



Understanding Responsible Investment in Private Equity: Challenges & Opportunities in Uganda

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Abstract

Like many other developing countries in Africa, the growth and development of Uganda's economy is hinged on the level of progressive investment in the factors of production that include; land, labour, capital and entrepreneurship. Such investments create avenues through which resources that provide a comparative advantage for the country can be exploited to benefit all citizens. These benefits include creating more employment opportunities, increased tax revenue and foreign exchange inflows. Over the years, there has been a considerable reliance by the Government and private individuals on debt capital as a source of financing for development infrastructure, business growth and development, respectively. However, with the recent trends in the global world economy, including; the world financial crisis between 2007 and 2010 and the coronavirus pandemic between 2020 and 2022, debt capital has increasingly become less reliable given the increased risk aversion of lenders.

Despite this, the Ugandan economy is endowed with vast resources that provide opportunities in commercial agriculture, tourism (Source of the Nile, home of Mountain Gorillas), and agro-processing, among others. Developing countries like Uganda can tap into this opportunity given the low levels of development and employment that are well aligned to the objectives of impact, philanthropic and other developmental-based investors. However, private equity capital in Uganda is yet to be well utilized compared to countries like South Africa, Kenya, and Nigeria. The strategic importance of private equity has been further compounded by the fact that private equity investors, especially development finance institutions, have been critical advocates for responsible and impact investing worldwide.

This study leverages interviews with 13 industry experts from the private equity market in Uganda, using a qualitative research approach, to establish the motivations behind private investments, the extent to which responsible investment is included in the decision-making process and the challenges encountered when raising capital in Uganda. The thematic analysis established that private equity investors in Uganda place key consideration on responsible investment, and more of this capital can be raised in the country. However, some inherent limitations exist and include; the inadequacies in the existing laws, the lack of preparedness of local entrepreneurs, and the limited participation of local institutional investors.

Based on the findings from the research, some institutional recommendations, for example, the amendment of the current prohibitive Tax Laws, could go a long way in attracting more private equity capital into the country.

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List of Commonly Used Acronyms

AUM	Assets Under Management
DFI	Development Finance Institution
EAVCA	East African Private Equity and Venture Capital Association
FY	Financial Year
GDP	Gross Domestic Product
IFC	International Finance Corporation
IPO	Initial Public Offering
IMF	International Monetary Fund
NDP	National Development Plan
NSSF	National Social Security Fund
PE	Private Equity
PEI	Private Equity Investor
SDG	Sustainable Development Goals
SME	Small and Medium Enterprises
SRI	Sustainable Responsible Investment
UDB	Uganda Development Bank
VC	Venture Capital

Chapter 1

Introduction

1.1 Background of the study

The Global Private Equity market is one of the largest in the world with AUM peaking at US\$ 6.3 trillion in 2019 and with an average return of 27%, it was the highest performing private market asset class (McKinsey, 2022). Efficient, well-run businesses and development finance projects are essential to achieving any country's economic growth because these investments enable a consistent quantitative and qualitative increase in the goods and services produced by a country in each subsequent year. Besides, they provide employment opportunities locally, supply for the local demand, and surplus production for export to regional and international markets. This increased production and productivity provides a solid economic base for a country to achieve its medium to long-term strategic growth and development goals and ambitions.

Economic growth, on the other hand, has a trickle-down effect on social transformation in that it creates more job opportunities, given the increase in production and productivity. Individuals in a growing economy have access to more disposable incomes, and as such, they can meet the basic needs of life, including; food, shelter, and clothing, among others. Governments, in turn, are in a better position to provide better social services to the population as the economy is more self-reliant and sustaining.

From a macroeconomic perspective, Uganda run both a fiscal and trade deficit in the FY20/21 and has been doing so for the past so many years. The fiscal deficit is primarily on account of Government expenditure exceeding tax revenue, with Fitch reporting an estimate of this deficit at 9.9% of GDP for the FY 20/21. The trade deficit, on the other hand, arises because the value of the country's imports exceeds its exports. The World Bank (World Integrated Trade Solutions) reported Uganda's negative trade balance at US\$ 3,642,072.92 thousand, arising from imports of US\$ 6,729,436.50 thousand and corresponding exports of US\$ 3,087,363.58 thousand. As a percentage of GDP, Fitch estimates this deficit at 8.4% of GDP for FY 2022.

Given that the exports made by Uganda are predominantly in raw material form with a low elasticity of demand, having more competitive prices on the world market does not necessarily translate to a more than proportionate increase in the quantity demanded. However, under the

elasticities approach, currency depreciation is argued to significantly reduce the trade deficit when the demand for a country's exports is more elastic than it is inelastic. Uganda would therefore need to transition to producing finished products and luxury goods, for example, as they have a more elastic demand than the current raw material exports.

Besides this, raw material commodity exports like coffee, tea and cotton tend to have more volatile prices on the world market, which creates uncertainty on the expected/potential foreign exchange earnings over the medium to the long term. This, therefore, creates the need for local investments that can shift the current trend whilst increasing productivity and creating new employment along the value-addition chain.

Raw material exports like coffee would instead be processed into quality finished products that are ready for mass consumption and can fetch higher prices in the world markets, with less exposure to the volatility inherent in commodity prices. This, in turn, would positively affect both the fiscal and trade deficits by raising more taxes through value addition and increasing employment and export earnings through the manufacturing industry. In the long run, increased productivity would positively impact the country's GDP.

The National Development Plan III of Uganda (NDP III) gives a national development outlook for 2020/21 – 2024/25, which projects an average economic growth rate of close to 7%. This economic growth rate is anticipated to translate into 520,000 jobs, and the GDP per capita is expected to increase to USD 1,198, thereby putting the country into a middle-income status (UNPA, 2020). However, Uganda's economic growth over the years has been considerably lower compared to emerging economies at the same level as at the time of its independence in 1962. A comparative analysis of this growth performance is presented in **Figure 1.1** below.

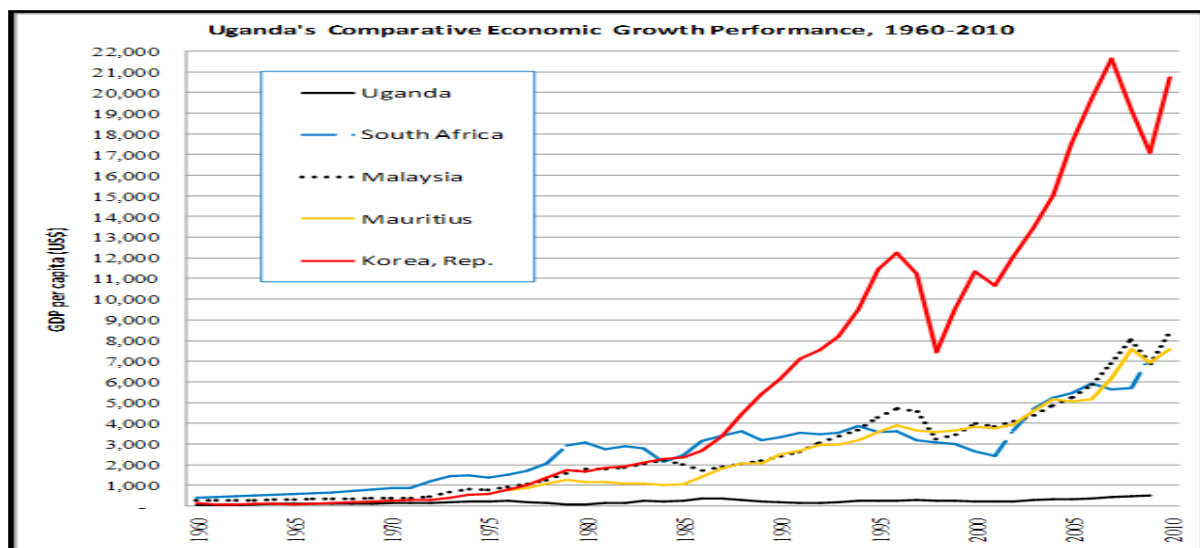


Figure 1.1: Uganda's comparative economic growth performance with selected countries

Source: World Bank online database

Uganda's Vision 2040 statement, "*A Transformed Ugandan Society from a Peasant to a Modern and Prosperous Country within 30 years*" (Finance, 2007), is anchored on strengthening the fundamental sectors of the economy that, to date, are considered to be under-exploited. Opportunities have been identified in; oil and gas, electricity, tourism, minerals, agriculture, and other sectors. Investments in these sectors are expected to translate to a GDP per capita of US\$ 9,500, with a total GDP of US\$ 580.5 billion by the year 2040. Some identified projects include the standard gauge railway, the Uganda oil refinery, the East African Crude Oil Pipeline (EACOP), five regional and strategic cities, and nuclear and hydropower plants, among others.

However, following the COVID-19 pandemic in Uganda in early 2020, the Government initiated several proactive measures to curb the spread of this virus within the community. These included, among others, the lockdown of certain economic activities and the suspension of mass gatherings (schools, churches, and public transport). The measures taken were deemed necessary by the Government to save lives but ultimately led to a loss of revenues and jobs. Eventually, the economic growth forecasts by the Government were reduced from 6% to 4.6% for the year 2020.

The Economic Policy Research Centre estimated economic growth to have fallen to around 3.1% in 2020 (Munyonyo, 2019) . In the aftermath of the lockdown measures initiated by the Government, the effects of those decisions could potentially hinder the strategic growth ambitions of the country as outlined in NDP111 and thereby hurt the economic growth

forecasts, consequently delaying the Governments achievement of middle-income status by 2025.

Uganda's real GDP growth rate in FY2020 was 2.9% compared to 6.8% registered in the previous FY, according to the World Bank economic update report for December 2020. The low growth rate in 2020 was attributed to the lockdown on the economy, which lasted for about four months. The lockdown disrupted many economic activities from small to medium to prominent players in the country and consequently affected the overall economic growth rate registered in 2020.

The figure below provides a breakdown of Uganda's GDP growth trend between 2017 and 2020, highlighting the decline in Investment (spending component) as one of the major drivers for the poor GDP growth registered in 2020. From a sector analysis perspective, the services and industry were the most affected due to the lockdown of the transport sector, whereas Agriculture was minimally affected, as illustrated below.

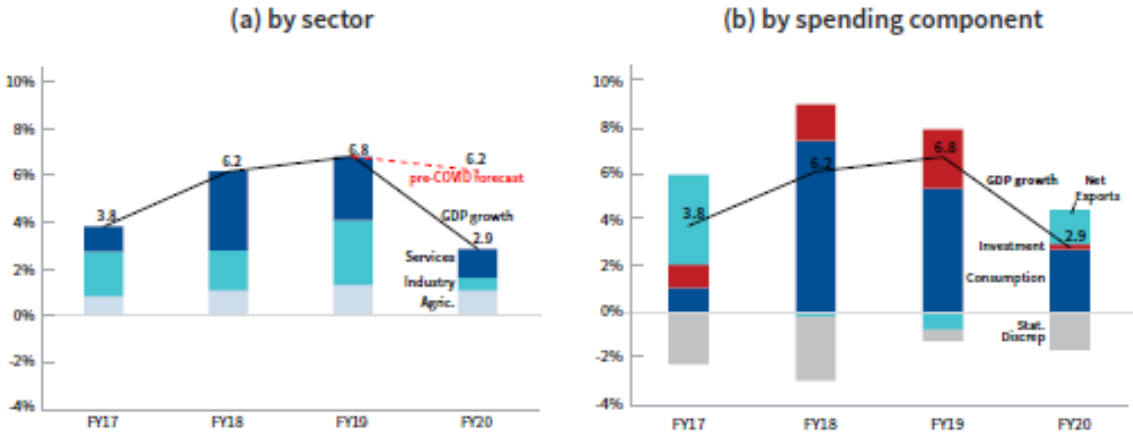


Figure 1.2: Sources of Real GDP Growth in Uganda in 2020

Source: World Bank Uganda Economic update December 2020

As one of the measures taken to revamp the economy, the Government, through the Ministry of Finance, announced a UGX 2 trillion (USD 541 million) recapitalization of Uganda's first Development Finance Institute (DFI), Uganda Development Bank (UDB). Key priority sectors mapped out by the Government included; Agriculture, Industry, Human Capital Development, Infrastructure and Tourism. Investments in these sectors are intended to provide a post-covid-19 stimulus, create more jobs, reduce poverty levels, and increase production and exports, as the Country at a policy level adopted a strategic shift to import substitution and export promotion.

Uganda as a country has massive potential in the areas of agriculture, tourism, energy (Electricity and Oil), and e-commerce. In the electricity sector alone, private sector investments in the Transmission segment are anticipated at US\$ 4.8 billion through public-private partnerships over at least ten years (UETCL, 2018). In the oil and gas sector, the Government of Uganda in February 2022 signed the Final Investment Decision (FID), whose significance is a commitment of close to US\$ 10 billion in the development of Uganda's oil infrastructure, with commercial sales expected to commence in the year 2025. Key among the infrastructural developments in the oil sector is the construction of the East African Crude Oil pipeline, which is expected to span 1,445 kilometers from the Albertine region in Western Uganda to the Northern port of Tanga in the United Republic of Tanzania. Once completed, the pipeline is expected to be the longest-heated crude oil pipeline in the world.

There is also enormous potential in the agricultural sector, given the fertile soils and rainy seasons. Some regions, for example, in northern Uganda, experience two rainy seasons in a year. Uganda is endowed with very productive soils that renowned former British Prime Minister Winston Churchill once described it as the '*Pearl of Africa*'. The World Bank and the African Development Bank have estimated the African agricultural sector to hit US\$1 trillion by 2030. They estimate that about US\$ 45 billion per year is required to harness the potential of Africa's Agricultural sector and the associated value chains as the continent centre's its position as the food basket of the world.

The potential for Uganda in the areas of Tourism, Agriculture, Renewable energy and financial inclusion therefore provide an avenue for Uganda to take advantage of the available opportunities for responsible investment in the country. This is because responsible investment looks at creating an overall impact to society besides creating a financial return. This can be achieved in a country like Uganda in which for example about only 49% of the people had access to electricity in 2021 (Kakumba, 2021), thus creating avenues for people to be connected to electricity in line with SDG 7. From the perspective of financial inclusion, 22% of Ugandans are financially excluded even though the country has set a target of about 5% (FSD Uganda, 2018). This would be in line with SDG 8 that considers an aspect of access to financial services. However, despite this evident potential in Africa, the employment-to-population ratio in the continent has remained constant for the past 20 years (Severino & Baraton, 2013). The potential for investment that could have solved this problem is yet to be exploited effectively and efficiently for the benefit of economies in Africa like that of Uganda.

According to the IMF regional economic report of 2013, focusing on Sub-Saharan Africa, the surge in growth witnessed in Africa has been attributed towards the gains made in the

institutional environment and economic policies. The average inflation rate has halved over the last decade, with a two-digit growth rate in the share of exports to GDP, with consumption at the household rate increasing by 61.5% between 2000 and 2011 (Outlook, 2013). However, the financial resources in Africa are insufficient to fund the continent's development finance needs and consequently address the persistent poverty and high levels of income inequality that have been witnessed in the continent over the years (Severino & Baraton, 2013).

The International Finance Corporation (IFC) reported that Private Equity accounts for about US\$ 800 billion in Investments worldwide, with only 12.7% of this amount deployed to emerging markets. Private Equity investments can thus play an integral role in responsible investment by meeting many of Africa's development needs, meeting the unsatisfied demand for goods and services and transforming economies by strengthening the competitiveness of firms (Severino & Baraton, 2013).

Private Equity Investment can provide a platform to raise sufficient long-term capital to address Uganda's social and economic challenges. However, the impact of private equity in Uganda would depend on harnessing economies of scale as the country transitions to bigger deals that significantly impact the overall economy and are thus more aligned to the principles of responsible and impact investment. For example, in energy (Electricity, Oil and Gas, Mineral development), agriculture, e-commerce, tourism and broader infrastructural development.

Bloomberg has categorized countries with private equity potential in Africa into two main categories. Category one, which consists of countries like; South Africa, Egypt, Kenya, Ghana, Nigeria and Morocco, are said to have had significant private equity investments. Category 2, on the other hand, comprises; Uganda, Tunisia, Zambia, Zimbabwe, and Mauritius, among others, which are considered frontier markets with potential for private equity investment. The categorization is presented in the **Figure 1.3** below.

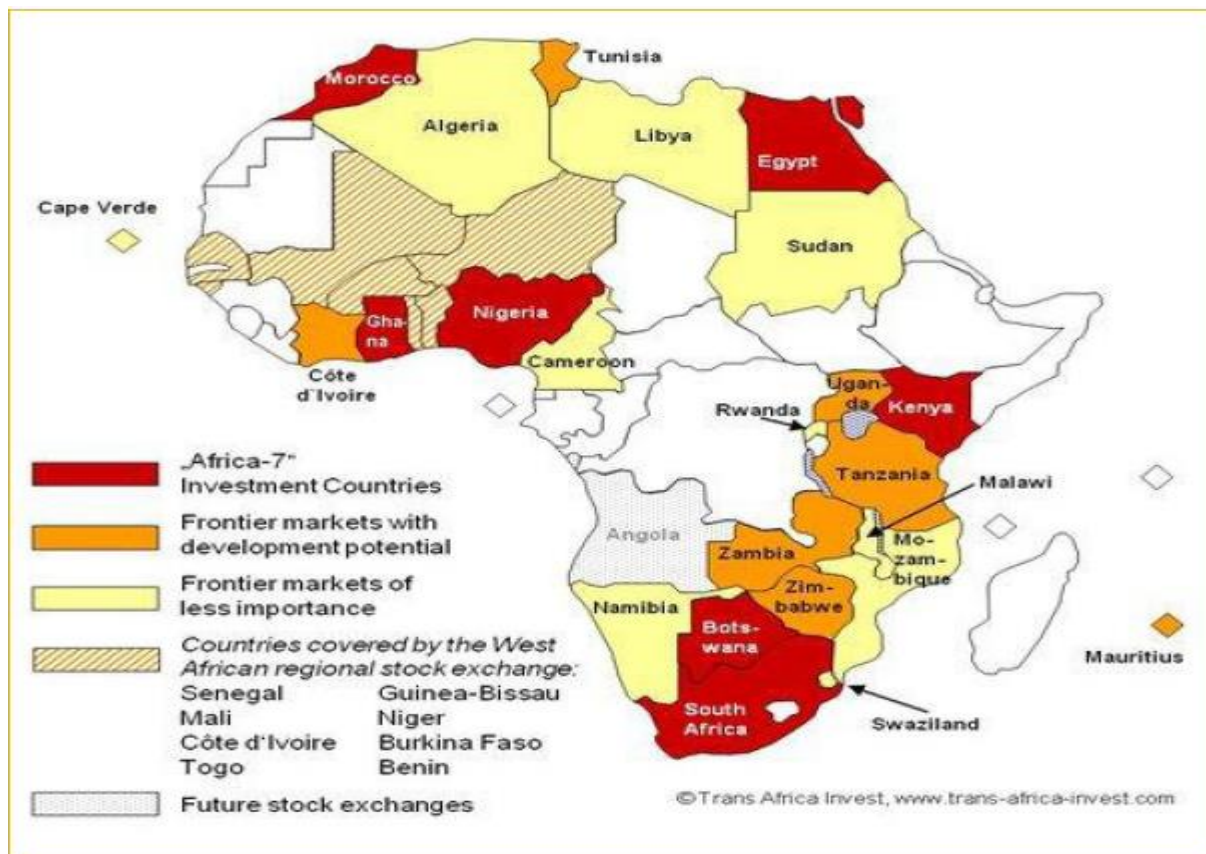


Figure 1.3: African Countries with potential capital markets

Source: Bloomberg

The implication of the categorizations by Bloomberg is that Uganda could be considered as one of the next destinations for private equity investments with a clear potential for responsible investment already identified earlier, as either the markets in category one explained above become saturated or investors look to diversify into newer markets in the African continent, that provide the next best opportunity for private equity and responsible investment. The country of Uganda therefore ought to place itself in a position that enables it to maximize the available flows of private capital geared towards responsible investments in the continent of Africa.

1.2 Research Problem and Questions

Uganda's macro-economic potential is enormous, given the vast natural resources, tropical climate, wild life, beautiful scenery and fertile soils. However, the country's economy currently does not have the requisite financial muscle to maximise the exploitation of its potential for the ultimate benefit of all its citizens, in line with the principles of responsible investment. Uganda's Tax to GDP ratio in 2018 was 11.8%, lower than 30 selected African countries that

averaged 16.5%. (Statistics & Statistics, 2018). The International Monetary Fund however, advocates for developing countries to have a Tax to GDP ratio of at least 15% to enable them to have enough money to fund investments that will secure sustainable economic growth. Bloomberg Tax in March 2021 reported that Uganda is targeting a Tax to GDP Ratio of 22% in five years from the current level of 13% by expanding the tax base and improving on the existing technology.

Higher tax revenues would have enabled Uganda, to a more significant extent, to domestically fund its development finance projects that have the potential to enable it to achieve its goal of middle-income status by 2025. However, the country’s tax-to-GDP ratio still falls short of the minimum requirements besides lagging most African countries that comprised the sample used for comparison. **Figure 1.4** below provides a graphical illustration of Uganda’s comparative tax to GDP with selected 30 countries from the African continent over the period 2000 to 2018.

