Time to embrace the Private Equity funding model in Uganda & Africa

In Uganda, the most common and most accessed form of financing is debt financing. Most Ugandan entrepreneurs will seek capital to expand or operationalize their business by applying for a loan from their financial institution. Debt financing will normally have its advantages including among others no control by the financier and clear exit timelines.

However, it has also proven quite costly and risky incase the company hits hard economic times. Additionally, the amount of collateral needed to secure the monies some of which include personal guarantees that allow the lender to realize your personal assets in case of a default is not attractive at all.

Uganda and other African countries are slowly but steadily embracing other forms of financing. One such funding form is private equity. This has been active for many years, with more businesses adopting the funding model in the last decade. Three areas to note in this type of funding are identifying the risk, determining the financial structure and also being cognizant of the changes in the judicial and regulatory frameworks. Understanding these areas is critical to ensuring that private equity investments generate solid returns over a period of time.

Luckily private equity is not a new phenomenon in Africa. In fact, private equity capital commitments across the African continent have steadily increased despite global financial setbacks. For instance in 2016 alone private equity commitments in Africa were approximately USD 3.4 billion, USD 2.7 billion in 2017 and USD 2.7 billion in 2018. A further projection is that at least four groups of industries together could generate double the amounts in revenue. The four groups are consumer-facing industries, resources, agriculture, and infrastructure. It's also worthwhile noting that the Republic of South Africa (RSA), Nigeria, Sub-Saharan (SSA) constituted the block of the investments.

Despite various innumerable opportunities, the fact remains that Africa particularly SSA continues to suffer from the lack of basic myriad amenities, electricity, telephone services, highway networks, piped water are a few basic activities that are in unreliable supply. In the circumstances, private equity investment opportunities exist for projects such as IT, mobile telecoms, logistics, real estate, agro-processing among others. Some countries that are regarded as emerging markets include; Uganda, Kenya, Nigeria, Ghana, Botswana, Tanzania, Zambia, Mauritius, Algeria, RSA, Senegal, Tunisia, and Morocco. These countries have increased stability, strong financial institutions and active alternative less risky investments like treasury notes. However, like any other investment elsewhere, investors have to evaluate investment opportunities before investing.

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