with investors and their stakeholders to improve financial analysis and investment decision-making processes in ways that more adequately value workers, communities and nature.

Predistribution is an approach to addressing socioeconomic inequality and conservation that prevents risks to people and nature before they occur, as opposed to having to remedy problems after the fact through redistribution.

The pathway to advance a predistributive economy is through market reform, with input from workers and communities across the political spectrum. We hope you will join us!