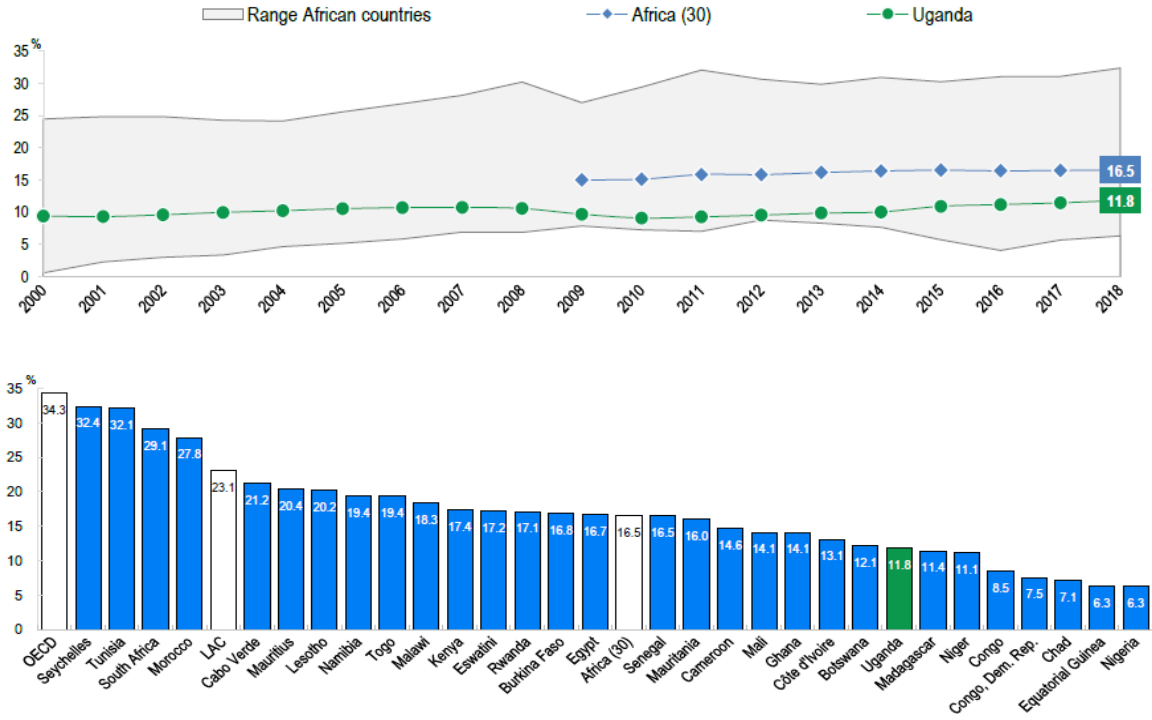


Figure 1.4: Uganda’s Comparative Tax to GDP Ratio with 30 Selected Countries

Source: (Statistics & Statistics, 2018)

From another macroeconomic perspective, the fiscal policies enacted to combat the effects of the Covid-19 pandemic have increased public debt. The International Monetary Fund approved US\$ 491.5 million as a disbursement to Uganda to address the Covid-19 pandemic. Uganda's debt to GDP has risen over the 50% threshold mainly because of increased health expenditure and post Covid-19 stimulus packages, among other factors. The continuous use of debt

financing therefore might not be optimal and sustainable in the long run to fund investment projects and support the growth of businesses if the current trend persists. The payment of interest obligations on debt is already one of the single most significant line items in the Ugandan Budget expenditure, which has been the case for the past few years. The Bank of Uganda in November 2022 reported that the debt-to-tax ratio of the country was about 30%.

Following the 2008 World Financial crisis, the requirements of Basel III placed upon Banks strict minimum capital adequacy ratios to build up their capital for use in the event of a similar situation re-occurring. As of 2020, the minimum capital adequacy ratio set by the Central Bank was 10.5% for both the Tier 1 and Tier 2 capital of Ugandan Banks. However, the core capital adequacy ratios of Ugandan banks increased from 21.2% to 22.8% as of the end of June 2020, as reported by the Bank of Uganda in its Financial Stability report of June 2020. This increase was despite the previous year's ratio already above the minimum target of 10% set by the Central Bank.

These increments may imply that Ugandan Banks are less reluctant to lend and may possibly maintain this approach for the foreseeable future. However, given that the Bank's liabilities (demand deposits) are short-term in nature, funding longer-term projects using such capital would create a mismatch between the duration of the source of the funds and the resources to which they invested. This capital, therefore, may not be ideal for funding long-term development projects and businesses in the country inspite of their potential for responsible investments. Besides, the requirements of Basel III also include strict Asset Liability Matching requirements for Banks, that limits the usage of funds for longer term investments.

Micro-finance Institutions in Uganda have also experienced a similar trend to that of commercial banks. Their respective capital adequacy ratio for the year 2020 of 36.6% was way above the minimum regulatory target of 15% that the Bank of Uganda had set.

The coronavirus pandemic in 2020 also had negative implications for credit institutions (Banks and Micro Finance), with asset quality worsening in 2020 (Bank of Uganda, 2020). The ratio of non-performing loans (NPL) for commercial banks rose from 3.8% to 5.8%, for credit institutions from 4.3% to 7.6% and microfinance institutions rising from 3.9% to 10.8%.

These increments were mainly on account of sectors like tourism and transport that were affected by the border restrictions and lockdown activities. Consequently, these sectors will require longer recoveries than others as the economy slowly opens up and rebounds from the adverse effects of the Covid-19 pandemic. The Banking sector, however, may not provide the

necessary support to enable these sectors to bounce back. Responsible investment, more than ever is thus required to enable the country combat the effects of the corona pandemic that had systemic effect on the economy and disrupting many businesses especially the SME's, with many of them going out of business due to inability to service their loans (Hamiza, 2020). Responsible investment could therefore provide an avenue for the support to SME's given over 80% of Ugandan's are employed in the informal sector and therefore the impact on job creation for example can create opportunities for return and impact to the society (Mugume et al., 2020).

Given the current uncertainties in the market, financial institutions are more likely to prefer secured debt, in which borrowers are required to put aside substantial collateral against their borrowing to safeguard against default risk. The Financial Institutions could therefore set stricter guidelines for assessing potential borrowers' credit quality before approving credit facilities' disbursement. Small and Medium size enterprises, however, by their nature and size, do not have the requisite collateral and credit history to enable them to obtain capital under such strict lending conditions (Beck & Cull, 2014). These businesses, however, constitute over 90% of the private sector in Uganda and employ approximately 2.5 million people.

Private Equity has been researched as an alternative source of capital for the development needs of African countries (Babarinde, 2012), as the continent, in recent years, has been receiving more attention from fund managers. This has been due to several factors: the desire to diversify their portfolios and earn a return on investment which outperforms that in the developed world, the steady economic growth and the underdevelopment of the continent that presents a huge infrastructure deficit. In this study by (Babarinde, 2012), It was identified that African countries require at least US\$ 500 billion to address the infrastructure gaps by 2020, with private Equity helping to mobilize these resources through Public Private Partnerships (PPP).

As an asset class with fundamental principles that include investment in high-quality assets and partnering with strong management teams, Private Equity shall support its resilience post the covid-19 economic recovery (*Private Equity and the Post-COVID-19 Economic Recovery in Sub-Saharan Africa*, 2020). This study by Deloitte argues that private Equity has a proven track record of outperforming all other asset classes during periods of weak economic growth and can provide the required capital for responsible investment. From an East African context, the study points to the regional policy on Agriculture and Agro-processing that can make the countries self-reliant and boost intra-regional trade. Technology was seen to play a significant

role in the fight against covid-19, for example, in the healthcare industry, and Private Equity can take center stage in driving technological progress in the region.

African financial institutions predominantly operate on a short-term basis, with more than 80% of deposits with a maturity of less than one year (Severino & Baraton, 2013). The traditional sources of finance are likely inefficient, given that they cannot absorb the development growth ambitions of the continent. This study argued that the problem is further compounded by the high costs of intermediation and the high-interest rates, for which African Banks are 44% higher on average than the rest of the world. It further highlights that African stock markets are not liquid, except for South Africa, Egypt and Morocco.

The United Nations Economic policy for Africa, in its policy paper on the role of private Equity on growth, stated that the risk-adjusted return in Africa is higher than in the developed world (UNECA, 2014). In addition, the study pointed to the growing regional integration that provides opportunities for economies of scale and growth in consumer spending which was projected to hit over US\$ 1.3 trillion by 2020 (UNECA, 2014). A great opportunity was therefore found to exist for Private Equity investors to tap into this growing market and play an integral role in driving Economic Growth and responsible investment on the African continent.

Previous research has been documented on private Equity's relevance to an economy, which was found to have an effect on innovation and productivity (EVCA, 2013) and (Stromberg, 2009). Private Equity was found to stimulate growth by promoting technological advancements, creating employment and instilling best corporate governance practices (Makhene, 2009). Private Equity was found to be essential in the commercialization of research that has been publicly funded (for example, in Universities) by turning these ideas into commercial and profitable businesses (Link et al., 2014). Private Equity and venture capital, in particular, were found to provide a link between diverse and complementary organizations that include, for example, education institutions, investment banks, and entrepreneurs thus enabling the assimilation of information in the industry (Florida et al., 1988). Private Equity was found to boost the growth and profitability of companies, improving corporate governance and increasing taxes to the Government (Shenyang et al., n.d.).

Many of these studies have rightly established the relevance of Private Equity investment to a country's economy. However, these studies have been limited in that they have yet to address one of the vital factors of sourcing and attracting Private Equity capital in the first place. For a country like Uganda to be able to take advantage of Private Equity and responsible investment,

it should in the first instance be able to attract this type of capital by having the right enabling environment for the key market actors like private equity funds and investors.

Therefore, this study seeks to address the gaps in the current literature by understanding the criteria and considerations of Private Equity investors when investing in Uganda and the extent to which they factor in developmental-based/responsible investment projects in their decision-making process. The study also seeks to establish the adequacy of the existing legal, financial and regulatory environment/framework in Uganda for Private Equity financing and the inherent gaps or shortfalls that could have limited the flow of more Private Equity capital into the country. These limited flows have been despite the tremendous potential and opportunities identified earlier that could earn above-average returns on investment for both domestic and international investors, whilst providing an overall impact on the economy and the society in line with the principles of responsible investment.

To put this more into context, it was published by <https://thebigdeal.substack.com/>¹ that the big four African countries (Nigeria, Kenya, South Africa and Egypt) have raised 83% of all the start-up funding and signed 78% of all deals greater than \$1million each, since 2019 up to March 2022. In the East African region, Kenya, since 2019, has raised over US\$1.9 billion in start-up deals with a minimum value of over US\$ 1 million each, whereas Tanzania and Uganda, in comparison, have raised a paltry US\$ 150 million and US\$ 125 million, respectively. A comparison of this start up funding is provided in **Figure 1.5** below.

The opportunities for Private Equity funding in Kenya compared to the other East African countries may however not be representative of the enormous skewness observed in funding. Therefore, this study seeks to understand why there could be such discrepancies in the attraction of funds amongst African countries.

¹ Substack is an American online platform that provides publishing, payment, analytics, and design infrastructure to support subscription newsletters.

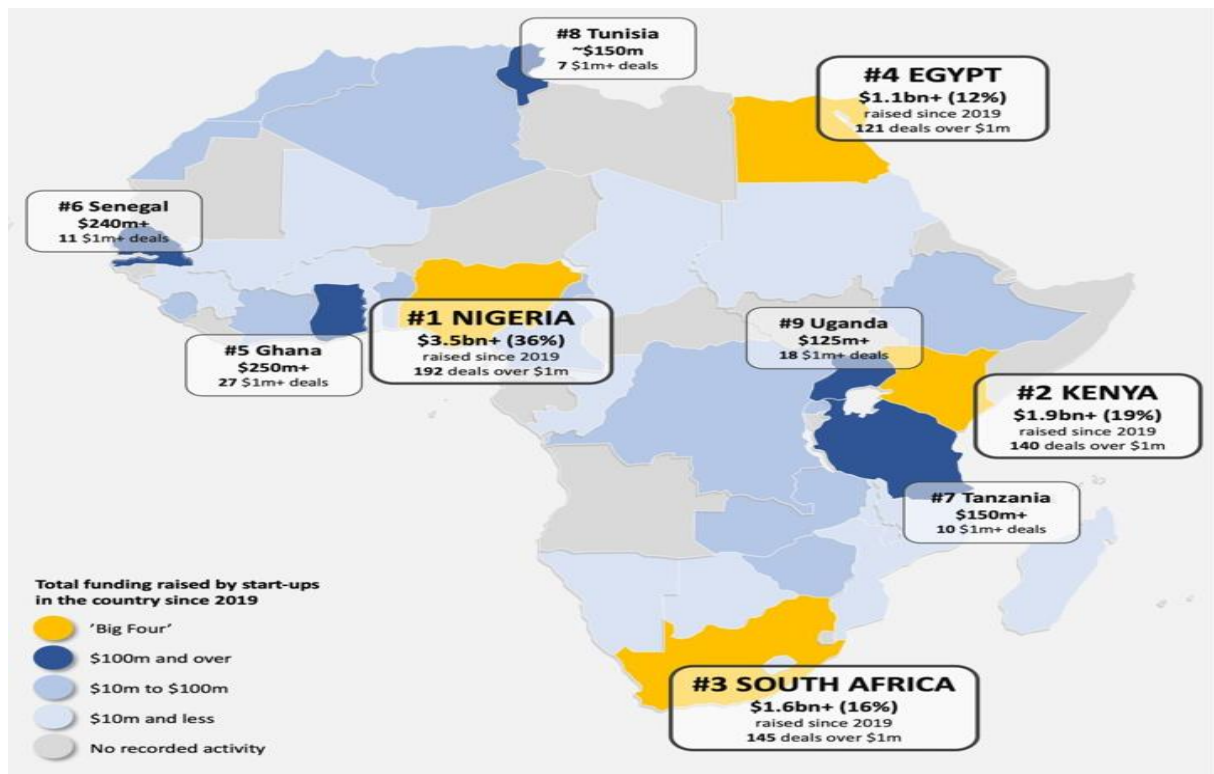


Figure 1.5: Total Funding raised by African start-ups (2019 to April 2022)

Source: The big deal. Substack

The study, therefore, seeks to answer the following questions:

- What informs/influences the decision of Private Equity Investors to invest in projects or businesses in Uganda?
- What are the ESG and development impact considerations employed by Private Equity Investors in evaluating investment options in Uganda?
- What are the current challenges Private Equity firms face in accessing the necessary funding in Uganda?

1.3 Research objectives

This study aims to understand the motivations for Private Equity investments in Uganda, the extent to which development considerations are factored in the potential financial gain, and the challenges affecting raising more private capital in the country.

This research, therefore, seeks to, among others, investigate the discrepancies in the funding of Private Equity investment in Uganda compared to peer countries in the region and the

continent at large and seek potential remedies. The research objectives are, therefore, as follows:

- a) To explore the motivations behind the investment decisions made by Private Equity Investors in Uganda.
- b) To explore the strategies used by Private Equity investors in Uganda to incorporate ESG and development impact considerations into the investment decision-making process.
- c) To understand the challenges faced by Private Equity Firms in raising capital in Uganda.

1.4 Scope and Justification of the study

The Private Equity market in Uganda is relatively small, with a few foreign dominated players who do not publicly disclose their information. These firms however are predominantly driven by aspects of responsible and impact investments, that are required as part of the investment appraisal of potential investee companies. Private Equity as an alternative financing form is relatively unknown to the ordinary Ugandan. However, it provides opportunities to businesses from very small/early-stage enterprises to large ones, including large industrial projects (roads, energy, and infrastructure) to access patient long terms capital.

This study, therefore, seeks to address two issues, one of which is the knowledge gap in which Private Equity as a source of capital is documented in the context of Uganda. Bridging the knowledge gap would create awareness to potential investee companies with the growth, development and impact potential that PE investors interested in Uganda are currently seeking. The study aims to establish who these PE investors are in the country and the specific areas they have currently investing in, such as agriculture, technology, and tourism. The study also aims to understand the extent to which responsible investment is considered by Private Equity Investors as the country presents huge opportunities for that type of capital.

In the broader context of the country, the potential for substantial infrastructure developments in Uganda like the standard gauge railway, East African crude oil pipeline, the Ugandan oil refinery, and the much anticipated private investment in the Ugandan transmission network (including the East African Power Pool), among others, are of significant importance. The country's economy, which primarily runs a deficit budget, needs to be larger to generate enough income and borrow in sufficient quantities to fund the timely completion of these relevant

projects. Private Equity investments could therefore play an essential role in providing long-term finance that can help accelerate the completion of these significant projects.

Following the outbreak of the coronavirus pandemic in early 2020, the Government at a macroeconomic level adopted a policy of import substitution and export promotion to build local businesses that can supply both the country and external markets (Regional and International). These companies would thus enable the country to boost local production instead of relying on exports. Therefore, PE investments can be integrated into this Government policy position given the complementary relationship, which ultimately enables the country to achieve its macro-economic and long-term growth ambitions in line with the country's development roadmap highlighted in vision 2040.

The Ugandan Government's mission is hinged on the pillars of socio-economic transformation that aim to eliminate poverty and provide household incomes to all Ugandans. Private Equity, as a driver of economic growth, has been researched with prior positive studies done in Europe, the USA and other continents. This study seeks to explore how this source of financing can be maximized in the country to accelerate its growth ambitions as it gears towards achieving middle-income status by 2025.

This research could be an exploratory study, that could encourage more in-depth analysis in the future, given the limitations of this research. Findings and recommendations from this research could provide the Government with policy recommendations that could improve the existing conditions in the country and ultimately enable the maximization of Private Equity investment in the country.

Prior research by (Friedman & Grose, 2006) and (Cumming and Johan, 2007) established that the regulatory environment plays a critical role in attracting private capital to a particular country. More capital was attracted because regulation provided an enabling environment that facilitates the handling of contentious but critical issues like; Taxation, PE Exits, Intellectual Property rights, and Patents, amongst others. This study shall, among others, establish how this environment is currently operating in Uganda and the opportunities for improvement to maximize the inflow of more Private Equity capital into the country.

1.5 Organization of the study

This research shall comprise five key chapters that shall follow a chronological order;

Chapter 1 is the introduction, and it shall contain an overview of the research, giving background information that forms the basis of the study. It explains the context under which the study is being carried out. It further points out the research problem the study is investigating and how the research is linked to this problem. Any deficiencies observed in prior literature are identified in this chapter, and how this research/study addresses the identified gap(s).

Chapter 2 of this research is the literature review. It provides an overview of the private equity market in general, how its structured and the potential benefits and drawbacks to an investee company from obtaining this source of capital. It also provides information about the East African PE market and the deals in Uganda in prior years. This section further analyses the conceptual and theoretical framework of responsible investment and empirical findings from prior research aligned with the research objective. This chapter attempted to define the key concepts in the research topic using the researcher's knowledge and were applicable, cited definitions from prior researchers.

Chapter 3 of this research presents the research methodology, i.e. the process through which data relevant to the study shall be obtained. A qualitative approach was selected, and justifications for the researcher's choice of this methodology in preference of the either the quantitative or mixed methods approach is highlighted and discussed.

Chapter 4 of this research discusses the findings from the research methodology. Given that the methodology discussed above is qualitative, the findings are centered on the interview respondents and discussion of the thematic findings.

Chapter 5 discusses the conclusions and recommendations of the study. This chapter summarizes the study, discusses the significant findings and implications, and any policy recommendations based on the findings. It finally presents possible recommendations for future research that could not be addressed by this study, given the time constraints and information limitations faced by the researcher.

Chapter 2

Literature Review

2.1 Introduction

This chapter provides an overview of the definitions of the subject matter terms of the research before diving into the context of the Private Equity market in the East Africa region, and Uganda in particular, to assess the level of investment that has been done in prior years. An overview of Private Equity in general, how it is generally structured in investment deals and the key players in the market are discussed, including the potential benefits and drawbacks of Private Equity investment to a potential investee company.

The chapter further delves into the theoretical framework for responsible investment and samples empirical studies that have been done along the research objectives of this study, with the findings established providing a basis for conducting this study in the context of Uganda's Private Equity Market.

2.2 Definition of terms and concepts

a) Private Equity (PE)

There is no universally accepted definition of Private Equity. Private Equity can be broadly defined in its purest and simplest form as an investment in the Equity of a company not listed on the stock exchange market. From a layman's perspective, Private Equity can be viewed as an alternative funding source to traditional sources of finance, i.e. debt and public/listed Equity. Various definitions of Private Equity have been cited in academic literature, a sample of which have been summarised in **Table 2.1: Definitions of Private Equity**.

Table 2.1: Definitions of Private Equity

No.	Author	Definition of Private Equity
1.	(Sami , 2002)	Capital to businesses that are not quoted on the stock exchange and also expressed as part of Foreign Direct Investment (FDI).
2.	(Leeds and Sunderland , 2003)	Third-party investment in companies at the early and later stages of development.
3.	(Moon , 2006)	Investments in businesses at the later stage of development.
4	(EVCA , 2007)	Investment in the equity of a company not listed on the stock exchange.
5	(Conroy and Harris, 2007)	Private Investment in the equity of a company at all stages of its development

6.	(Burdel, 2009)	A platform for raising capital at all the crucial stages of business development.
7.	(Baker, Filbeck & Kiyamaz, 2012)	An asset class consisting of debt and equity in companies not quoted on the stock exchange

Source: Compiled by the author

(Sami, 2002) defined Private Equity as an alternative financing source for businesses not listed on the stock exchange and explained that it could be expressed as part of an FDI. The contention was that Private Equity could finance small and medium-sized enterprises at the early stages of growth and development.

(Moon, 2006) strictly defined Private Equity as the investment in the equity of businesses at the later stage of development. These investments are made in more mature companies beyond the proof-of-concept stage and require capital to scale operations. PE firms were seen to be more active investors with representation on the Board of Directors.

The European Private Equity and Venture Capital Association (EVCA, 2007) defined Private Equity as the investment in the equity of a company not listed on the stock exchange. (Burdel, 2009) later on defined, Private Equity as a source of capital for businesses at all stages of development, unlike the (Moon, 2006) example, which restricted his definition to only mature companies at the later stage of development.

(Baker, Filbeck, & Kiyamaz, 2012,) much later expounded on the definition of Private Equity to include debt as a source of funding to a company not listed on the stock exchange. This improved on the definition of previous scholars cited, who had only limited their definition to investment in the equity of a private company

An overview of of private equity is summarised below for the purpose of context to the definitions expounded earlier. The definitions from **Figure 2.1** below correspond with those identified from (Moon , 2006), (Conroy and Harris, 2007) and (Sami , 2002). Private Equity can therefore not be limited to one particular definition but rather encompasses all the defintions because it consists of both debt and equity capital and and is provided at all the stages of stages of a company’s growth and development. The researcher therefore considers the definition by (Baker, Filbeck & Kiyamaz, 2012) as the the most appropriate definition of private equity.

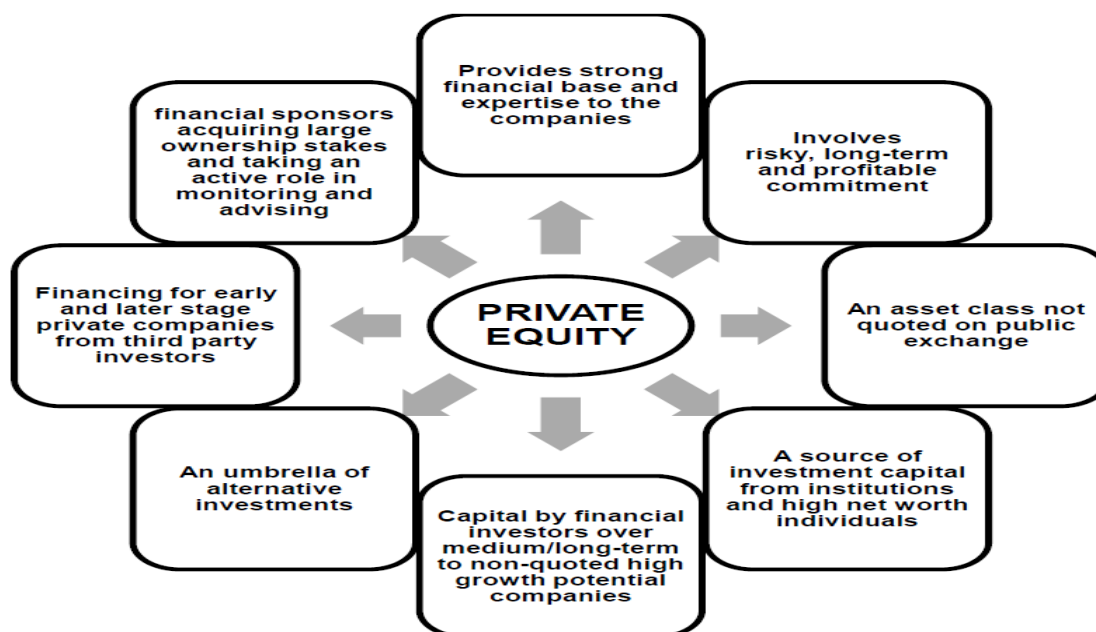


Figure 2.1: Overview of Private Equity

Source: Source:(Tripathi, 2010). Private Equity Investments: A Literature review

b) Socially Responsible Investing

Socially Responsible Investing refers to the process of making investments in projects and/or businesses that have impact on an overall society. These investments could be geared towards impacts that include among others; access to clean energy, financial inclusion, increased food security, access to health care, and the broader infrastructural development. Uganda being a frontier market, with low levels of development therefore presents a huge opportunity for investments that can meet some of the impact/responsible goals highlighted above.

Opportunities for responsible investment in Uganda are therefore available given for example, the target of 60% access to clean energy for all Ugandan households in the FY 2024/25 from the baseline of 21% in the FY 2017/2018. (Finance, 2007). Taking access to electricity as a base example for responsible investment, Uganda in comparison to other countries in the continent is lagging behind and thus presents opportunities for more significant investments to meet the National targets and the overall requirements of SDG 7, which strives to “Ensure access to affordable, reliable, sustainable and modern energy for all.

Figure 2.2 further provides a comparable benchmark of access to electricity in Uganda, with selected African countries for which it clearly shows that Uganda lags a number of countries on the African continent with an access rate of 49%, in comparison to other African countries with an access rate of over 60%, that is targeted for achievement by Uganda in 2025 (Kakumba, 2021).

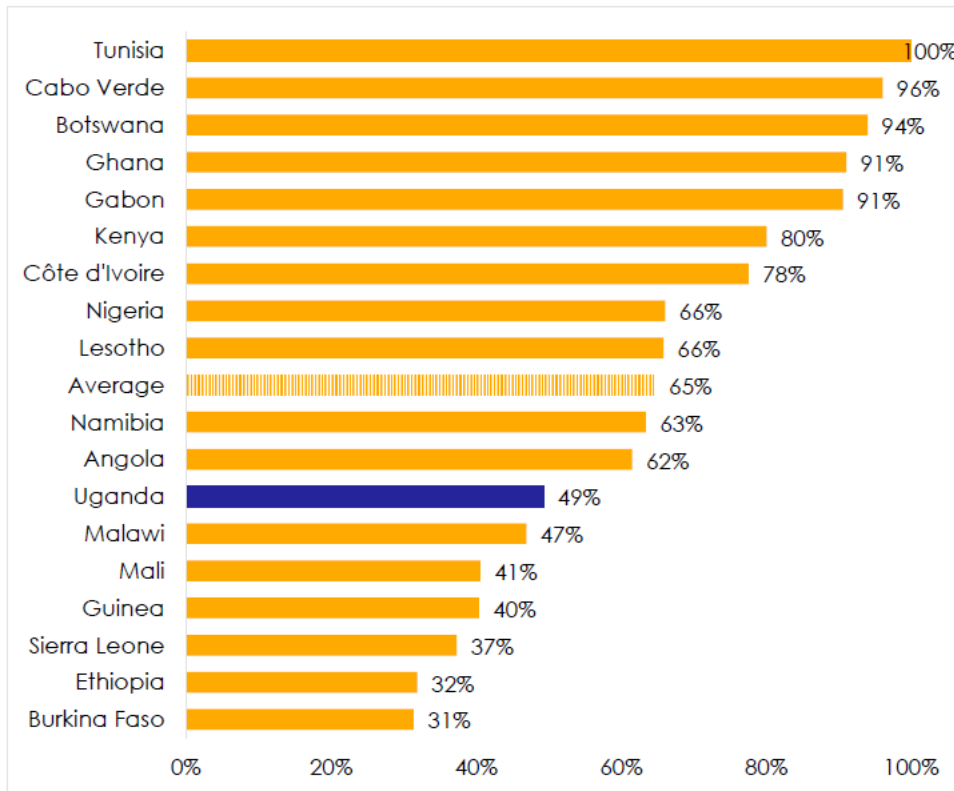


Figure 2.2: Comparison of Access to Electricity in 18 Sub Saharan African Countries

Source: Source: (Kakumba, 2021) Despite hydropower surplus, most Ugandans report lack of electricity

c) Economic Growth

Economic Growth can be broadly defined as the increase in the number of goods and services produced in an economy over a specified period, for example, one year. As the economy grows, companies are more profitable and can scale production, thus creating more employment that consequently increases the taxable income for the Government.

One of the most recognised methods of measuring Economic Growth is the Gross Domestic Product (GDP). GDP measures the value of all the goods and services produced in a country for sale regardless of whether they are consumed domestically or exported to regional and international markets. Other organisations like the World Bank prefer using Gross National Income (GNI) to measure Economic Growth. This measure differs from GDP because it includes money repatriated by citizens working outside the country.

Economic Growth is mainly caused by the four production factors: land/natural resources, capital, labour and entrepreneurship. Private Equity, therefore, plays a role in Economic Growth by bringing together all the factors of production that ultimately drive productivity in an economy. Private Equity drives entrepreneurship by encouraging innovation, providing capital

to fund businesses and providing technical support to businesses, among others, to enable them to scale to a level that makes an exit profitable. This intertwined with responsible investment through private capital, and the overall positive impact it can have on the society can potentially have a significant impact in the country's overall Economic Growth and Development.

d) Social Transformation

Social transformation refers to a fundamental change in society, which can be social change seen as either gradual or incremental changes over some time (Khondker & Schuerkens, 2014). It can be viewed as how a given society changes due to certain variables, such as economic growth, political maturity, scientific and technological innovations, and the standard of living.

In the context of this research, social transformation is linked to responsible investment because Private Equity and responsible investment could drive innovation, productivity, resource mobilization and employment, among others. These, in tandem, are all drivers of social transformation because they improve the way of life of humans, given that they have better access to goods and services like food, clean water, clean energy, and education among other services aligned to responsible investment.

Besides creating funding for African businesses and the multiplier effect by making more profits for the investee companies and the funders of the Private Equity fund, investment in Private Equity also creates socioeconomic benefits for its consumers (Ogechi, 2018) as cited in the African connected newsletter issue 1 of November 2018.

2.3 Overview of the context

a) The Private Equity Market in East Africa

(Sector, 2019) report on the Private Equity sector survey of East Africa for the period 2017 to 2018, carried out by KPMG and EAVCA, highlighted the critical milestones of Private Equity in the region;

i. Fundraising

Of the total US\$ 6.4 trillion earmarked for PE funds globally between 2007 and 2018, US\$ 33.1 billion was for Africa as a continent and US\$ 3.3 billion for the East African region.

47% of the investors into their funds were from Europe and North America and consisted of; DFI's, asset managers, pension funds and high net worth individuals.

ii. Investment Activity

A total of 190 PE-backed deals were reported in East Africa, with an estimated value of US\$ 2.7 billion. Between 2017 and 2018, 84 deals backed by PE were reported with a value of US\$ 1.4 billion. The average number of deals reported per year increased to 42 between 2017 and 2018, compared to 18 deals recorded between 2015 and 2016. There was also a corresponding increment in the average size of investments to US\$ 37 million from US\$ 17 million.

iii. Exits and Performance

The total exits between 2007 and 2018 were 44, with 10 of these between 2017 and 2018. The Financial Services sector accounted for the most significant number of exits, with 17 out of the total of 44.

10 of the 44 exits were secondary, i.e. to financial investors, 18 to strategic investors, 11 through share buybacks, 3 through an Initial Public Offer (IPO) and 2 through other means.

The gross median Internal Rate of Return (IRR) was 20%, less than the target of 23%. Of the 11 respondents, only 3 achieved an IRR higher than the target.

iv. Fund strategy: Investment professionals and ESG

Environment, Social and Governance (ESG) matters were seen to be of high importance during the tenure of the investment. The funds were found to have a dedicated ESG team that ensured the implementation of ESG policies for the portfolio companies. This speaks to the importance of responsible investment in private equity investments carried out on the African continent. The number of professionals employed by PE funds in East Africa was 230 in 2018, down from 280 in 2017. On average, 21% to 50% of employees were females.

Figure 2.3 below presents a graphical illustration of the East African deal value by year between 2010 and the first half of 2019. However, there was a considerable drop in the values over the years.

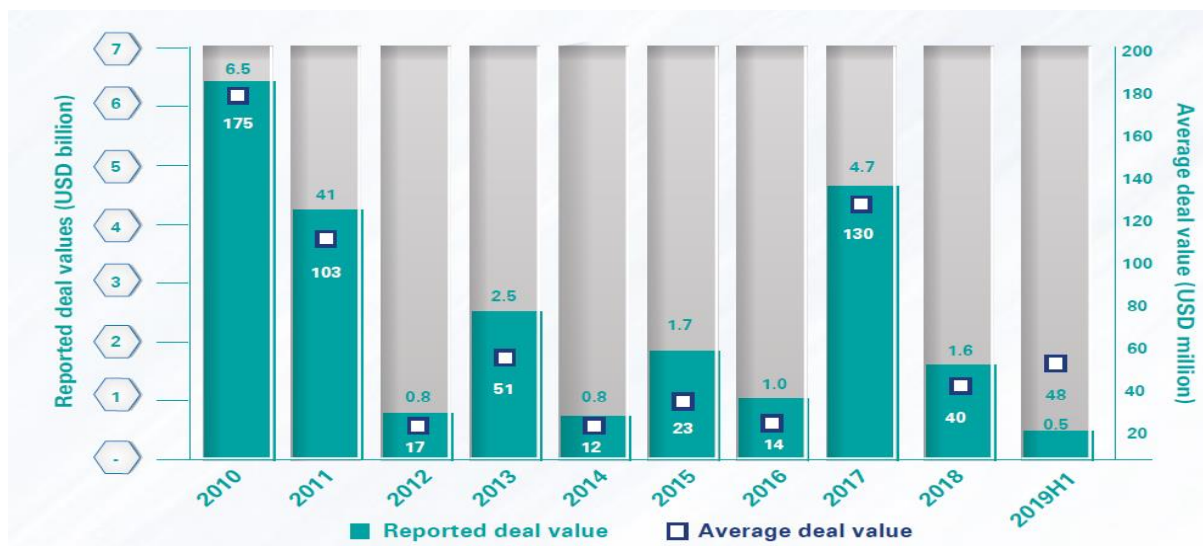


Figure 2.3: East Africa Deal Value and Volume (2010 to H1 2019)

Source: (Sector, 2019), Private Equity Sector Survey report

In 2021, the total number of PE deals recorded in East Africa was 76, with a total deal value of US\$ 862 million. This was a slight increment from 73 documented deals in 2020. The median value of these recorded deals was US\$ 4 million, and the top sector by deal value was the financial services sector, with the Kenyan market accounting for most of the said deals. Of the 76 deals, 38 were PE deals, 9 were DFI-backed deals, and 29 were VC deals, with VC deals accounting for the most significant increment in 2021. The information is summarised in **Figure 2.4** below.

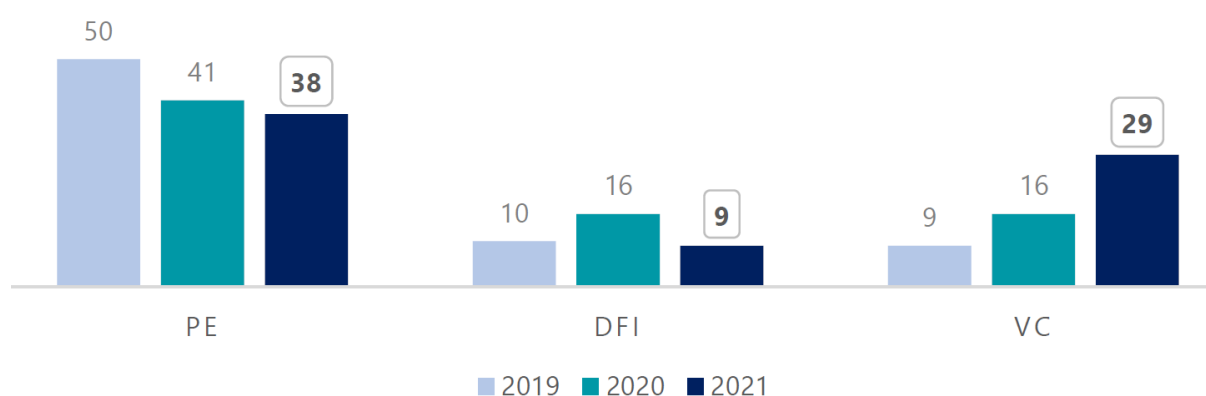


Figure 2.4: Comparative PE Deals in East Africa 2019-2021

Source: I&M Burbidge Capital East African Financial Review 2021

b) Private Equity Deals in Uganda

From the context of Uganda, 78 Private Equity deals were registered between 2010 and H12019, with the most significant number (17 deals) done in 2017 and the lowest (3 deals) done in 2011. The main sectors that dominated these investments were Technology, Media and & Telecommunication (TMT), Financial Services, Manufacturing and Fast Moving Consumer Goods (FMCG). The top ten deals (in terms of value) for 2017 to 2018 in US\$ are summarised in **Figure 2.5** below.

Target Company	Acquirer Name	Deal Value	Sector	Period
Uganda Exploration Areas	TOTAL SA	900	Energy	2017
Bujagali Energy Limited	SN Power AS	277	Energy	2018
CSquared	Mitsui & Co Ltd, Convergence Partners, IFC, Alphabet Inc	100	TMT	2017
Sadolin Paints (U) Ltd	Kansai Plascon Africa Ltd	88	Manufacturing	2017
Lirtix S.A. and Rondatel S.A	Sundiro	82	Manufacturing	2017
Uganda Telecom	Teleology Holdings	70	TMT	2018
Cipla Quality Chemicals Industries Limited (CiplaQCIL)	TLG & Capitalworks	44	Healthcare	2018
Lonmin	National Oil Infrastructure Company	15	Manufacturing	2018
Qualicoff	XSML Capital	10	Agribusiness	2017
Lion Assurance Company Limited	Sanlam Emerging Markets Proprietary Limited	7	Financial Services	2017

Figure 2.5: Comparative PE Deals in East Africa 2019-2021

Source: (Sector, 2019), Private Equity Sector Survey report

The top destination for Private Equity deals in Uganda between 2017 and 2018, by deal value, were in the areas of Energy, Technology, Manufacturing, Health care, Agribusiness and financial services. However, the most significant sector values were recorded in the energy sector, with the oil and gas and electricity sectors accounting for 56.5 % and 17.4% of the total deal value in the top ten deals. With the ongoing advancements in the energy sector, the oil and gas negotiations (the construction of the oil refinery and the pipeline), and the anticipated US\$ 4.8 billion private sector investment in the transmission sector, the energy sector could be expected to continue accounting for a large proportion of PE capital into the country.

The I&M Burbidge annual financial review for the year 2020 summarized selected PE deals in the East African region in the year 2020, with the Kenyan market dominating most of them. Selected PE deals from the Uganda Market are presented in **Table 2.2** below.

The critical sectors invested in were Agri-Business, Energy, Financial services and manufacturing. The report also summarized the Merger and Acquisition deals (M&A) that took place in Uganda in the year 2020. Like in Private Equity, the primary sectors that dominated the M&A were energy, financial services, and ICT. This could hint at a possibility of investor confidence in these sectors that enables them to attract private capital. **Table 2. 3** below summarizes the selected 2019 deals as extracted from the report mentioned earlier.

In 2021, I&M Burbidge capital released the annual East African financial review, with Kenya again dominating most of the PE deals in terms of both deal sizes and quantity. The deals in Uganda cut across several critical sectors of the economy that include, among others, Agribusiness, Health Care, Energy, Financial services and ICT. These deals included the following categories; PE deals, DFI-backed deals, Venture capital deals and PE exits. As broken down across the categories above, these deals have been summarized in **Table 2. 4** below.

From the tables below, it can be clearly seen that investments in Uganda’s private Equity over the years have been dominated in the areas of Agriculture, Financial Services, Agribusiness, Manufacturing, ICT and Health Care. These areas all provide avenues for responsible investment given the impact they can have on society in terms of; access to education through ICT, food security, and improvement in health services among others. There is need therefore for more private equity capital to accelerate responsible investments in these sectors in order to harness economies of scale.

Table 2.2: Selected Private Equity Deals in Uganda in 2020

No.	Buyer	Seller	Deal Size (US\$ Mns)	Sector	Synopsis
1.	Pearl Capital Partners	NASECO	1.2	Agriculture	Pearl Capital Partners, which manages the Yield Uganda Investment Fund, made a seventh investment of UGX 4.6bn (ca. USD1.2m) in Naseco (1996) Limited (NASECO). NASECO, which has had operations for over 20 years, produces, processes and distributes certified seeds in Uganda and is growing exports across the regional East African community.
2.	Mobility 54, Global Partnerships' Social Venture Fund, Denali Venture	Tugende	6.3	Financial Services	Tugende, a technology-enabled asset finance company operating in Uganda and Kenya, announced the completion of a USD 6.3 million series A investment round led by Toyota Tsusho investment fund Mobility 54.
3.	TLG Capital	Opportunity Bank Uganda Limited	Undisclosed	Financial Services	TLG Capital announced it had purchased 49% of Opportunity Bank Uganda Limited, a tier 1 commercial bank with 23 branches and 22 ATM points across Uganda.
4.	Nile Fibreboard	Criterion African Partners	Undisclosed	Agribusiness	Criterion Africa Partners, a Private Equity firm investing in the forestry sector in sub-Saharan Africa, has announced that its portfolio company Global Woods has completed the sale of its Uganda Timber Plantation to Nile Fibreboard, a local strategic buyer.
5.	IFC	AK Life Sciences Limited	12.5	Manufacturing	The International Finance Corporation has disclosed a proposed investment in AK Lifex Sciences Limited, a pharmaceutical manufacturer and distributor headquartered in Uganda, operating under the brand name Abacus.
6.	BAJ Stations	TLG Capital	Undisclosed	Energy	TLG Capital exited its investment in BAJ Stations Uganda, after nearly four years, at 30% plus IRR in USD. TLG invested in BAJ Stations through its Credit Opportunities Fund (COF). This is COF's eighth exit and its third in Uganda. TLG first invested in BAJ in 2017 when the business had five operating fuel stations.

Source: I&M Burbidge Capital, Annual Financial Review 2020

Table 2. 3: Selected M&A Deals in Uganda in 2019

No	Acquirer	Target	Deal Size (US\$ Mns)	Sector	Synopsis
1.	Jubilee	Bujagali Energy Limited	40	Energy	Jubilee Holding has bought an additional 9.44 percent stake in Uganda's Bujagali Energy Limited (BEL) for Sh4.2 billion (\$40 million), doubling its ownership in the hydroelectric power plant. The firm announced it bought more shares from its technical partners, SN Power, in the 250-megawatt Bujagali dam on the River Nile. The latest acquisition now takes Jubilee's ownership in the plant from 8.8 percent to 18.24 percent, which is estimated to be worth Sh6.3 billion.
2.	I&M Holdings	Orient Bank Limited	18.7	Financial Services	I&M Holdings planned to acquire a 90% stake in Uganda's Orient Bank Limited in a transaction in which it will spend more than KES 2 billion. The deal will add to its regional banking operations comprising Kenya, Rwanda, Tanzania and Mauritius.
3.	Marsk Tech Ltd	Talkpool Network Services Ltd	Undisclosed	ICT	Marsk Tech Ltd planned to acquire Talkpool Network Services Ltd, a Kampala-based provider of telecommunications services.

Source: I&M Burbidge Capital, Annual Financial Review 2020

Table 2. 4: Selected Private Equity Deals in Uganda in 2021

No.	Buyer	Seller	Deal Size (US\$ Mns)	Sector/Deal Type	Synopsis
1.	XSML	Ecopharm	Undisclosed	Healthcare PE Deal	XSML invested in Ecopharm through its third fund under management, ARF III. The fund targets growing, well-managed and medium size enterprises.
2.	Incofin	EFC Uganda (MDI) Ltd	Undisclosed	Financial Services PE Deal	Incofin Investment Management signed a multi-million-dollar debt investment in EFC Uganda Ltd through its agro-focused fund agRIF. EFC Uganda is one of the fastest-growing microfinance institutions in Uganda
3.	SunFunder	Winch Energy	2	Energy PE Deal	Sunfunder disbursed a new USD 2 million loan to Winch Energy for the construction of 25 mini-grids in northern Uganda. It is part of the UK-based mini-grid developer's new limited recourse financing platform Winch Energy IPP Holdings, established with NEO T Offgrid Africa. The loan will finance part of the construction of the rural electrification projects in Uganda's northern Lamwo region, which borders South Sudan,
4.	Meridiam	Raxio Group	48	ICT PE Deal	The Raxio Group, a pan-African data centre developer and operator, and Meridiam, a global asset and fund manager specialising in sustainable infrastructure and energy transition projects, announced a partnership to deploy a network of data centres across the African Continent. Under this agreement, Meridiam was expected to invest USD 48 million to support the continued deployment of data centres in Africa. Raxio has data centres in Uganda, Ethiopia and the DRC.
5.	Pearl Capital Partners	Pura Organic Agro Tech Ltd	2.5	Agribusiness PE Deal	The Yield Uganda Investment Fund, which Pearl Capital Partners manage, announced an investment of 2.5 million in Pura Organic Agro Tech Ltd structured in both straight equity and patient debt investment. This marks the fund's eighth investment into the Ugandan agriculture sector, but more uniquely, the first substantial value addition investment into the cassava value chain Pura, which was incorporated in 2011, is located in Nakasongola District, Central Uganda.

No.	Buyer	Seller	Deal Size (US\$ Mns)	Sector/Deal Type	Synopsis
6.	Yield Uganda Investment Fund and FCA Investments (FCAI)	AMFRI Farms	1.51	Agribusiness PE Deal	Yield Uganda Investment Fund and FCA Investments (FCAI) announced a Euro 1.3 million investment in AMFRI Farms. AMFRI Farms is a pioneering organic farming, processing and exporting company working closely with diverse communities all over Uganda, in training and production of certified organic fruits and vegetables, processed for the export market. AMFRI Farms started its journey in Luwero in 1998 at the company's Kyampisi Estate.
7.	Yield Uganda Investment Fund and FCA Investments	Sausage King 3000 Uganda Ltd	Undisclosed	Agribusiness PE Deal	Yield Uganda Investment Fund (Yield Fund) and FCA Investments Oy (FCAI) announced a co-investment in Sausage King 3000 Uganda Ltd (Sausage King), a premier meat processor in Uganda. This marks Yield Fund's eleventh investment into Uganda's agriculture sector. Sausage King, a pioneering meat processing company 30 kilometres outside of Kampala, was established in February 2019 and specializes in value addition and processing of beef, poultry, and pork into convenient premium meat products. Sausage rolls, cold cuts, and speciality cuts are among the products produced by the company
8.	Google	SafeBoda	Undisclosed	ICT PE Deal	Internet giant Google, announced that it made the first investment from its Africa Investment Fund in Ugandan super app SafeBoda, reports TechCrunch Africa. The undisclosed investment came two months after Alphabet CEO Sundar Pichai announced the tech giant's intentions to commit US 1 billion over the next five years in "tech-led initiatives". This includes a US 50 million Africa Investment Fund targeted at early and growth-stage start-ups on the continent. He made this known at the Google for Africa event in October
9.	Partech and Enza Capital	Tugende	3.6	ICT PE-VC Deal	Tugende, a technology-enabled asset finance company in East Africa, closed USD 3.6 million in additional equity financing. The round was led by Partech, with participation from Enza Capital and regionally based angel investors. The investment, agreed upon and structured in 2020, is an

No.	Buyer	Seller	Deal Size (US\$ Mns)	Sector/Deal Type	Synopsis
					extension of Tugende's series A, for which the first close was announced in September 2020 and led by Toyota Tsusho's Mobility 54.
10.	Enza Capital, Partech Africa	Tugende	3.6	Financial Services PE-VC Deal	Ugandan technology-enabled asset finance company Tugende closed a USD 3.6 million Series A extension round. Partech and Enza Capital led the extension round, which invested USD 3.6 million and brought the Series A total to USD 9.9 million.
11.	MFS Africa, DRK Foundation, Equilibria Capital and the Segal Family Foundation	Numida	2.3	Financial Services PE-VC Deal	Numida, a Uganda-based fintech business, closed a USD 2.3 million seed round led by pan-African payments company MFS Africa, with participation from DRK Foundation, Equilibria Capital and the Segal Family Foundation alongside angel investors. With this new financing, Numida plans to expand aggressively in Uganda and pilot in a new market.
12.	InfraCo Africa, DOB Equity and Mobility 54	Zembo Motorcycles	3.43	Automotive VC Deal	Investment firm InfraCo Africa partnered with Dutch investor DOB Equity and Mobility 54 to invest EUR 3 million (US 3.43 m) in Zembo Motorcycles SMC's electric mobility solution to improve its operations.
13.	Agri-Business Capital Fund (ABC Fund)	EBO	1.1	Microfinance PE-VC Deal	The Agri-Business Capital Fund (ABC Fund) invested Eur 6.4 million (7.2 million) via debt in four microfinance providers across Mali, Kenya and Uganda. The fund has committed EUR 2.4 million and EUR 1 million, respectively, to the savings and credit cooperatives Nyesigiso in Mali and EBO in Uganda.
14.	MPharma	Abraaj Capital	Undisclosed	Healthcare PE - Exit	mPharma, a Ghanaian health startup, has taken a controlling stake in Uganda's Vine Pharmacy for an undisclosed amount, marking the firm's entry into its latest market in Africa. mPharma disclosed to TechCrunch that it had acquired a 55% stake previously held by the Abraaj Group, a private equity firm that collapsed.

Source: I&M Burbidge Capital East African Financial Review 2021

2.4 Structure of Private Equity

The term Private Equity is sometimes intertwined with Venture Capital, an early financing stage under the Private Equity framework. Businesses typically grow through a life cycle of growth and development, for which not all sources of capital are readily available or accessible to the Entrepreneur. Early start-up businesses may not be able to generate capital from traditional providers of debt and listed equities market because they usually need capital for the formative stages of a company, for example, to fund an idea, build a prototype, or perform research and development. These are usually young companies whose success is yet to be proven; therefore, investment is predominantly hinged on the potential that the business has to offer.

Traditional debt as a source of finance is akin to looking at a glass as half empty, and as such financial institutions are more defensive, looking out for what may go wrong and lead to a credit default. Their concern is not necessarily the business potential but rather its ability to generate sufficient cash flows to meet the contractual interest and principal obligations as and when they are due over the tenure of the loan/debt instrument. This probably explains why they look at ratios like interest coverage and debt service, among other defensive ratios, because they ascertain the borrower's ability to service the debt obligations.

Private Equity, on the other hand, unlike traditional debt, looks at the glass as half full and therefore approaches an investment from the point of its growth potential. Therefore, this type of investment seeks out the value it can add to the investee company to fill the glass and consequently share in the upside that has been mutually created. **Table 2.5** below summarises the various funding sources available at the different stages of a business life cycle.

Table 2.5: Financing sources throughout the life cycle of a business

Stage of Development	Financing Need	Available Sources of Financing
Development	Research and Development	Owner's savings/capital, Family and Friends, partners, Private Equity
Start-up	Finance working capital and fixed assets	Owner's savings/capital, Family and Friends, partners, Private Equity
Early Growth	Support Sales and Business growth	Owner's savings/capital, Family and Friends, partners, Private Equity
Mature Age	Merger and Acquisitions and Business transformation	Owner's savings/capital, Family and Friends, partners, Private Equity, Debt (Banks)

Expansion	Investment in new Fixed Assets to support the high growth rate.	Owner's savings/capital, Family and Friends, partners, Private Equity, Debt (Banks) and Financial Markets (IPO).
Crisis/Decline	Business Reorganization	Owner's savings/capital, Family and Friends, partners, Private Equity

Source: compiled by the author

The development, start-up, and early growth stages comprise the venture capital component, whereas the subsequent stages comprise Private Equity (Invest Europe, 2016). The difference is that Private Equity predominantly looks at more mature companies with a more established trend of profitability and cash flows. These companies are considered less risky but have high growth potential. The general features of Private Equity backed companies are illustrated below.

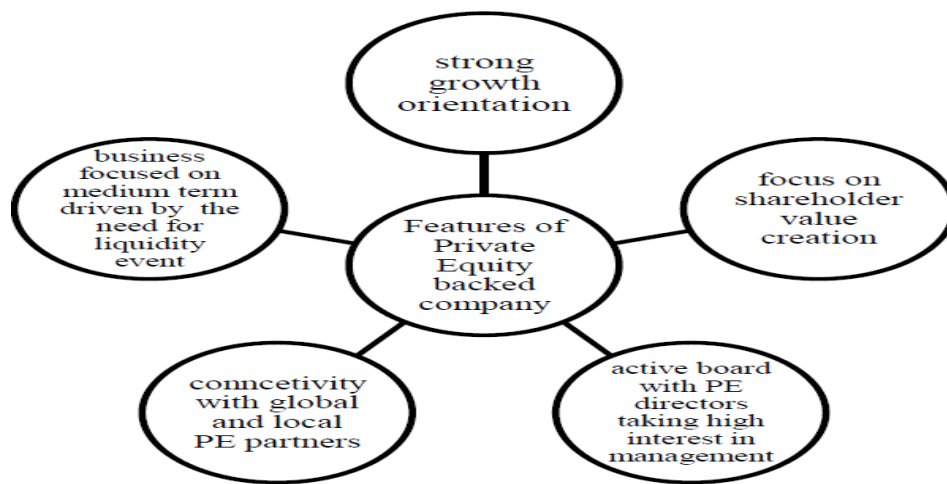


Figure 2. 6: Features of Private Equity backed companies

Source:(Tripathi, 2010). Private Equity Investments: A Literature review

Figure 2.7 provides a more holistic picture of the different sources and uses of funds at the various stages of Private Equity investment.

Company stage	Uses of financing	Typical sources of financing	Financing stage
<i>Concept:</i> Idea is created, initial business model is conceptualized, but there is limited management in place, no product ready, and no track record	Assess/prove business feasibility and qualify for start-up capital: <ul style="list-style-type: none"> • Develop business plan • Conduct market research • Build and test prototype • File patents 	<ul style="list-style-type: none"> • Personal savings • Microcredit • Friends/Family • Angel investors^a • Seed-stage VC firms • Grants 	Seed capital
<i>Product development:</i> Business model investigated, product prototype in place, but needs to be finalized and introduced to market	Converting concept into product: <ul style="list-style-type: none"> • Develop product • Conduct initial marketing • Establish product facility • Recruit key management 	<ul style="list-style-type: none"> • Bootstrap financing • Angel investors • Microcredit • VC firms (seed/series A investor)^b 	Start-up capital
<i>Initial revenue:</i> Have proven product, delivered proof of concept, but cash flow is negative	<ul style="list-style-type: none"> • Expand sales and distribution • Improve productivity • Enhance team and operations 	<ul style="list-style-type: none"> • Microcredit • Angel investors • VC firms 	Early stage
<i>Established company:</i> Sustained positive cash flow, customer base is growing, and the business is viable	<ul style="list-style-type: none"> • Working capital • Trade credit, factoring, leasing • Expansion: grow sales and assets, ramp up existing operations, capital expenditures, launch new products, or enter new markets 	<ul style="list-style-type: none"> • Cash-flow-based financing: line of credit (working capital), short-term unsecured financing/ long-term debt • Asset-based financing: accounts receivable, inventory, equipment, real estate • Suppliers (trade credit) • Factoring/Leasing • Private/growth equity 	Growth equity/debt financing
<i>Corporate:</i> Strong sales/revenue, stable cash flows	<ul style="list-style-type: none"> • To support growth • Finance acquisition/ management buyout • Optimize capital structure 	<ul style="list-style-type: none"> • Private equity • Initial public offering • Mezzanine financing • Corporate debt 	Private equity/debt financing/public equity

Figure 2.7: Stages of Private Equity Financing

(Divakaran et al., 2014), Private Equity and Venture Capital in SMEs in Developing Countries

The Private Equity financing cycle from start-up and the associated gaps is presented in **Figure 2.8** below. Despite the large numbers of SMEs operating in developing countries, that could have provided opportunities for responsible investment, the available market for Private Equity financing is still low, with these countries accounting for a small fraction of global Private Equity investments (Divakaran et al., 2014).

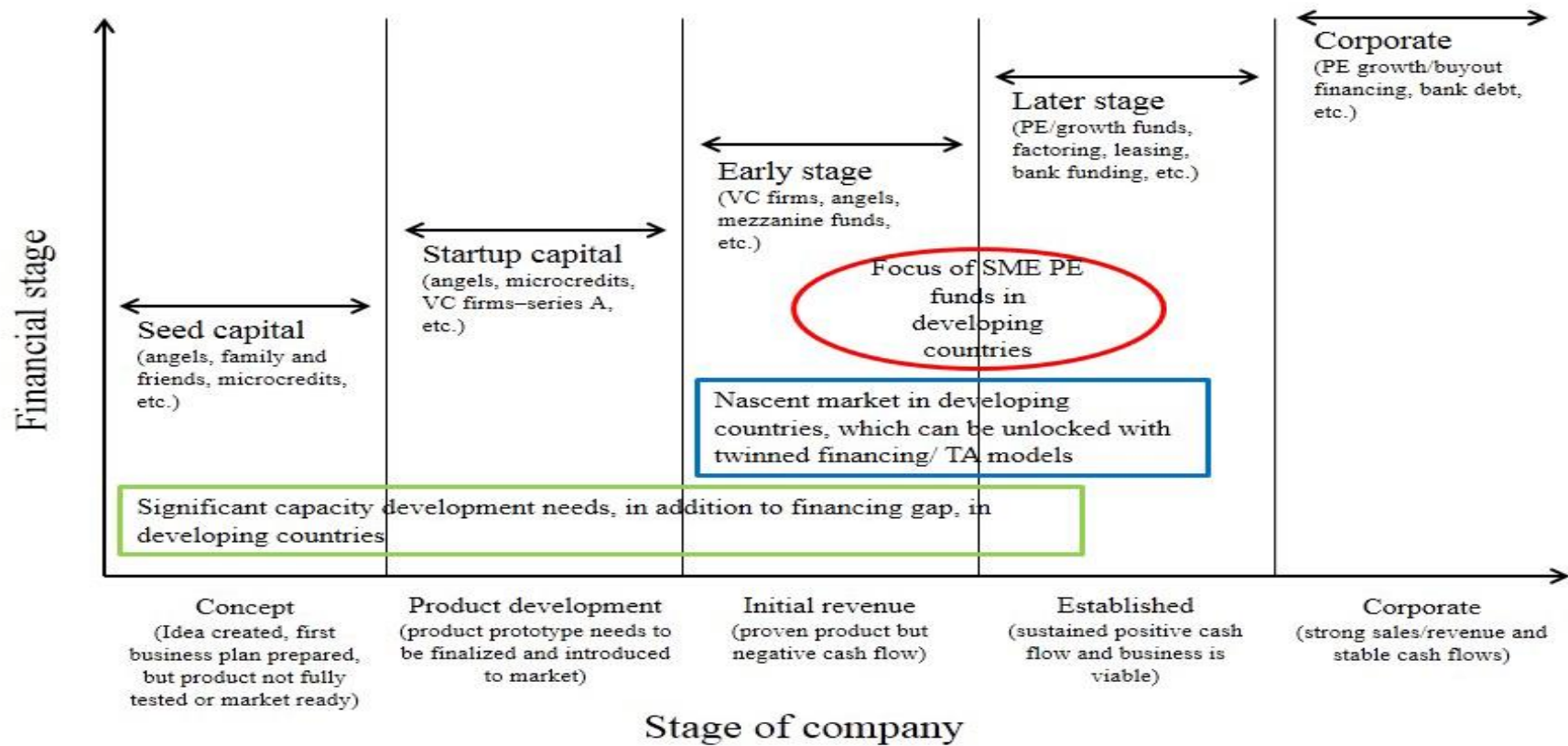


Figure 2.8 : Start-up Financing Cycle

(Divakaran et al., 2014), Private Equity and Venture Capital in SMEs in Developing Countries

Note: PE = private equity; SME = small and medium enterprise; TA = technical assistance; VC = venture capital

From **Table 2.5** and **Figure 2.8** above, Private Equity as a source of capital is available at all the stages of business development, consistent with the definition of (Conroy & Harris, 2007). The other sources of capital (debt and listed equity) are available for businesses at the mature and expansion stages, respectively. The earlier stages (venture capital) are seen as too risky to deploy debt or listed equity, and as such, these funds are not available to such businesses. The consequence of Private Equity investing is that the Private Equity Investor (PEI) provides capital to the business and takes up a percentage of ownership. The PEI, therefore, is more involved in running the business because the profitability of the investment is aligned with the growth in value of the investee company. Typically, the PEI does not get paid dividends but earns an internal rate of return generated at the exit. The IRR is computed using the value of the business at exit Vis a Vis at the time of the initial investment. In other innovative structures, the PEI can earn cash flows before exit, for example, from the share of revenues or royalties earned from the business sales.

The figure below depicts the Private Equity investment at the different stages of business growth.

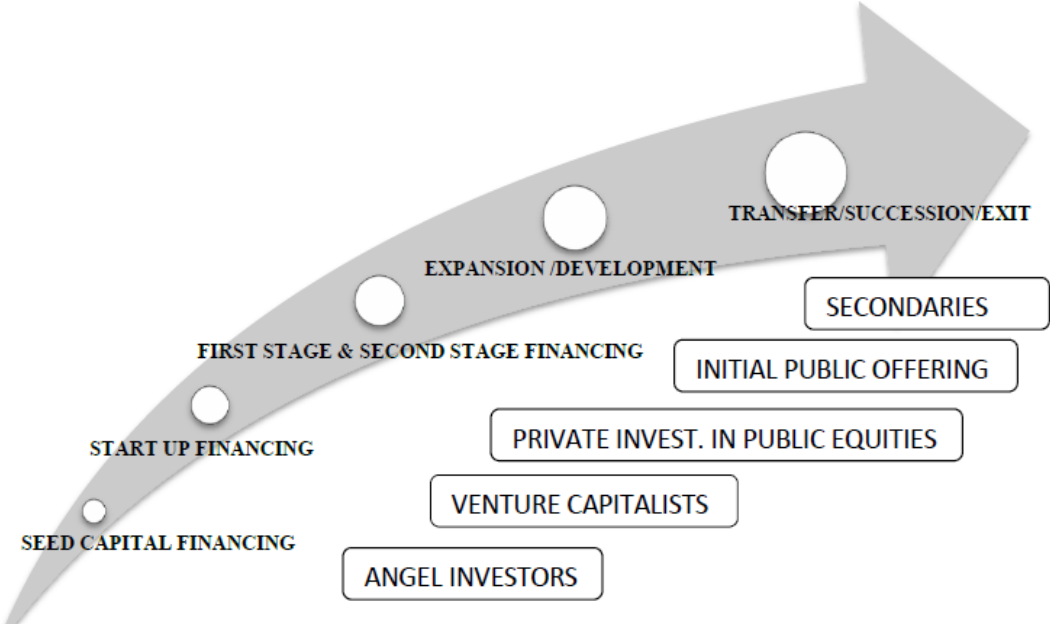


Figure 2. 9 : Private Equity financing at different stages

Source: (Tripathi, 2010), Private Equity Investments: A literature review

2.5 Other Types of Private Equity

Over the years, there have been other developments in Private Equity, different from the traditional forms of investing in a private company's equity, as elaborated in the earlier sections of this research. These developments have primarily been in response to particular events like the financial crisis in 2007 that disrupted the banking system and affected the intermediation of funds (Invest Europe, 2016).

For example, banks that predominantly used to provide funding to long-term infrastructure projects were becoming limited due to the stricter capital adequacy and liability matching requirements imposed on them. This created an opportunity for Private Equity players to venture into some of these investments that provided opportunities for diversification of their respective portfolios and higher expected returns on investment.

Other investments that include infrastructure development (transport, energy, utilities, among others), mezzanine financing, private debt, real estate finance and distressed investments are currently being funded using Private Equity. **Figure 2.10** below provides a summary of the other types of Private Equity.

	Special situations		Debt-related investments		Alternative forms of private equity	
Capital is used to:	Distressed investments	Turnaround/restructuring	Mezzanine	Private debt	Real estate private equity	Infrastructure private equity
	Acquire equity or debt of a company in distress at a discount	Finance an existing business that is experiencing difficulties in trading	Provide subordinated debt (unsecured or with junior access) to a company alongside the equity provided by the buyout house, with the senior debt coming from other lenders	Provide various forms of debt (from senior through to subordinated) to largely small and medium-sized businesses. Often used alongside buyout deals to acquire a business	Invest in real estate assets, commercial or private, with a mix of debt and equity	Invest in companies that operate infrastructure assets, such as transportation, energy, utilities, social infrastructure or communication with a mix of debt and equity

Figure 2.10 : Other types of Private Equity

Source:(Invest Europe, 2016) Guide to Private Equity and Venture Capital for Pension Funds

2.6 Benefits & Drawbacks of Private Equity

Benefits of Private Equity

Private Equity investment, like all other sources of finance (debt and listed equity, among others), provides the benefit of access to capital to entrepreneurs. Besides providing capital to businesses along all the stages of growth and development, other benefits can also accrue to the

investee company as a result of obtaining a Private Equity investment. Some of these benefits are summarised in **Figure 2. 6** below.

Table 2.6: Benefits of Private Equity investment

No.	Benefit	Explanation
1.	Certification Benefit	Investee companies undergo an intense screening and due-diligence process and getting Private Equity investment promotes a good image of the company in the broader market. Such a company, as a result, is more widely accepted in the business community by banks, suppliers, customers, and the Government, among other key stakeholders. In the context of responsible investment, a company that is certified as one whose business can make an overall contribution to the society may be able to receive favourable funding from impact based investors like DFI’s.
2.	Network Benefit	Given that the PEI is active in the operations business and the profitability is aligned to the growth of the investee company, the networks of the investor, for example, banks, suppliers and other important stakeholders, are made available to the entrepreneur to enable them successfully scale their operations.
3.	Knowledge Benefit	PEIs are typically knowledgeable in running businesses and given their active participation in the business; they transfer skills and knowledge to the owners of the investee company that may, in turn, give them a comparative advantage and a better chance of success over their competitors.
4.	Risk Appetite	PEIs are willing to take the risk inherent in a start-up or growing company with their capital provided over the medium to long term. This provides a source of funding to small and medium-sized businesses, which banks overlook but require patient capital to enable them to scale. These SME’s that constitute a majority of the employed Ugandan’s in the informal sector are aligned to the principles of impact as underpinned under responsible investment,.

Source: Compiled by the author

Drawbacks of Private Equity

Despite the benefits listed above, Private Equity also has drawbacks for the investee company. The major drawback of Private Equity investment is that the business/investee company has to give up percentage ownership and, in some cases, possibly lose control, for example, in terms of either majority shareholding or the number of seats on the board. Private Equity Investments typically go through multiple stages/rounds of financing; over time, the founder may cease to have majority ownership of the company. The silver lining is that the company would have grown tenfold, and the smaller percentage in absolute terms would still be more significant than owning 100% of a smaller business.

Another drawback to Private Equity investing is the lengthy and complex investment process that must be undertaken before the investee company can access the funding. The prospective investee company should thus have adequate funds to sustain the business as it awaits completion of the evaluation process.

There also exists a high uncertainty regarding the deal closing and the prospective investee company getting the funds. Given the complexity of the investment process and the due diligence requirements, the private equity deal may collapse, and the investors pull out of the process to the detriment of the prospective investment company.

2.7 Private Equity Funds

Private Equity capital is typically sourced through Private Equity funds, in which potential investors like pension funds, development finance institutions, commercial banks, high-net-worth individuals and endowment funds contribute to the fund (Gilligan & Wright, 2014)

Fund managers professionally manage the funds raised through the Private Equity fund, also known as General Partners. These funds are managed on behalf of the limited partners, who provide capital and play a less active role in running the fund. General partners in the fund are typically paid a management fee ranging from 1%-2% of Assets under Management (AUM). A performance measure is included for general partners in which they earn a carried interest of 20% upon exit of the investment. This carried interest is charged on the monetary value created by the general partners.

Private Equity funds are predominantly close-ended in that they have a fixed maturity of about 10 years on average. Investments are made in the first five years of the business and return from then on as the investors exit their positions (Sommer, 2013). Private Equity can thus be considered a marriage with a defined lifespan. An illustration of a typical life cycle of a closed-end fund is in **Figure 2.11** below.



Figure 2.11: Life time of a closed-end fund

Source: University of Bocconi; Private Equity and Venture Capital

Life Cycle of a Private Equity Fund

The initial step is the fundraising stage, which lasts about 18 months. This process aims to raise the total capital requirement for the fund size. The next stage after this is the drawdown period between time 0 and 3. This is because it takes longer to collect money from private investors than in comparison to public equity. Investors might be required to deposit a certain percentage of their total contribution as a commitment during the drawdown stage.

The first investments can take place between years 0 and 3. Between year 3 and year 5, exits from the first investment are made, and the second investment is made between years 5 and 7. The exit from the second investment is made between years 7 and 10. However, even if typical funds last a period of about 10 years, additional time may be required of up to three years so that enough liquidity is generated to pay off the investors.

The Private Equity fund business model is summarised in **Figure 2.12** below, in which different investors contribute to a Private Equity fund. These funds are allocated/invested in portfolio of investee companies over some time before the exit and distribution of returns to the investors. They comprise the General Partner and Limited partners, with the former taking on an active day-to-day running of the fund. In contrast, the latter are purely investors who provide the requisite capital and do not get involved in the day to day running of the fund.

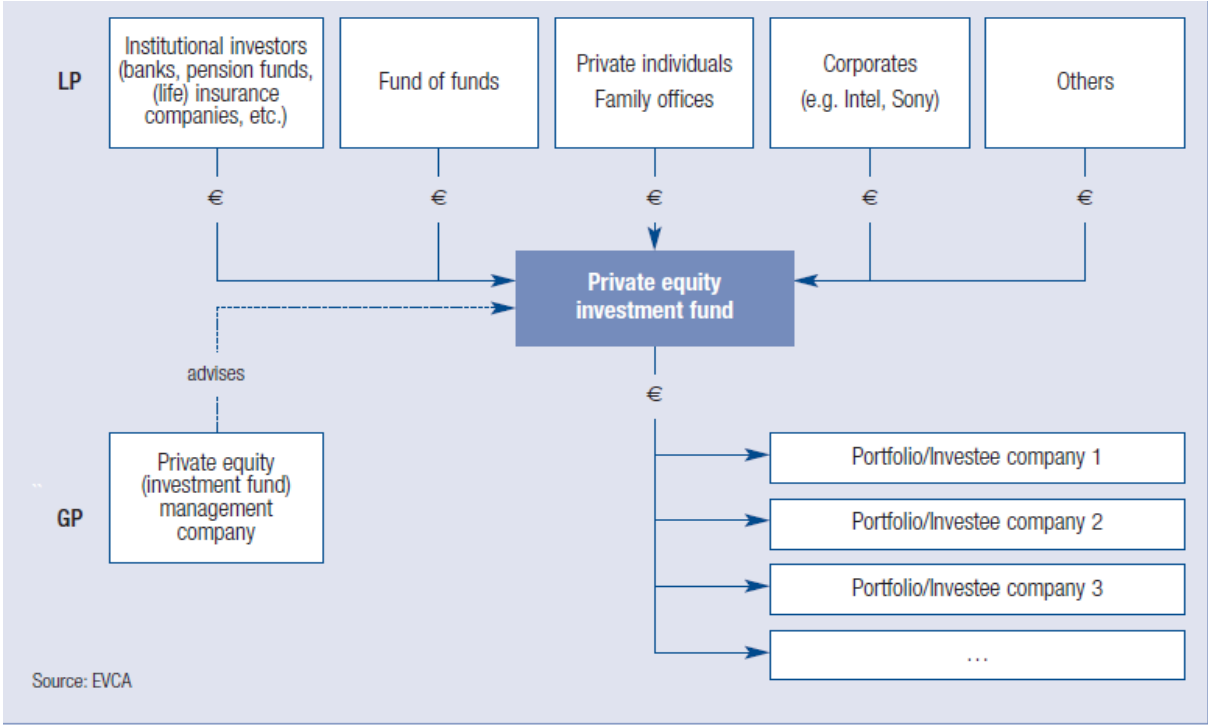


Figure 2.12 : Private Equity business model

Source: (Invest Europe, 2007), Guide on Private Equity and Venture Capital for Investors

Over the years, Private Equity investments have evolved with specialisation by Private Equity funds in particular sectors or industries of expertise, with increasingly more involvement in the actual day-to-day management of the investee company (Gilligan & Wright, 2014).

2.8 The Investment Process

The process of investing in Private Equity follows a chronological order. It comprises four steps: Fundraising, Investments Decision, Managing and Monitoring, and Exit. A sample graphical representation of the value chain is presented in **Figure 2.13** below.



Figure 2.13 : Private Equity Value Chain

Source: United Nations Economic Commission for Africa

i) Fundraising Stage

The first stage is the *Fundraising Stage*, in which the PE fund sells its proposal to the market participants (investors/limited partners) so that they can provide funding. The typical investors from **Figure 2.13** above include institutional investors and wealthy private individuals. The reputation of the PE fund is vital at this stage because the success rate of raising capital is highly dependent on the trust the investors attach to the fund. Many PE funds can only go past this stage if they raise the requisite capital from potential investors.

ii) Investment Stage

The second stage is the *Investment Stage*, in which the PE fund creates value for its shareholders. It comprises two distinct phases, i.e. the decision-making and the deal-making phase. The decision-making phase primarily involves evaluating and selecting investments that make business sense. It involves procedures like screening, due diligence and valuation. Only one of every ten businesses goes beyond the initial stage of the screening (Sommer, 2013). This implies that the success rate at this stage is 10%. The few companies that go past screening undergo a process of due diligence, which involves a more detailed assessment of the potential investee companies. Successful businesses from this stage are then rated according to risk, from which negotiations ultimately lead to a decision to either invest or not. Given that this process

is rigorous and time-consuming, it only makes sense to do it after the screening so that only proposals with a good business case are given this assessment.

The deal-making phase, on the other hand, comprises more of the negotiation, in which the Private Equity investor gets into contractual agreements with the investee company, for example, the percentage of shares to be owned, type of shares, corporate governance documentation and the valuation of the company/business. The deal-making phase also considers how the investment will be made, which could include either a direct investment in the company or an indirect investment through the formation of a Special Purpose Vehicle (SPV).

iii) Managing and Monitoring

This stage concerns two key areas; the rules put in place to maintain the existing value and actions intended to create value. Actions taken to preserve the current value include, for example, a lockup period that shall prevent the existing shareholders/ entrepreneur from exiting before a specific time and a staging technique in which funds are provided in instalments tied to the achievement of certain milestones, among others.

On the other hand, actions put in place to create new value include; the provision of board services, recruitment, mentorship, and relationship management (banks, suppliers, customers), among others.

Since Private Equity investors primarily depend on the capital gain generated at the exit, they strive to ensure that the value in the company is maintained and that their expertise/connections build up on the existing value. This enables them to maximise the return on investment for their investors at the exit stage.

iv) Exit

In this phase, the PEI opts to sell their stake and recover the capital plus the return on the investment. Since PE funds are typically close-ended, a time shall arise when they have to sell their stake. There are many exit options available to PE investors. One of these options is a trade sale in which the equity is sold to another company/entrepreneur. Other options include a buyback in which the original shareholder can re-purchase the equity at the current value, an Initial Public Offering (IPO) in which the company shares are listed on the stock exchange and a sale to another PE investor. An example of a sale to another investor is an Angel/early-stage

venture investor selling to a Private Equity investor at the company's subsequent growth and development stage.

2.9 Theoretical Framework: Responsible Investment Strategies

Responsible Investment is an approach in which an investor places considerations on Environmental, Social and Governance (ESG) factors and an emphasis on various non-financial indicators of a company's performance by specifically scrutinizing the company's impact on these factors (van Duuren et al., 2016).

For each factor, portfolio managers and investment analysts collect and analyse essential information to make objective decisions when constructing their investment portfolios. The seven majorly known ESG investment strategies include:

i) Exclusion-based ESG Investing

This is also known or referred to as negative screening. Under this investment strategy, institutional investors make an effort to ensure that the investments included in the company's Investment Policy Statement (IPS) exclude all investments that do not align with its overall mission or objectives. Investments like fossil fuel extraction or tobacco manufacturing for example could be excluded from a negative screening approach. This can either be done in-house or through the use of third-party accredited ESG data reviewers like Refinitiv, Sustainalytics and MSCI. Many times, the negative screening involves the use of recognized standards like the UN Global Compact's Ten Principles on human rights, labor, the environment, and corruption.

ii) Positive Screening

This refers to the inclusion of companies, or specific sectors for inclusion in investment analysis, basing on certain criteria(s) that are aligned to either social, environmental or governance attributes. This policy is usually implemented by the use of a ranking or scoring methodology that accords weights to ESG considerations such that specific investments or sectors end up being absorbed in the overall portfolio of investments.

iii) Integration-based ESG Investing

This investment strategy differs from the exclusion and positive screening in that it includes investments in a portfolio based on the identified ESG risks and opportunities presented to an

investor. This strategy can either mitigate downside risk from exposure to negative ESG characteristics or obtain exposure to higher returns (alpha) from positive ESG factors. It therefore focuses on exposure to ESG factors to maximize the risk and return characteristics of an investment, without necessarily putting on restrictions on investor's policies or guidelines. These factors are included in the overall process of the financial analysis and evaluation of investment opportunities for example as inputs that could affect forecasts or the discount rate that ultimately is used to determine the net present value among other indicators used for appraisal of investment opportunities.

iv) Impact-based ESG Integration

This investment strategy seeks to positively impact a particular identified issue(s) as a result of undertaking an investment decision. This can be achieved by either investing in companies that achieve financial and social returns to the broader community or, thematically, by focusing on clean, renewable energy and reducing carbon emissions. It is, however, essential to ensure that the impact can be quantified, for example, the reduction in carbon emission on account of the investment. Impact investing is analysed mainly according to Global Impact Investing Network (GIIN) or in other instances how investments have been able to achieve one (or more) of the 17 Sustainable Development Goals (SDGs) launched by the United Nations in 2015.

v) Engagement based Investing

This involves the act of having collaborative discussions with existing or prospective investors so as put across issues of importance concerning ESG, with the end goal of changing the current investment decisions to a more ESG-aligned strategy. These engagements can also be hostile, resulting in conflicts with investors or done publicly through social media or other channels that can influence investors to change investment strategies, and to have them aligned to ESG considerations.

vi) Best in Class Investing

This strategy involves the selection of top-performing investments from either the overall universe of investments or from a particular asset class/sector and weighting to ESG performance before investment selection. This approach leads to selecting investments that are not only ESG-leaning but have also registered a commendable performance on financial return metrics.

vii) Norms Based Investing

This strategy involves the screening of prospective investments per standards that have been set at an international level. These standards are usually defined and developed by international bodies like the United Nations to make them more generally accepted as international norms for responsible investment.

viii) Sustainability Theme Investing

This strategy involves an investment in assets that are linked to general themes that are aligned with sustainability. These themes are aimed at providing solutions to challenges that might be in the environment, for example, climate change or other social issues like access to affordable health care and nutrition.

2.10 Conceptual Framework: Theory of Planned Behaviour

This theory attempts to predict an individual’s intention or motivation at a particular place and point in time to behave in a particular way. It argues that a person’s behaviour or intent is influenced mainly by; their attitude, the subjective norms in society, i.e. what is expected of them, and the perceived control over that behaviour, i.e. extent to which one believes they can perform the behaviour without much difficulty.

Behavioral Beliefs	Normative Beliefs	Control Beliefs
<p>Behavioral beliefs produce a favorable or unfavorable attitude towards the behavior and guide considerations of positive and negative outcomes.</p> <ul style="list-style-type: none">• If I make this decision, what will the outcomes be?• What are the benefits of this decision and what are the negative consequences I might experience?	<p>Normative beliefs result in perceived social (or peer) pressure or <i>subjective norm</i>.</p> <ul style="list-style-type: none">• What do others expect me to do?• How do they expect me to behave?• Will I be supported or ridiculed?	<p>Control beliefs produce a behavioral control by impacting performance of the behavior.</p> <ul style="list-style-type: none">• Do I have the necessary knowledge to make the decision?• Am I confident in my ability to behave this way?• If I decide to act, are the tools I need readily available to me?

Figure 2.14 : Beliefs that guide human behaviour

Attitudes towards a behaviour are the overall evaluation by an individual expecting to perform a decision and their perception of the possibility that engaging in a particular behaviour shall lead to an outcome desired by the decision maker.

The subjective norms under the theory of planned behaviour can be seen as an individual’s perception of their behaviour by other people, for whom the decision maker considers necessary or significant in their decision to perform a particular behaviour or not.

An individual’s perception of their ability to perform a particular decision is a function of their ability to access the required resources to perform that behaviour and the opportunities available to achieve the behaviour (Botelho et al., 2021).

The theory of planned behaviour can be used as an interpretative heuristic to examine and understand how Private Equity investors decide to provide funding to identified projects. Its application in the context of this research shall be used in an exploratory nature to understand how and why Private Equity Investors fund investment projects and investee companies. The conceptual model is that of (Botelho et al., 2021), who sought to understand the motivations of angel investors to seek an exit and the extent to which they are planned or arise out of an opportunity.

The theory assumes that in arriving at decisions, individuals use the available information, and their actions or behaviours are taken in situations where they do not have complete control over exercising their own will. It contents that the individual’s decision to behave in a certain way is a function of their intention or motivation to do so and, thus, is a conscious action on their part to engage in that particular decision. It also addresses non-conscious actions to behave in a particular way by incorporating the issue of people’s perceptions of the behaviour of individuals. A graphical representation of the theory of planned behaviour is provided below.

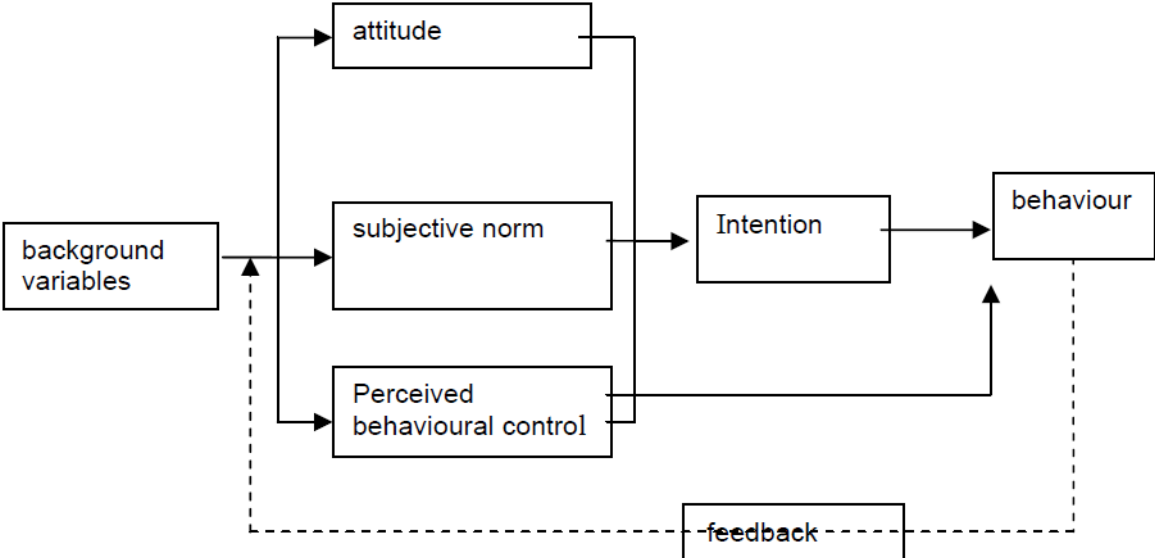


Figure 2.15 : Theory of Planned Behaviour

Source: (Smith, 2003) Theory of Planned Behaviour

2.11 Review of Empirical Literature

a) Responsible Investment in Private Equity

Application of Deep ESG to Private Equity

(Long & Johnstone, 2021) conducted a study in the Asian Private Equity market, in which he proposes deep ESG as a holistic approach for incorporating ESG in Private Equity Investment. This approach proposes a portfolio approach integration of ESG metrics across the entire lifecycle of a Private Equity firm, from pre-investment screening up to the implementation stage. The proposed approach comprises five factors that include; (1) the identification of the rubric, (2) asset provenance, (3) stakeholder controls, (4) a sustainability migration plan and (5) review and correction.

ESG Factor Integration in Private Equity

(Zaccone & Pedrini, 2020) established that there has been a growing interest in ESG factors, and many PE firms are adopting an ESG integration approach towards the portfolio decision-making process. The study further argues that the integration process is primarily driven by the attention and pressures of investors and other stakeholders towards ESG investments.

It was also established that most firms use checklists when adopting ESG integration with little or no reliance on external advice from ESG experts and re-knowned data providers. The extent to which firms adopted a criterion for ESG integration was primarily driven by the firm's business model and the extent to which the ESG industry was mature to enable firms to access the relevant information that shall enable objective ESG-related decisions

Application of ESG in the African Context.

Price Water House Coopers (PWC) conducted a global private equity responsible investment survey with a focus on Africa (View, 2021). It established that more than 50% of the interviewed respondents from Boards of Directors considered ESG at the decision making process.

From the environmental perspective, it cited the business world having a stronger connection to climate change induced risks, and the key findings from the environmental perspective included; the management of the impact to the environment, compliance with environmental/carbon regulation and biodiversity.

From the social perspective, it was reported that key factors considered to be material included; the promotion of human rights and the elimination of modern slavery, the inclusion of occupational health and safety, and the training and development of employees.

From the governance perspective, it was reported that the key material considerations for private equity players included; enhanced compliance with regulations attributed to ESG, zero tolerance to bribery and corruption and the adoption of ESG governance sustainability whilst considering the available ESG risks and opportunities.

In addition to the above study, (Bean & Melville, 2018) in their study on the evolution of responsible investment in Africa established that fund managers in the African continent have a development based investment focus, that has focus on financial returns, the impact on the economy and society at large, as well as the ESG performance. It was also established by (Bean & Melville, 2018) that fund managers on the African continent allocated more resources (time and money) towards ESG related issues than it was in the more developed countries.

b) Motivations of Private Equity Investors

Other studies have examined the motivation factors behind investment decisions using the TBP. For instance, (Kend & Katselas, 2013) explored the motivations behind PE Investors in Australia from a stakeholder analysis covering PE investors and finance professionals. The authors established that although PEs may be motivated by financial returns, they are also more patient in allowing for the recovery of the investment over longer time horizons.

Besides the time horizon, the study also established that they are motivated by the partners' expertise in the PE firm, as they would be less exposed to the issues surrounding the principal-agent relationship common in public companies. This is because they work more closely with the investee company and the investor base is less diverse, enabling the harmonization of goals and objectives.

Following the advent of the global financial crisis, there have been challenges in completing IPOs, yet PE investors seek exit strategies to recover their investments. Consequently, there has been reduced motivation to invest in growth companies (Kend & Katselas, 2013). The reputation and track record over the years of PE companies has thus become an important yardstick that motivates PE investors post the financial crisis.

(Roundy et al., 2017) established that impact-based PE investors have complex motivations that do not fall wholly within either financial or social/philanthropy aspects. These investors instead align investments to their personal views and how they believe they can create the change they desire in society at large.

From the perspective of the African continent, (Lumbala, 2019) in a study of private equity investments in Zambia established that the motivations for private equity investments were centered around two broad themes i.e. the business attractiveness and the business environment.

The business attractiveness encompassed among others; the management competence, the anticipated returns, the scalability of the business (including at the regional level) and the overall impact to the society. The business environment on the other hand encompassed among others; population growth, currency risk, GDP growth and political stability. These were all seen as important considerations that private equity investors in Zambia placed upon when considering prospective investments in that country.

c) Investment Decision-Making process of Private Equity Investors

(Mittal et al., 2017) in a study of Private Equity investors in India established that in their decision-making process, Private Equity investors placed consideration on the industry or product to be invested, the management team's capability, the reputation of the entrepreneur and the financing requirement by the entrepreneur.

(Sinyard et al., 2020) in a study sample of 20 Private Equity groups established the role of heuristics in the initial decision-making process of Private Equity companies to buyout transactions. The study found the use of simple rules on the company's features, the general nature of the industry in which it operates, and the composition of the management and the owners of the target companies when screening out buyout opportunities.

(Dwyer et al., 2020) in a study of Australian Private Equity firms established a mismatch between the demand and supply side of Private Equity, given that only a few of the sampled companies could meet the strict investment criteria of Private Equity firms. As a result, many of these firms needed help accessing the available funding. The study, therefore, advocates for Private Equity firms to remedy their knowledge gap and improve reporting to increase access to Private Equity funding.

d) Challenges in accessing Private Equity Financing

(Sunderland, n.d.) established that Private Equity funding in emerging markets is hindered by the presence of dysfunctional capital markets, as investors expect to have a profitable exit within a particular time frame. With undeveloped capital markets, the likelihood of exits through IPOs is low compared to developed markets like the USA, whose financial markets have provided an avenue for Private Equity investors to earn a return from being listed on the stock exchange.

This study further revealed that limited legal recourse was another underlying challenge in the Private Equity markets in emerging economies, as enforceable contracts are essential in any financial transaction and can be a reliable fall-back position in dispute resolution.

(Reynolds, 2015) in a study of the regulation of Private Equity firms in South Africa established that they were operating with limited or no transparency coupled with inadequate investor protection that resulted in financial loss and reduced investor confidence. This therefore had negatively impacted the flow of Private Equity capital to firms operating in South Africa.

(Prequin, 2014) identified a number of private equity challenges in Africa. These included the ability of the local private equity firms to collect local capital first before accessing international capital, given the general lack of local private equity investors (except South Africa) in Africa. Besides this, the same study identified challenges in the deal flow, given about half of the private capital is sourced through connections and networks. The study also identified capital restrictions as another major challenge faced by private equity firms in Africa, given that many countries are reluctant to open up their financial systems for fear of being abused and exploited by foreign participants. Besides these key challenges, the study identified other challenges that included; high taxation, high borrowing costs and the lack of experienced fund managers.

The African Venture Capital Association in a 2020 report identified the challenge of exit in the African Markets given the limited opportunities available to private equity investors. This was attributed to a decrease in the number of exits from 52 in 2017 to 43 in 2019, with IPO's as an exit route remaining a rarity in the African continent. Trade buys were established to account for almost 50% of the exits, with a considerable decline in secondary exits.²

² AVCA: Private Equity and Venture Capital in Africa: COVID-19 Response Report 2020

Chapter 3

Methodology

3.1 Introduction

This chapter provides an overview of the approaches used when conducting academic research, including the pros and cons of each method, and where it is more appropriate to use either one or a mixture of approaches. Having identified the preferred research approach, it is then expounded on to include; the method of obtaining data, the sampling methodology and how the information shall be analysed to derive meaning that shall support the researcher in answering the identified research questions.

3.2 Research Approach

In research methodology, there are three primary types of research, i.e. Quantitative, Qualitative and Mixed method research (Leacock et al., 2009), (Adams, Khan, & Raeside, 2007) and (Johnson et al., 2007). In situations where the knowledge on the researched topic is not available easily and in abundance, qualitative research is preferred to quantitative (Ghauri & Grønhaug, 2005). The research topic being studied is exploratory, given that Uganda's Private Equity information/data is not published or readily accessible to enable a comprehensive quantitative research undertaking. Besides, the Private Equity market in Uganda is not well understood by the average Ugandan and its potential for the economy. A quantitative approach may not be best for this study. As such, the researcher considered a qualitative approach to research, with reliance primarily on industry experts, who can give deeper insights into the operations of the Private Equity market. This enabled the researcher to assess the role of Private Equity in Uganda's economy and its contribution to responsible investment.

3.3 Research Design

3.3.1 Population and Sampling

Given the specialty of the research topic, the ideal sample for the study was drawn from experts in the Private Equity space in Uganda. The experts comprised Private Equity or venture capital firms, institutional Private Equity investors, market regulators, research firms and start-up accelerators.

The sampling method used was a non-probabilistic- purposive sampling method as it suits the nature of the research in which participants were selectively chosen to meet the research objective. (Baker and Edwards, 2012) suggest a sample of 15 participants to be adequate in such a study that requires highly knowledgeable participants. This enables the researcher to get deep insights into the research topic whilst ensuring that the sample is representative. Besides, the existing time constraints may not allow a larger sample to be interviewed.

There is no published data on the number of PE and VC funds in Uganda. From preliminary investigation, the East African Private Equity and Venture Capital Association (EAVCA) offices in Kampala confirm having a database of 23 firms; however, most of them are not domiciled in Uganda. Given the proposed sample size of 15 participants for the entire study, these firms must form a substantial part of the interview surveys. Consultancy firms that have also reported a lot of insights on the Private Equity market in Uganda and the East African region, were included in the sample. Interview participants from a prominent Institutional investor and a development finance institution were also included in the sample.

One participant from the regulatory body was interviewed to give the context on the overall Private Equity space in Uganda, given that regulation from empirical studies has been identified as an enabling factor of Private Equity investment. The existing regulations and suggested improvements formed part of the research process. The researchers proposed breakdown for the interview participants is summarized in **Table 3.1** below.

Table 3.1: Breakdown for the interview stakeholders

	Stakeholder	Number of Participants
1	Private Equity Firms	8
2	Development Finance Institution	1
3	Institutional Investor	1
4	Financial Market Regulator	1
5	Private Equity Trade Association	1
6	Consultancy Firm	2
7	Start Up Accelerator	1
	Total Participants	15

3.3.2 Description of Participants

A total of 13 participants out of the expected 15 were interviewed, given they are the ones who not only provided consent to be interviewed but also ultimately participated in the interview process. The interviews were conducted with a mixture of face-to-face and online interviews across the spectrum of Private Equity players (accelerators, research/advisory firms, Private Equity firms, DFI's and a financial market regulator) in the Ugandan market. This enabled the researcher to obtain well-diversified and balanced feedback. This, in turn, allowed the researcher to identify commonly observed themes that re-enforced submissions from the different interview participants.

The majority of the participants were male with an average age of 30+ and operating in the private sector sphere of the market, as either direct investors in businesses and companies through Private Equity funds or as providers of advisory services and technical assistance to the PE funds and prospective portfolio companies. A summary of the key characteristics of the interview participants is provided in **Table 3. 2** below.

Table 3. 2: Interviewed Participants

	Position	Years in PE	Age	Gender	Organization	Sector	PE Stage
1.	Managing Partner	14	30-39	Female	Private Equity Firm	Private	Growth
2.	Corporate Finance Analyst	10	30-39	Male	Research/Advisory Firm	Private	Growth
3.	Director Investment	9	30-39	Male	Venture Capital Firm	Private	Early
4.	Corporate Finance Advisor	4	20-29	Male	Research/Advisory Firm	Private	Growth
5.	Portfolio Manager	11	30-39	Male	Institutional Investor	Public	Mature
6.	Managing Director	18	40-49	Male	Private Equity Firm	Private	Growth
7.	Investment Manager	10	30-39	Male	Private Equity Firm	Private	Growth
8.	Investment Advisor	8	30-39	Male	Private Equity Firm	Private	Growth
9.	Country Coordinator	2	30-39	Female	PE Trade Association	Private	All
10.	Director	15	40-49	Male	Financial Market Regulator	Public	All
11.	Director	15	40-49	Male	Start-up Accelerator	Private	Early
12.	Investment Analyst	6	20-29	Female	Private Equity Firm	Private	Growth

13	Equity Analyst	2	30-39	Male	Development Finance Institution	Public	Early & Growth
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3.3.3 Instrument and Data Collection

(Castillo-Montoya, 2016) proposes the interview protocol refinement (IPR) framework for conducting and refining interviews used in qualitative research. This framework is more suitable for either structured or semi-structured interviews. The IPR is a four-phase process that aims to ensure that interview questions align well with the research questions. The four phases in the IPR include; Ensuring the interview questions align with the research questions, constructing an inquiry-based conversation, receiving feedback on interview protocols and piloting the interview protocol (Castillo-Montoya, 2016).

The IPR framework aims to ensure that the questions selected are necessary for the research and are allocated fairly across the different research questions and objectives. This is done by creating a matrix that plots the interview questions in the first columns and the research questions in the rows, from which the researcher can map out the questions across the research objectives.

The tabular matrix gives the researcher an overview from which it is easier to review and ensure that interview questions address particular research objective(s) and are well distributed across each research question. An overview of the tabular process that was used for the IPR framework is presented as appendix 2 to the report. (Jonker & Pennink, 2010) on the other hand recommend an open-ended approach to conducting qualitative research. Given that the topic at hand is specialist, the flexibility in choosing the sample for the study is limited. The IPR framework was therefore used to assign a variety of questions to selected few interview participants in order to generate findings to the research objectives.

To achieve the objectives of this research, information was sourced directly from the players in the Private Equity Industry, i.e. Fund Managers, Investment professionals, Regulatory Agencies and any relevant Government Institutions. (Eriksson and Kovalainen, 2008) cite organizations as sources of information that can be used when conducting research. Given the exploratory nature of the research, interviews of the key players in the country's Private Equity industry was selected as the ideal method to generate adequate, reliable and substantial information from which meaningful conclusions can be drawn.

(Jonker & Pennink, 2010) describe exploratory research as one done for a specific topic, guided by a defined context, and the main source of information is primary data. The research topic, in this case, is Private Equity, which is not well documented in the country. As such, the data can only be obtained from primary sources given its not published and easily accessible to aid a secondary data offering.

According to (Adams, Khan, & Raeside, 2014), different interview methods have been defined. These include; exploratory, longitudinal, design and in-depth interview methods. In terms of depth, exploratory and design interviews are not advised for research because they do not reveal enough information to enable the researcher. Longitudinal interviews, however, require more time as the interview process is not a one-off.

Given the limited time that this research must be conducted, the approach chosen was cognizant of the time constraint. The study therefore zeroed down on the in-depth approach of interviews because it enabled the researcher to get an in-depth understanding of the research topic whilst enabling completion within the required timelines. The interviews typically lasted an hour or even more. As and when the interview occurred, answers to particular questions led to others that the researcher was not prepared to ask. This explains why at times the interviews lasted over an hour.

However, given that the data from the interview was ultimately compared among the different participants, it was only imperative that some structure was included in the interview process. Therefore, a semi-structured approach was considered for this research because it enabled flexibility and structure (Guthrie, 2010).

(Bradford and Cullen, 2012) argue for a semi-structured interview because it enables the researcher to obtain information from the primary source based on the experience of the interview candidates. It is always essential that exploratory information is not obtained from secondary sources but directly from the people who experience the subject matter daily.

Prior to the commencement of data collection, ethical clearance was obtained from the research and ethics committee of the University of Cape Town, Graduate School of Business on 09th August 2022. The approval was then used to identify interview respondents who could ably respond to the research questions and provide response from across the different players in the Ugandan Private Equity market. The interview respondents were required to provide consent to the researcher, by way of filling the approved interview consent form. This among others

ensured that the responses would remain confidential and secure. The entire process of interviewing candidates lasted for a month from the 29th of August 2022 to the 28th of September 2022 and all interview participants were anonymized.

The research was conducted primarily using face-to-face and online interviews using available technology like Zoom and Microsoft teams because the researcher was resident in Uganda and therefore was available for any of the interview methods preferred by the interview participants. The minimum time devoted to the interviews was at least 30 minutes so as to obtain enough information to make meaningful findings and research recommendations.

The main challenge encountered in the interview process was the unavailability of some of the respondents at the previously agreed time, which necessitated the researcher to post pond and at times schedules kept on clashing which consequently ended up prolonging the interview process. To be able to mitigate the challenges, the researcher took off a period off work, as part of the annual leave days so that they would be more available for any changes in the slated interview time periods, especially where they happened at short notice.

3.4 Data analysis

Given that the qualitative data was obtained from different interview participants, it was essential to synchronise this information and make the requisite inferences from them. Four methods have been advocated for qualitative data analysis: the grounded approach, content analysis, summarising and the framework approach (Adams et al., 2014).

However, given that the interview information was obtained using a semi-structured approach, it was not be possible to standardise it across all the interview participants. The grounded approach theory was, therefore, more appropriate. (Jonker & Pennink, 2010) explain this approach as one whose aim is to develop a theory grounded in practice. The data from the interviews was analysed to enable categorisation according to different characteristics. Relationships or patterns in the different categories were then looked out for if they existed.

The grounded theory approach however, has been criticised because it requires the researcher to have a certain level of expertise to dissect and make appropriate categorizations. (El Hussein, Hirst, Salyers, & Osuji, 2014) argue that novice researchers are more likely to make errors by wrongly applying the research methodology that underpins this theory. (Allan, 2013) on the other hand, argue that this approach requires great research skills to carry out appropriately.

This method was, therefore, not appropriate for a novice researcher. To improve on the shortcomings of the grounded research approach, (Green et al., 2007)'s (2007) refined this approach, and a graphical summary of this is provided in the figure below. This approach guided the researchers study and was used in analyzing the information obtained from the interviewed participants.

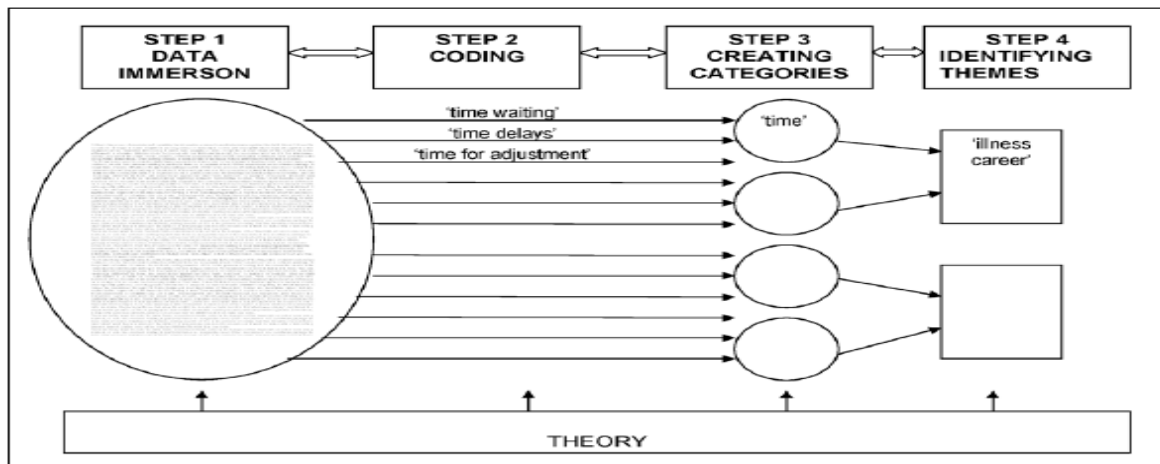


Figure 3. 1: Four data analysis steps to generate the best qualitative data

Source: (Green et al., 2007), Generating best evidence from qualitative research

i) Immersion in the data

This generally implies getting deeply involved in the process of acquiring qualitative data. Given that the approach chosen to obtain qualitative data is through interviews, the researcher needs to be part of the process to gauge how confident the interviewees answer questions. This enables one to get a better understanding of the responses and thus be able to interpret them accordingly.

The process of data analysis is made easier through data immersion because one does not simply hear a recording but through nonverbal communication; for example, the context in which the information is provided can be better interpreted.

ii) Coding the data

Once the researcher has been fully immersed in the data by participating in the collection process, the second step is the process of coding. This entails putting descriptive labels on the data. The context in which the statements were made could be one of the ways of coding the information.

To enable the coding process, the researcher ought to know what exactly they are seeking from the data obtained in the interview process. As more information is received, new codes may be added, and the interpretation of existing codes may be changed to reflect the latest information. The coding process is; therefore, a forward and backward one as the researcher gains more knowledge of the subject matter.

iii) Creating Categories

Following the creation of codes, the researcher needs to link these codes to respective categories. The categorization enables the researcher to explain findings from the different categories and make comparisons with the others. It attempts to group codes that have similar relationships.

The research process can stop at this stage, and findings can be reported based on the categorizations. This, however, has to be explicitly stated in the research. The researcher could focus on the dominant categories and use them to make the research findings and conclusions. However, this selective approach to data is limited as it only provides part of the findings generated from the research process.

iv) Identification of Themes

This is the final step of analyzing the interview data. Unlike descriptive categories, themes are more explanatory. This, therefore, entails testing the interpretation with the data and the underlying theory. This provides more substantial evidence for the findings

Chapter 4

Discussion of Findings

4.1 Introduction

This chapter analyses the findings from the semi-structured interviews conducted with sector experts in Uganda's Private Equity market. The interview questions were aligned with the research questions as per the interview protocol refinement framework. The key research questions that were answered by the interview questions are as listed below:

- a) What informs/influences the decision of Private Equity Investors to invest in projects or businesses in Uganda?
- b) What ESG and other development considerations are taken by Private Equity Investors in evaluating investment options in Uganda?
- c) What are the current challenges Private Equity firms face in accessing the necessary funding in Uganda?

4.2 Motivations behind the Decision-Making of Private Equity Investors in Uganda

From the interviewed participants, the study identified five key thematic areas behind the motivations of Private Equity investors, and they included; the stage of the business, the return vs social objective of the investor, the competency of the management team, the level of understanding/appreciation of the opportunity and its size in the market.

a) The Stage of the Investment Opportunity

This refers to the stage at which the investment opportunity is presented, ranging from the very early/formative stages before proof of concept to the more mature stages that comprise profitable companies. The interviewed participants invested in Private Equity's early, growth or mature stages. This was in line with the investors' risk tolerance, with the less risk-tolerant investors like DFI's investing in early-stage risky companies. In contrast, the more risk-tolerant investors like some of the institutional investors invested in more mature companies that presented less risk to the capital deployed.

“We are a conservative fund, and for us to consider an investment in any venture, it must submit a track record of sales or profits/cash flows, three-year audited sets of financial statements and have a minimum Net Asset Value (NAV) of Ushs 200 million. (Respondent 1)

Respondent 11, however, responded that the stage of the investment opportunity is not ‘*cast in stone*’. The respondent submitted that despite their mandate to invest in growth companies with a moderate risk appetite, they occasionally considered early-stage VC companies on a case-by-case basis, depending on how the entrepreneur advanced the merit of the investment proposal. This is consistent with the published data from EAVCA that showed the majority of the PE firms in Uganda are sector agnostic and, as such, have invested in various sectors of the economy. Opportunities in these sectors may sometimes fall into different stages of development, and as such, PE firms find themselves investing in firms at the different stages of growth and development.

“Even if the Private Equity market is categorised across the various stages (seed, early stage, growth, mid-cap and large-cap), Private Equity investors categorised under a particular stage have invested in earlier or later stages of the Private Equity landscape. They do this to take advantage of the limited well-structured opportunities in the Uganda market.” Respondent 3

The responses corresponded to literature from (Kend & Katselas, 2013), who established that there had been reduced motivation by Private Equity investors to invest in growth companies following the 2008 financial crisis, given the challenges in seeking and closing exit strategies to recover their investments. This had seen a shift in investment to more mature and well-developed companies with a steadier cash flow, thus presenting less risk to private investors and an opportunity to fastrack the recovery of the investment capital from the cashflows already being generated.

b) Competency of the management team

This refers to the extent to which the prospective investee company's management team clearly understands the business opportunity being presented, can articulate the proposal, have a clear understanding of the market and how to go to the market and demonstrate their ability to execute on their business plan. This was found to be essential especially were the proposal was in a competitive market and the entrepreneur had to justify why the investment should be made in their company, in preference of a competitor.

All the interview respondents submitted that they were looking for critical traits in the management team that included a passion for the business and, above all, their character and integrity, as honesty was considered the most vital factor required for a long-term commitment to private capital.

The PE firms consider these manager's as partners in a joint venture/undertaking that requires complementary skills and dedication because one party alone may be unable to execute and deliver at the highest levels. Given that many of these PE firms also consider the financial return as an essential metric, management competency is vital to ensuring that the firm's overall economic performance is beyond the expected targets to provide a return on investment.

We also require, among others, for the prospective investee company to have a separate board of directors from the management team, and they should demonstrate the existence of the management team for at least three years with no criminal history.” (Respondent 1)

“We consider the composition of the leadership and management team in terms of their understanding/expertise in the industry, and the ability to build a successful and competitive team that has opportunities towards acquiring market leadership and creating an overall competitive advantage;” Respondent 10

(Sommer, 2013) in prior literature established that 90% of prospective investee companies do not go past the investment stage, which comprises, among others, the due diligence process. Key to the due diligence process is the competency of the management team, given that Private Equity investors take not only an above-average risk but also deploy longer-term strategic capital. The investors, therefore, need to ensure that they have committed to the right partners best placed to execute their mutual interests.

This was found to be consistent with literature by (Kend & Katselas, 2013) and (Mittal et al., 2017). They established that PE investors are motivated by the management team's capability to execute their strategy when making an investment decision in a prospective investee company. The management team's track record was seen as an essential yardstick when evaluating the Private Equity opportunity being presented for an investment because it was the cornerstone for the day-to-day management of the affairs of the investee company.

This also was found to be consistent with a study by (Lumbala, 2019) with a context on the Zambian economy, in which it was established that the competency of management was one of the key motivations for private investors to invest in a portfolio company.

c) Return Objective of the Investors

This refers to the extent to which returns are considered the primary factor for making an investment decision. Returns are the primary factor when making an investment decision depending on the nature of the investors. Some investors might consider other secondary issues like responsible investment and ESG factors more important than the need to generate a return. Returns are considered the primary driver for investing in Private Equity by the more conservative funds, with other considerations like ESG and development considered a secondary layer. These funds are primarily motivated by the need to generate a commensurate return. As such, exit is regarded as an essential aspect of the investment, given that the vast bulk of the return is generated then.

Most interview respondents submitted that they were obliged to make an impact from their investments and earn a return for the investors. As such, they had to ensure a balancing act between return and responsible investment. However, most funders, primarily DFI's, were keen on issues around responsible investment and, as such, were found to be a key motivator for responsible investment as an essential first consideration over and above the need to generate returns. Critical areas of responsible investment considered by the funders include; financial inclusion, provision of affordable health services, and access to clean energy.

“Our funders are largely impact investors interested in funding businesses that have a ripple effect in the economy and promote the overall welfare of society. Our motivations for investing in a prospective business are thus aligned to responsible investing, adherence to ESG considerations and the UN SDGs over and above the need to generate returns.” (Respondent 10)

Respondent 1, however, submitted to the contrary, stating that *‘returns were the primary concern for their firm, with responsible investment considered to a lesser extent as secondary layer’*. Their fund primarily generated a return for the members, who were more concerned about how well the declared returns were over and above the published inflation rates. This was because the providers of capital in the future would need their funds, and as such, they should, at the very least, beat inflation targets to preserve the value of their invested capital.

The responses from the majority of the interview participants were consistent with (Roundy et al., 2017), who established that impact investors make investment decisions aligned with their personal views and believe that they can change the world for the better.

From the interview respondents, it can be concluded that most of the funders in the Private Equity space in Uganda were philanthropist's/impact investors who emphasized key Socially Responsible Investment considerations when evaluating prospective Private Equity investments in the country. Socially Responsible Investment could thus be seen as having an enormous opportunity for exploitation in the country.

d) The level of understanding of the opportunity

This refers to how investors understand the opportunity being presented to them to make an informed decision. Private Equity investment in Uganda cuts across different sectors, including Telecom, Agriculture, Energy, Manufacturing, and Technology/FinTech. These sectors all present unique attributes that need to be well understood in the due diligence process before committing to an investment decision.

The extent to which investors understand these investments is a crucial motivator for their investment decision, given that Private Equity firms primarily conduct due diligence in-house and thus are largely limited to their internal expertise.

There was consensus among interview participants that the due diligence process was primarily done in-house and, therefore, at the discretion of the internal team. As such, investments were made mainly in businesses or companies that could be well understood and evaluated by the due-diligence team.

"The due-diligence process is largely done in-house; however, specific areas like legal, due diligence may be outsourced to third parties like law firms due to the limitation of such experts in-house. Given the limited outsourcing, our investment decision is largely driven by how well we fully understand and appreciate the opportunity at hand". (Respondent 4)

This was further reinforced by Private Equity firms specialising in particular areas, such as agriculture, technology and Energy. This level of specialism could be an indicator of a better understanding of those particular market segments, and as such, the portfolios are highly concentrated on a specific sector(s).

The responses from the study were thus found to be consistent with research from (Sinyard et al., 2020), who established the role of heuristics in the decision-making process of Private

Equity players in Australia concerning their understanding of the industry in which the prospective investee company was operating.

Prospective investee companies should therefore ably structure and communicate their business proposal to private investors in a clear, well-structured and easy-to-understand manner. This ensures that they include all critical pinpoints of the business whilst providing all the necessary information in line with the investor's overall investment mandate.

e) The size of the market opportunity

This refers to the extent to which the business opportunity can be scaled to capture a bigger market. It ideally relates to the demand for the product or service that the entrepreneur is offering to the market and if there is a sizeable market to justify an investment from a Private Equity fund/investor.

There was a consensus among the interview participants that the size of the market opportunity is a crucial motivator for a Private Equity investment as it provides opportunities for the investment to scale, become profitable and increase the chances of returning the invested capital and the associated return. More significant markets also offer options for more impact in line with responsible investing. As companies grow and develop, the local markets might become saturated. Therefore, there is a need to discover alternative markets to consume the surplus production over and above the local demand.

“We look at a product’s solution fit in terms of how it solves the identified problem and if it is the right solution to the problem; the product market fit in terms of if there is an ideal customer and the presence of a sizeable market to consume the product or service being offered regularly, and above all the sector or market size and its capacity to scale” Respondent 10

This also was found to be consistent with a study by (Lumbala, 2019) with a context on the Zambian economy, in which it was established that the scalability of the investment was an important consideration for a private equity investment. This was in particular to the location of Zambia as a country, that bordered other countries like; Malawi, Democratic Republic of Congo, Malawi, Zimbabwe, Namibia and Tanzania. These countries were all seen as additional markets for Zambian produced goods and services.

The growth lab at Harvard University projects Uganda to be one of the fastest growing economies in the world by 2030, despite the challenges in the global world economy due to the

effects of the Covid-19 pandemic. In addition, data from the 2015 national census revealed that 55% of the population was below the age of 18 years, with only 4.1% above 60 years. With a growing economy that consists primarily of young people, there ought to be an expected growth in the local consumption of goods and services for the foreseeable future that can be provided by businesses including those backed by private capital.

The interview respondents also saw Uganda having a strategic location in the region, being at the center of the East African community. As such, it has direct export routes to regional markets like Kenya, Tanzania, the Democratic Republic of Congo and South Sudan, among others. Access to such markets presented a bigger opportunity for Private Equity investors in the country. With the ongoing advancements in the formalization of the East African Community, the regional bloc is expected to provide a market of over 283 million people. As such, the opportunities for economies of scale are enormous.

4.3 Responsible Investment strategies of Private Equity Investors in Uganda

From the analysis of the interview submissions concerning the research objective of responsible investment strategies in decision-making, it was identified that ESG considerations were factored by the majority of the firms, who incorporated responsible investing given the mandate of their investors who were essentially philanthropy/impact investors. The other funds that did not have this requirement from the funders adopted responsible investment at the level of the fund structure, as approved by the Board of Directors with respect to the fund mandate to generate returns. The key thematic areas for the strategies under responsible investment include; exclusion-based investing, ESG integration-based investing, impact-based investing and engagement based investing.

a) Exclusion-Based Investing Strategy

This is a responsible investment strategy in which the Private Equity funds exclude all prospective investments that do not conform to their pre-set criteria. This ensures that only investments that comply with the responsible investment strategies of the investor meet the requisite criteria for accessing funds.

There was a consensus among the interview respondents that exclusion based investing was the primary strategy of responsible investment they employed in their decision-making process. This could be mainly because the prospective investee companies must undergo a rigorous due diligence process. As such, companies that did not meet ESG considerations, for example, cigarette companies, could be excluded from due-diligence assessment from the onset.

Besides, the providers of funding to most of these PE firms were impact/philanthropic investors who were keen on seeing that their funds were not channelled to companies that violated internationally agreed on metrics of responsible investment.

"Our funders are keen on avoiding reputational damage and therefore are the primary advocates of ESG and other considerations to our fund. We, consequently, screen out all companies that do not comply with these considerations from the onset for inclusion in our portfolio." (Respondent 13)

The exclusion strategy was found to be primarily considered by many PE investors in Uganda because it is a more straightforward approach to apply and does not require much analysis. It is, therefore, easier to explain to the providers of capital how they consider a responsible investment in arriving at their final investment decision. According to the Vanguard & Global sustainable investment reviews for 2016 and 2018, close to 30.7 trillion was deployed globally through the exclusion-based approach, which points to the significant usage of this method of responsible investment across the world and not only in Uganda.

Respondent 1, however, submitted to the contrary by stating that *"the decision to invest in a company not aligned to ESG and Socially Responsible Investment was dependent on the board's investment committee."* This implied that ESG was not shot stop to the inclusion of an investment, which was found to be consistent with the overall mandate of the firm, primarily to generate returns for the investors/providers of capital.

These findings from the interview respondents were consistent with prior research (Zaccone & Pedrini, 2020), which established that pressures from investors and other stakeholders mainly drove the ESG exclusion strategy. These funders' set ESG considerations as a pre-condition to financing Private Equity funds.

b) Integration-Based Investing Strategy

Under this strategy, responsible investment risks and opportunities are factored into the investment decision-making process to ensure that the investors get exposure to these opportunities. In turn, they are expected to positively impact the company's financials and the overall bottom line.

Four of the interview participants submitted that they would deliberately seek investments that presented the opportunity to generate a return and meet the critical responsible investment requirements of the overall investment mandate. Therefore, the fund managers carefully sought investment opportunities across the two metrics of; returns and responsible investment to ensure a balancing act.

However, given the limitation of ESG and responsible investment data, this method is less widely used than the exclusion because it requires a level of analysis that depends on the quality of the data available in the market.

"Where possible, we screen out from the onset for companies with favourable policies on ESG for inclusion in our portfolio subject to the completion of due diligence and in line with our overall investment mandate". (Respondent 8)

This was consistent with the literature (Zaccone & Pedrini, 2020), which established that many PE firms of recent were adopting ESG integration as an approach towards their evaluation and portfolio construction process for investee companies. It also confirmed that most firms use internal checklists for ESG integration, as opposed to external providers of ESG data, especially if the industry was not mature enough to enable the Private Equity firms to access the required data reliably.

c) Engagement-Based Investing Strategy

Under this theme, investors seek to influence the behaviour of prospective Private Equity investors by helping them align their businesses to responsible investment by including, among others, ESG considerations such that they can be well prepared to take advantage of the opportunities present in the market.

Three of the interview participants submitted that they proactively engage the prospective investee companies with a view to either teaching them about responsible investment or preparing them to take advantage of responsible investment opportunities. This was done by helping the companies improve their current performance to increase their chances of closing an investment in the future.

“We proactively engage prospective companies that have the potential to comply with ESG considerations, and they are helped to build in-house policies that shall enable them to improve on their current ESG performance”. (Respondent 13)

“We help to build companies that are aligned to the overall UN SDG’s and responsible investment framework to prepare them better to tap into the global impact investment opportunities.” (Respondent 12)

The United Nations principles of responsible (UN PRI) investments argue for engagement based investing as a learning opportunity from which more efficient ESG targets can be set, by better understanding an entity and maximizing the mutual relationship with the investor company.

It has also established that Corporate engagement, primarily done with listed companies through proxy voting, is less relevant than in the past. As such, the UN PRI advocates for more sector, policy and asset manager engagement to supplement corporate engagement to maximize the effect of engagement investing by addressing the limitation of corporate engagement.

d) Impact-Based Investing Strategy

Under this strategy, Private Equity firms seek to strike a balance between impact and returns by providing capital to investments that can generate a wide range of impacts, including financial inclusion, access to health services, access to electricity, reduced carbon emissions and creation of employment. This array of impact metrics is considered in conjunction with the need to generate returns.

There was consensus amongst interview participants that measures of impact that can be quantified are essential metrics for the overall investment, with the need for these metrics to be clearly defined and measured along the entire lifecycle of the PE investment.

“Our ESG due diligence cuts across the investment life cycle. In certain scenarios, our remuneration as fund managers is also aligned with achieving ESG considerations like impact. Performance on impact metrics is considered part of the overall carried interest paid to us as a performance-based incentive.” (Respondent 4)

“Of late, we have noticed many investments in industries that feed into transactions ultimately consumed by the ordinary person, for example, mobile money in the financial inclusion space and online pharmaceuticals in the healthcare space. (Respondent 3)

According to the Global Impact Investing Network (GIIN), the measurement of the desired impact is one of the essential objectives of impact investment, which requires a report on, among others, the social and environmental performance of the investments and the progress achieved over the years to enable accountability and transparency. The GIIN in 2022 also estimates the global impact investment market at US\$ 1.164 trillion, indicating a sizable opportunity for Private Equity companies to tap into impact aligned private capital.

(Long & Johnstone, 2021) advocated for a holistic ESG approach, in which integration of ESG is made not only at the initial phases but across the entire value chain and life cycle of the Private Equity Investment. This enables monitoring of the impact of the investment on society along the entire Private Equity lifecycle. Where it is outside expectations, measures can be instituted early enough to ensure that the necessary corrections are implemented in due time.

4.4 Challenges in accessing Private Equity capital in Uganda

The analysis of the interview responses identified challenges that cut across four broad thematic areas: issues around the existing laws on Private Equity, the fund structure and the current tax regime for Private Equity, the investor perspective and the enterprise perspective. Amongst these identified common themes, several challenges have been expounded on below.

4.4.1 Inadequacies of the existing Laws

This relates to how the existing laws on Private Equity in Uganda are adequate in facilitating capital attraction into the country. All the 13 interviewed participants identified the current laws as inadequate to attract Private Equity capital in Uganda.

The aspects of the law were generally split between the general ease of doing business and laws specific to Private Equity. The interview participants generally described the existing laws in their current format as inadequate and not specific to the requirements of Private Equity investments.

“Laws on contentious issues like registration in which Private Equity funds are only registered as a company liable to corporate tax at 30%, acquisition of property and land, intellectual property and counterfeit law, and insolvency are not adequate. Besides this, breaking these laws carries soft penalties that are not punitive enough to deter any would-be offenders”. (Respondent 3)

“Multiple laws are currently applicable to Private Equity funds, for example, the Uganda Registration Services Bureau (URSB) Act, Capital Markets Authority (CMA) Act, the Bank of Uganda (BOU) Act and the Uganda Retirement Benefits Authority (URBRA) Act among others. As such, no clear legal framework is suited for Private Equity in Uganda”. (Respondent 2)

“The insolvency laws for closing a fund formulated under the company structure is cumbersome and expensive, with the process taking between one and ten years. During this period, the Private Equity fund must keep staff on its payroll whilst paying advisory fees to professionals like lawyers and accountants”. (Respondent 3)

Registration of patents with the Uganda Registration Services Bureau is challenging as it requires one to submit a completely new idea to be patented. This is as opposed to more developed countries where patent laws are well developed, and entrepreneurs can innovate around an existing idea without infringing on existing patents. (Respondent 10)

“There have been noticeable issues around contract enforcement, with a recent case study between Vantage Mezzanine Capital Vs Patrick Bitature and Ham Vs Diamond Trust Bank when dealing with politically exposed persons. The existing laws lag the market as many inadequacies arise when brought before the courts”. (Respondent 11)

(Sunderland, n.d.) established that the limited legal recourse in emerging markets was one of the significant challenges towards attracting Private Equity capital. This was because the level of enforcement of contracts provides a reliable fall-back position when settling any emerging disputes. Investors were therefore seen to be more risk averse when allocating capital to untested legal jurisdictions like Uganda that are yet to largely demonstrate expeditious and fair handling of disputes brought before the courts of law.

4.4.2 The Private Equity Structure & Tax Environment

This relates to the framework under which a Private Equity firm can be established in Uganda, specifically the registration and the tax implications of setting up shop in Uganda.

Ten of the interview respondents identified the current tax environment as excessive, with Private Equity funds in Uganda subjected to multiple taxes that include, among others, income tax (30%), capital gains tax (30%), stamp duty, withholding tax (15%) and value-added tax (18%).

This was broadly considered prohibitive to Private Equity investors, as it compromises the returns they generate and, consequently, the overall sustainability of the fund.

Private Equity investments in Uganda are subjected to multiple levels of tax along the entire Private Equity fund structure, as summarised in **Figure 4.1** below.

Party	Tax Measures
Fund Manager (General Partner)	Withholding tax on management fees at 6% if the Fund Manager is resident in Uganda and 15% if the Fund Manager is a non-resident.
Investors (Limited Partners)	Withholding tax on dividends from the fund at 15%
Private Equity Fund	Corporate tax on income at 30% Withholding tax on dividends from investee companies at 15% Capital Gains Tax on disposal of interest in investees at 30%
Investee Companies	Corporate tax on income at 30%

Figure 4.1: Taxes applicable to the Private Equity structure in Uganda

Source: Capital Markets Authority: A discussion paper on Taxation

“Private Equity investments in Uganda are subject to taxes at the level of the investee company, the Private Equity fund and the investor. These multiple taxations on items like corporate tax of 30%, charged at both the investee company and Private Equity fund level, is detrimental to the providers of this capital as they end up paying an effective tax rate of close to 65%. (Respondent 5)

(Prequin, 2014) also established the challenge of high taxation on the African continent as a prohibitive factor to the attraction of private capital in the country. This is therefore not only limited to Uganda as a country, but rather an African problem to a larger extent.

There was also consensus among the interview respondents that the registration type for Private Equity funds in Uganda is counterproductive to the setup of more funds, as they can only be registered as companies. The implication of this is that they are such subject to the prevailing taxes charged to companies in Uganda.

“Private Equity funds can only be registered in Uganda as companies and, as a result, are liable to corporate tax at a rate of 30%. The returns from investing through a Private Equity fund should ideally be the same as if the investors had made a direct investment in the portfolio company. This tax rate is higher compared to Mauritius, in which the tax rate for a Private Equity fund registered as a company is only 3%”. (Respondent 3)

Private Equity investors recover the bulk of their initial investment and return at the exit, mainly by selling off their stake to either new investors or the portfolio company at the current market valuations. However, the capital gains tax charged at exit is detrimental to attracting private equity capital in Uganda.

“The neighbouring country of Kenya levies a capital gains tax rate of 5% for Private Equity, which is much lower than that charged in Uganda at a rate of 30% on any gains made on the disposal of a Private Equity Investment”. (Respondent 5)

Therefore, this current Private Equity structure and tax regime is counterproductive to Private Equity investment that provides long-term/patient capital that can enable SMEs to scale and become more significant players in the market. These companies would, in turn, play a vital role in developing the economy by creating jobs and widening the tax base.

It is not incentivizing to highly tax patient capital at the exit, given that it has taken an above-average level of risk compared to traditional market-based funders like banks.

It was reported by VOA news that African countries like Senegal have been able to attract international investments into the country, partly due to the enactment of a start-up act, which was to among others; ease the regulation process and provide tax incentives to innovative businesses³.

³ <https://www.voanews.com/a/6547341.html>

4.4.3 The Investor Perspective on Private Equity in Uganda

This perspective accounts for the challenges of channelling Private Equity capital from the point of view of potential would-be investors to Private Equity firms. These investors encounter many bottlenecks in the country that hinder them from providing this much-needed capital in the requisite amounts, which can effect substantial and noticeable changes in the Ugandan economy.

The sub themes identified under the investor perspective include; the domiciliation of PE funds outside the country in which it was found that most of them were not incorporated in the country, the limited technical capacity of professionals in the country for Private Equity, macro-economic factors like currency depreciation, the small size of the economy, the limited participation of the diaspora, political challenges, the skewness in funding and the limited participation of domestic institutional investors.

a) Domiciliation of Private Equity Funds outside Uganda

This relates to the country where Private Equity funds operating in Uganda are incorporated. Seven of the interview respondents submitted that most of the PE funds in Uganda are domiciled outside the country, mainly due to the legal tax constraints that have negatively affected the attraction of more capital in Uganda.

These foreign-domiciled firms were therefore found to be partially on the ground in Uganda to enable them to adequately source for a broader range of opportunities available in the market. They, as a result, only closed fewer deals in the country.

“Many of the funds with an East African perspective are domiciled in Kenya, which is considered the regional hub for Private Equity. They consequently only do a few deals in other East African countries like Uganda due to the inability to locally source a wider pool of prospective investee companies”. (Respondent 1).

(Prequin, 2014) also established that one of the major challenges for the flow of private capital in Africa was the lack of local private equity firms that can access funds domestically before having to go and source capital from abroad. The only exception as per this study was the country of South Africa.

In the Uganda market, only one firm, *“The Yield Fund”*, is locally domiciled in the country, with most of the funds domiciled outside in countries like Mauritius, Kenya, South Africa, the Netherlands and the USA. This has therefore limited the participation of local institutional

investors in the Private Equity space. The local participation of private investors is therefore not only a challenge to Uganda, but a problem across the continent of Africa.

The most significant incentive for Private Equity funds to domicile locally would be to access local capital. However, the current Uganda Retirement Benefits Regulatory Authority Act (URBRA) limits investments to East African-domiciled funds. As such, it presents limited options to prominent institutional players like NSSF, who cannot invest in funds domiciled outside East Africa.

b) Technical Capacity of Private Equity fund managers

This relates to the extent to which the country has the requisite number of technical professionals with the requisite knowledge, experience and track record of successfully running Private Equity funds, both in and out of the country. This is important because it increases the chances of raising the requisite capital from Private Equity investors.

Eight of the interview respondents submitted that the existing technical capacity in Uganda to run locally domiciled funds efficiently is limited as many experts with the required technical capability and skillset, like; investment managers, lawyers, accountants, and tax analysts, are in limited supply.

"In comparison to Kenya, for example, the biggest factor for the discrepancy in the attraction of Private Equity capital is the skill gap width, with Uganda having fewer professionals who can demonstrate competency to structure and execute Private Equity deals that are attractive to private investors". (Respondent 12)

This was found to be similar to a study by (Prequin, 2014) who established African countries in general lacked experienced individuals who can source and make investee companies attractive to potential private investors who would like to invest in the continent of Africa.

Therefore, the skill gap is not only a critical nexus of Uganda's overall Private Equity landscape but a similarity to most countries in Africa that could be potential destinations for private capital. This is because it provides the strategic link required to prepare investee companies to take advantage of the investment opportunities in the responsible investment market. Besides this, it also ensures that the investors have the confidence to entrust the fund managers to run and execute the mandate of the PE firms.

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c) Macro-Economic Factors

This relates to the strength of the country's economy from a macroeconomic perspective. It is centred around critical macroeconomic factors like the local currency's strength and inflationary pressures, among others.

Five of the interviewed respondents submitted that the macroeconomic stability in the markets concerning the strength of the Ugandan currency is an existing challenge to raising Private Equity capital in Uganda. They argued that instability in the market creates many uncertainties for the investors, which are considered not to be within their control and cannot be hedged away easily, given that they are not specific to investment and cut across the global economy.

"The Uganda Shilling has over time been losing value against major international currencies like the US dollar, even though most of the Private Equity capital is sourced from abroad in foreign currency. This presents a challenge of exchange rate risk besides the higher levels of inflation in comparison to the more developed markets". (Respondent 2)

This was consistent with data published by the Bank of Uganda in its working paper No. 14/2019 that established that Uganda's exchange rate volatility was among others, attributed to global events like the financial crisis and national events like the 5 year election cycle.

Macroeconomic factors add another layer of risk to the investment, given that they can wipe away the investor's capital invested in scenarios where macroeconomic risks occur at a systemic level. This is because these risks simultaneously affect all sectors of the economy. The depreciation of the local currency against major international currencies forces many portfolio investors to move out their money to alternative, less risky markets.

d) Size of Uganda's economy

This relates to the capacity and ability of the economy to provide the required level of demand for the good or service provided by the prospective Private Equity investment. The size of the economy and the inherent demand is important because it also provides an avenue for exit to the Private Equity Investor.

All of the respondents submitted that the size of the economy in Uganda is relatively small compared to neighbouring countries like Kenya, which has also inhibited the attraction of Private Equity funds in Uganda.

“The stock markets in more developed African countries, in comparison to Uganda's, are more developed, and thus provide a better avenue for exit through an initial public offering, which is considered one of the most preferred ways of exiting a Private Equity investment.” (Respondent 11)

“Besides Kampala, the capital city of Uganda, many of the other regional towns do not have a sizable market to attract Private Equity compared to the neighbouring country of Kenya, which has much bigger regional cities like Mombasa, Nakuru, and Kisumu besides the capital city of Nairobi”. (Respondent 6)

This is consistent with the literature by (Kend & Katselas, 2013), who established that post the global financial crisis, there was a reduced motivation by PE investors to invest in growth companies, given the new challenges surrounding the successful completion of IPOs.

Given that exit is one of the critical considerations for Private Equity investors to provide capital, the economy should provide opportunities for growth that can enable multiple opportunities for listings, trade sales and management buybacks, among other options.

e) Diaspora Participation

This relates to how Ugandans living in the diaspora have used their connections and exposure to drive the implementation of Private Equity investments back home. Three interviewed participants submitted that there had not been a comparable effort from Ugandans living abroad as in more developed Private Equity markets in African countries.

“Countries like Kenya and Nigeria have seen a huge influx of their citizens returning from the diaspora with more connections, exposure and newly acquired talents. These foreign-

originated businesses appeal more to Private Equity investors who focus on providing capital to African businesses.” Respondent 10

A case in point is the Nigerian Fintech company flutter wave, which has raised over US\$ 250 million at a valuation of over US\$ 3 billion. Other noticeable fin-tech companies in Nigeria include Paystack, Inter-switch, and Paga. These Nigerian companies raised over US\$ 600 million in funding between 2014 and 2019.

(Prequin, 2014) also established the challenges in raising deal flow in Africa, given over 50% of private capital flows into the continent were due to connections and network. Given that majority of this capital from the Ugandan perspective is coming from out of the country, Ugandan’s in the diaspora could play a role in partnering with private investors in their respective countries so as to enable the flow of more private capital into the country.

f) The Political Environment

This relates to how investors gauge the country's political maturity and the political risks inherent in the country before deciding on whether to invest in a country.

Four interview respondents submitted that the political system in Uganda is considered corrupt by investors, with many bottlenecks that require people to bribe to set up a business and effectively lobby for better legislation, among other incentives that are available to the providers of private capital.

"Many would-be Private Equity investors, especially from the Western countries, are more accustomed to well-organised, structured and independent systems and, as such, have a lesser presence in the economy. As a result, private capital flows have largely been coming in from countries like China that place fewer considerations on ethical issues before their investment decision". (Respondent 2)

This also was found to be consistent with a study by (Lumbala, 2019) with a context on the Zambian economy, in which it was established that the political risk in the country was considered to be a big detriment to the flow of more private equity capital as it presented a risk of loss of investment.

g) Skewness in Funding

This relates to the extent to which the funding in Private Equity is geared more to particular sectors or stages of growth and development in preference to others. This creates a vacuum in funding, especially if Private Equity investors neglect areas where the country has a comparative economic advantage. Uganda has a comparative advantage in agriculture (including agro-processing) and Tourism.

However, three interview respondents submitted that there is a skewness of funding to tech and more fancy-oriented businesses, which are getting a lot more capital in the early stages compared to other, more traditional-based companies.

"In the pre and post-revenue stage growth stages, we have seen companies like Numida and Chipper Cash easily raising hundreds of millions of dollars at valuations in the billions of dollars. This is unlike traditional businesses, for example, in the distribution chain that have the potential to become the next McDonald's or Starbucks, that have struggled to raise similar volumes of capital. Therefore, these companies resort to raising less patient debt capital from commercial firms to scale operations or expand to new regional markets". (Respondent 6)

A case in point would be chipper cash, a fin-tech-based company that raised over US\$ 150 million in a series C extension round at a nearly US\$ 2 billion valuation. Many other non-tech companies in Uganda with similar potential would struggle to raise such volumes of capital from Private Equity investors.

However, the country relies heavily on agriculture, which employs nearly 75% of the population and accounts for 25% of the country's GDP. Private Equity investments in agriculture, agro-processing and manufacturing along the agricultural value chain up to the distribution stage would thus require more funding for Uganda to position itself as the region's food basket.

h) Participation of Local Investors

This relates to the extent to which local investors, particularly institutional investors like pension funds, have participated in the Private Equity space by providing the much-required capital to qualifying investee companies.

Two interviewed participants submitted that domestic institutional investors like Pension funds, Banks and Insurance companies have limited participation and prefer to invest in traditional asset classes like straight debt and listed equity.

“The low participation of local institutional investors is either due to their low understanding of the available Private Equity options in the market or their low-risk appetite for Private Equity as an asset class. This has led to a huge reliance on foreign-based funders for the much-needed Private Equity capital.” (Respondent 10).

Given that these local investors predominantly raise their capital in the local currency, it would be more prudent to match these sources of funds to local investments and infrastructure projects that primarily generate revenue in the same currency. The currency mismatch issues that arise from raising foreign-denominated capital from abroad would thus be minimized.

A case in point would be in the energy sector, where hundreds of millions of dollars have been invested in Electricity Generation and Distribution. The funding has primarily been sourced from abroad, predominantly in the US dollar. As such, the tariffs paid by locals and businesses have to be adjusted quarterly for the exchange rate movements.

4.4.4 The Enterprise Perspective

This relates to the challenges from the perspective of the investee companies, which are critical to providing a pipeline of investment deals that can be attractive to a broader range of Private Equity investors. The presence of more quality and readily available deals would, in turn, encourage the flow of more private capital in the country to take advantage of the available opportunities.

From the Enterprise perspective, the following sub-themes were identified; the business registration turnaround time, cross border trade restrictions, business aversion to private capital, the low survival rate of new businesses and the limited publication of Private Equity success stories.

a) Registration Turnaround Time

This relates to the time it takes for a business to fully register, set up shop in Uganda and commence operations. All the interviewed participants submitted that the ease of business registration in the country is not expeditious, as many of the processes still need to be fully automated but rather have some level of semi-automation. This made the onboarding of new businesses lengthy and frustrating to an entrepreneur wishing to formalize business operations.

There currently is not a single window that enables a company to complete registration with the Ugandan Registration Services Bureau and other Government entities like NSSF and Uganda Revenue Authority. The process of a company's registration and onboarding is cumbersome and costly. (Respondent 3)

According to the Uganda Registration Services Bureau, only about 800,000 businesses in Uganda were registered in 2021 despite being ranked one of the most entrepreneurial countries in the world by the World Bank. The number of SMEs in Uganda is estimated at over 1,100,000, accounting for 75% of the country's GDP. These SMEs are one of the engines of growth and development, and as such, they require funding to scale up operations.

Many of these would be potential beneficiaries of Private Equity capital therefore remain informal and unregistered, reducing the pool of available investee companies for Private Equity investment. Only registered companies with proper documentation would meet the requirements of the due diligence process that is mandatory before obtaining an investment.

b) Cross Border Trade Restrictions

This relates to how Uganda can easily sell its products to regional markets, providing a demand for surplus production over and above the country's consumption requirements.

Two of the respondent submitted that the existence of trade flow restrictions that prevent the exportation of goods and services to neighbouring countries like Kenya, Tanzania and the Democratic Republic of Congo are detrimental to the attraction of Private Equity capital.

"Countries like Kenya recently issued bans on importing maize grain and milk from Uganda. Given that the country could not consume all its products locally, it needed to export the surplus to other regional markets experiencing shortages". (Respondent 3)

The presence of a growing regional market, over and beyond the country's consumption needs, presents a much more viable case for private investors to deploy the much-needed capital in the country. This is because private investments enable companies to scale beyond their existing capacity, which could outstrip the local demand and require surplus production to be sold to other markets with registered production shortfalls.

On a positive note, the Government of Kenya recently averted the ban on importing Ugandan milk and poultry products. Such an action creates a bigger market in the neighbouring country, which local businesses can be prepared to take advantage of.

c) Business aversion towards Private Capital

This relates to how business owners in the country are receptive to Private Equity as an alternative form of funding for their businesses, besides the more traditional form of straight debt from a lending institution like a commercial bank.

From the interview responses, it was observed that there is a general resistance towards Private Equity as an avenue for financing by Ugandan enterprises. This was because most of them prefer commercial debt that they are more conversant with and are unwilling to cede any percentage of their business to private individuals outside their close circles. Besides, many have maximized commercial debt and require more patient equity capital to scale operations.

“A company like Nakumatt stores adopted a rapid expansion program in Uganda, funded majorly by debt but consequently had to close down operations in the country due to business constraints that affected their debt repayment ability. Other companies like Biyinzika, on the other hand, that were initially averse to equity capital have seen their revenues and business grow due to the support from Private Equity funding.” (Respondent 1)

Due to the risk aversion of many Uganda-formed and led businesses, a considerable amount of capital from abroad is going to foreign-led businesses with expatriate management. This has led to the concertation problem, with a few companies winning a lot of this available capital, as they are the only qualifying companies that have continuously shown interest

d) The survival rate of new businesses

This relates to how businesses in Uganda, especially start-ups, can survive beyond the initial phases, making them more attractive to private capital.

Two interviewed participants submitted that the survival rate of small businesses in Uganda is low, with many of them not going past their fast few anniversaries to become viable businesses that can attract Private Equity financing.

“Despite Uganda being named the most entrepreneurial country in the world in a report by the B2B marketplace index, many of these companies do not live beyond their fifth anniversary. This is because many are informal early on and prefer running their enterprises as small family businesses without external professional help”. (Respondent 1)

This has consequently prevented the flow of portfolio companies that have gone beyond the proof of concept stage. At that point, they are considered more attractive to private capital providers.

e) Lack of publicized success stories

This relates to the extent to which success stories of privately financed businesses are advertised to the public to demonstrate the possibilities of growth and development that can be harnessed from supportive Private Equity capital.

From the interview respondents, it was observed that few success stories in Private Equity had been documented to show companies that have accessed this capital and have been able to grow tenfold due to the entire supportive ecosystem accessible to investee companies.

“Many of the success stories in Uganda are of people who are in Government or are politically exposed and have acquired their resources illegally through the abuse of public office. There is a need, therefore, to break this cycle amongst the younger generation and entrepreneurial community at large through the publication of everyday businesses that have benefitted from Private Equity”. (Respondent 2)

Some publications in the Western world include programs like the “*Dragons Den*” in the United Kingdom (UK) and “*Shark Tank*” in the United States of America (USA). They showcase real-life entrepreneurs that have been able to grow tenfold as a result of supportive Private Equity capital has turned out to be an inspiration to many entrepreneurs to take advantage of available opportunities in the Private Equity space.

Many of these programs like the “*Shark Tank*” in USA were began around 2008, during the advent of World Financial Crisis that saw many entrepreneurs unable to obtain bank finance as a result of disruptions in the financial institutions. These entrepreneurs, with bankable businesses or ideas were able to pitch and obtain funding that enabled many of them to scale to sales in the hundreds of millions of dollars.

Publishing of similar success stories in the Private Equity space could ensure those successful companies become role models, thus encouraging other potential investee companies to take follow suit.

Chapter 5

Conclusions and Recommendations

5.1 Introduction

This chapter summarises the key findings, the conclusions drawn, and the recommended policy recommendations to address the challenges identified in the study.

5.2 Summary and conclusion

This study aimed to understand the overall landscape of responsible investment in Uganda. Specifically, it intends to; understand the motivations of Private Equity investors in Uganda, the extent to which ESG and other responsible investment considerations are incorporated in their decision-making, and the challenges Private Equity funds face in raising capital in Uganda. From the study, it was established that the motivations for private equity investments were centred around three broad areas. The first area centred around the entrepreneur's that provide business opportunities and the their ability to successful manage the projects if at all they receive private capital, the second one centred around size of the market and the ability to scale beyond a particular geographical boundary and the final one centred around the private equity investors and how best they understood and appreciated the opportunity placed before them so as to comfortably provide the requisite capital.

From the research, it was observed that the Private Equity market in Uganda offered several opportunities for responsible investment. This was because the market is primarily dominated by foreign impact/philanthropic investment firms who are motivated by the international norms of responsible investment like the UN SDG's besides other return-linked requirements like the competency of the management team, the level of understanding of the opportunity and the size of the market.

It was also discovered that responsible investment strategies were being implemented in the investment decision-making process of PE funds and along the entire value chain of the PE life cycle. These strategies included; the exclusion of all investment proposals that did not conform with the standards of responsible investment, identification of prospective ESG-compliant companies to be included in the portfolio creation and the measure of the impact of the investment on society at large in terms of aspects like job creation, financial inclusion and improved health services among others. These strategies were used individually or hand in hand, with the most common technique being the exclusion method.

From the study, despite the opportunities for Socially Responsible Investing in Uganda, many challenges could potentially hinder the inflow of this capital in the country. The existing laws on Private Equity were found to be inadequate, as this was stressed by most respondents who identify it as the main bottleneck to raising more capital in the market. The inadequacies were primarily because there needs to be a clear framework for Private Equity in the country, with market participants relying on inadequate regulations. In addition, the market needs a sizable number of professionals and well-structured business opportunities that are more attractive to the providers private capital.

Conclusion

On the positive side, many interviewed respondents mentioned that the Private Equity market in neighbouring Kenya, which accounts for the most significant deal flow in the region, is becoming saturated. Uganda has been considered the next best destination for private capital, given the openness of the economy, and this is evidenced in the number of deals relative to other East African countries. This current mismatch between the available opportunities and existing challenges in the market ought to be resolved to better tap into the global responsible investment market.

5.3 Policy Recommendations

Based on the thematic findings from the study, the following policy recommendations could be instituted by the Government along the entire ecosystem of the Private Equity landscape to take advantage of the increased flow of more responsible investments into the country. These recommendations include:

- The Uganda Registration Services Bureau should consider the amendment of the law that requires Private Equity funds to register only as companies by providing the opportunity for registration as limited partnerships that are pass-through vehicles. This is the most common structure for the registration of PE firms worldwide, and it should be able to resolve the multiple regime tax structure in Uganda.
- The Ministry of Finance and the Uganda Revenue Authority, in conjunction with the Uganda Investment Authority, should incorporate tax incentives for Private Equity investors as they are providing patient development capital to the country. These incentives can be in the form of either tax holidays/exemptions or reductions in existing

taxes; for example, capital gains tax at the disposal of the investment could be reduced from the current level of 30% to as low as 5%.

- The Capital Markets Authority should enact a regulatory framework for Private Equity investment in Uganda. This framework should clearly define, among others, the parties involved, the rights and obligations of each, instruments like royalties, convertible debt, preference shares and all other requirements that can enforce the legal provisions of private contracts. This regulatory framework should also separately cater for small start-up companies by giving them time to grow and develop before being treated like the more mature and developed companies. A benchmark case in point would be Mauritius which regulates the PE market through the Securities Act and the Collective Investment Schemes and Closed-end Funds Regulations.
- The Government of Uganda should consider the amendment of the URBRA Act to increase the allocation (percentage) of Private Equity capital that local institutional investors can deploy. Besides, these local investors should be allowed to invest in funds domiciled out of East Africa but with an investment mandate in the East African region. This should enable Pension funds like NSSF to invest in the large-cap section of the PE market in sectors like energy. Such investments could be more attractive to a fund in terms of return and deal size, given that the underdeveloped stock market needs to provide more opportunities for direct equity investments.
- The Government of Uganda, in conjunction with incubators like the innovation hub, accelerators like the founder institute Uganda and matchmakers like the deal flow facility (DFF), should form solid long-term partnerships geared towards preparing Ugandan-based companies for the available Private Equity opportunities in the country. This would enable the alignment of the demand and supply sides of the Private Equity equation. More business opportunities in a better-regulated environment would catalyze more private capital into the country.
- The Government of Uganda should consider adopting more favourable policies for locally domiciled Private Equity funds in Uganda to increase their number. This would

enable these firms to better source and close more Private Equity deals given their proximity to the pool of available investee companies in the country.

- In conjunction with crucial market actors in the Private Equity space, the Government of Uganda should implement a national program aimed at publicizing success stories on prime-time television to audiences across the country. This program would be akin to that of "*the friends with benefits*" program that NSSF Uganda ran to showcase members that had received their benefits and used them to transform their lives through various entrepreneurial activities. The program for successful Private Equity firms would detail the journey of the entrepreneurs, the support they have received from the Private Equity ecosystem and the levels they have been able to scale in aspects of sales, number of employees, and strategic partnerships, among others. This would help other potential investee companies appreciate the vital role private capital can play in their growth and transformation.
- Law enforcement institutions, like the Judiciary and other Government departments, ought to be facilitated to expeditiously and justly dispense justice whenever disputes arise in contracts related to Private Equity capital. This should include, among others, training of all officers of the law that handle Private Equity and allocation of the appropriate size of human resources to enable expeditious settlement of court cases, among others. This would go a long way in building investor confidence in the market, which could increase the flow of private capital to the numerous opportunities existent in the economy.
- In conjunction with the Uganda Registration Services Bureau, the Government of Uganda should consider revising the existing patent laws for a more straightforward distinction of the covered areas. This should allow the easy registration of new patents because there will be fewer conflicts with those already issued, so creativity and innovation can be promoted in the country.

5.4 Limitations and avenues for future research

Based on the research findings and limitations in obtaining quantitative data, other avenues for future research can be conducted in the context of the Private Equity market in Uganda. These include, among others:

- A quantitative study of Private Equity and economic growth in Uganda with a dependent variable being Uganda's GDP and the dependent variables, including, among others, the amount of Private Equity capital deployed, the number of jobs created, the number of patents issued, amount of taxes paid among others.
- The impact of foreign capital financing in the Private Equity market in Uganda and its sustainability for the economy.
- The journey of the development of the Private Equity markets in more advanced economies locally like Kenya, South Africa, Nigeria and Morocco and how they addressed the bottlenecks they faced to become the continental giants.
- Research on the risk aversion of Institutional investors to alternative investments like Private Equity and measures that can be implemented to encourage more participation of these investors in the market.
- Research on the policies at the regional bloc of the East African Community and how they can best facilitate cross border movement of goods and services that are being financed by, among others, Private Equity investors.

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Appendix 1: Interview Consent Form
Master of Commerce in Development Finance
INTERVIEW/SURVEY CONSENT FORM

Participant name:

I volunteer to participate in a research project conducted by (insert your name) as partial fulfilment of the requirements for the **Master of Commerce in Development Finance Degree** at the UCT Graduate School of Business. I understand that the research is designed to gather information about **(Understanding Responsible Investment in Private Equity: Challenges & Opportunities in Uganda)** and that I will be one of approximately (15) people being interviewed for this research.

Objective(s) of the research

- b) To understand the motivations behind the investment decisions made by Private Equity Investors in Uganda.**
- c) To understand how ESG integration and other external factors are incorporated into the investment decision-making process of Private Equity investors in Uganda.**
- d) To understand the challenges faced by Private Equity Firms in raising capital in Uganda.**

Ethics approval

The ethical clearance for this study was approved by the UCT GSB Research and Ethics Committee on **(09th. August.2022)**

Participation and confidentiality

I understand that my participation in this research is voluntary, that I will not be compensated and that I may withdraw at any time. The interview will take approximately 45 - 60 minutes **(please adjust if necessary)** to complete and will be audio recorded **(if not, delete this part)**.

I understand that I will not be identified by name in any reports using information obtained from this interview and that my confidentiality as a participant in this study will remain secure. Subsequent uses of records and data will be subject to standard data use policies which protect the anonymity of individuals and institutions.

Should you have any questions or concerns, please contact me **(+256774677141)** or my supervisor **(latif.alhassan@uct.ac.za)**

Consent

I consent to participate in this interview, based on the terms outlined above and subject to the following additional condition of my own (if any).

Signed by interviewee

Date

.....
Signed by Student

.....
Date

Section 1: Demographic information

1. Gender of respondent:
2. Age of respondent
3. Nature of business
4. Years of experience
5. Current role in business

Section 2: Interview/Survey questions

1. Briefly describe the role that you currently play or have played, either directly or indirectly, in facilitating Private Equity Investment in Uganda.
2. In your experience in the Private Equity market in Uganda, how would you describe the current market in terms of; key market actors, where it has come from, its current state and where you think it's headed in the following years? This could be, for example, in terms of funding, invested sectors, and the number of closed deals.
3. In arriving at an investment decision, what are some key considerations you look for in evaluating a prospective Private Equity investment?
4. Do you use an in-house team to carry out due diligence and all other aspects of the investment decision, or is the process outsourced to third parties?
5. To what extent are social and development perspectives integrated into arriving at your final investment decision other than the primary motive to generate returns?
6. How would you describe your organization's investment mandate and risk appetite for Private Equity investment?
7. Are there any particular thematic areas of Private Equity, for example, agriculture, manufacturing, ICT etc., that you provide Private Equity funding to, or is it open to any sector in the economy?
8. At what stage of a firm's growth and development do you provide Private Equity capital?

9. ESG Investing has various investment strategies used in portfolio selection. Describe how ESG considerations are factored into your investment decision-making process.
10. To what extent do the providers of funds to your portfolio advocate or influence your decision to consider ESG Investment as part of your overall portfolio strategy?
11. Do you make use of ESG data from providers like Refinitiv, MSCI etc., as part of your investment decision-making process?
12. How adequate are the existing laws, policies and regulations of Private Equity in Uganda in facilitating the attraction of Private Equity capital?
13. What are some of the potential remedies or solutions that you believe can be instituted (and by which relevant body) to make the Private Equity market more attractive to investors?
14. Compared to more developed countries in the continent, the flows of Private Equity capital into Uganda have been substantially lower over the years, despite the vast opportunities in the country. What are some of the reasons for this discrepancy?
15. From your experience in Private Equity in Uganda, is there anything else I have left out to discuss that you believe is relevant to the research topic or objectives?

Appendix 2: Interview Protocol Refinement Framework

	Background Questions	Research Question 1	Research Question 2	Research Question 3
		What informs/influences the decision of Private Equity Investors to invest in projects or businesses in Uganda?	What ESG and development considerations are taken by Private Equity Investors in evaluating investment options in Uganda?	What are the current challenges Private Equity firms face in accessing the necessary funding in Uganda?
Interview Q1	X			
Interview Q2	X			
Interview Q3	X			
Interview Q4	X			
Interview Q5		X		
Interview Q6		X		
Interview Q7		X		
Interview Q8		X		
Interview Q9			X	
Interview Q10			X	
Interview Q11			X	
Interview Q12				X
Interview Q13				X
Interview Q14				X
Interview Q15	X	X	X	X