

**PRIVATE EQUITY AND CAPITAL ACCESS BY SMALL AND
MEDIUM ENTERPRISES IN UGANDA**

BY

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Abstract

Background

Private equity (PE) is an asset class consisting of equity securities and debt in operating companies that are not publicly traded on a stock exchange. In Uganda, private equity is still in a nascent stage with very few investments made by PE firms in the country.

PE provides SMEs with a real and customized source of capital for investment in start-ups, early stage and mature companies contrary to the traditional sources of capital (the banking system) which cherry-picks on who to invest in. Because of this cherry-picking nature of the traditional financing institutions, SMEs in Uganda have had restricted access to capital. Private equity comes to improve this situation as well as compliment financing from the traditional financing mainstream.

This paper uses a survey questionnaire approach using structured questionnaires to collect data from a sample of respondents to understand their perceptions of PE with regard to SME access to capital in Uganda. A sample of 22 firms that operated in Uganda at the time was surveyed, with responses received from 19 and responses were anchored on a 5-point Likert scale ranging from 1 to 5 for where respondents Strongly Disagreed or Strongly Agreed with the researcher's assertions respectively.

A large majority of the data used in this paper was obtained from primary data sources and the collected data was analyzed, sorted and presented using computerized systems in advanced excel spreadsheets.

Results

The results from the study indicate that PE firms operating in Uganda at the time were mainly open-ended without and investment time restrictions and could generally invest in any sector, thus SMEs in Uganda were not barred by sector specificity or investment time horizons of investors in accessing capital from PE firms, increasing their access to capital.

However, none of the firms in the sample were domiciled in Uganda at the time, perhaps explaining the limited awareness of SMEs about PE as a source of capital, despite all the PE firms sampled having been SMEs themselves (defined by number of staff), having had clear critical skills and business practices that they offered to their investees which should endear

them to SMEs as a financing alternative of choice and thus impliedly privy to the financing needs, challenges and constraints of SMEs seeking capital from them.

Conclusion

PE investors actually undertook activities to improve the critical skills and business practices that limited their investees' access to capital from the traditional financing institutions including financial management, accounting, financial reporting and ESG practices which should endear them to SMEs as the alternative source of capital.

It was also found that SMEs faced a number of constraints when fundraising from PE including lack of quality and low quality management teams, lack of clear business focus, poor and weak internal control systems and poor financial management among others. But these constraints can be overcome by the critical skills and business practices that PE firms offered to their investees, thus also further endearing SMEs to PE as a source of capital.

Notably however, the researcher concluded that prior experience with obtaining capital from commercial banks did not count for much in as far as accessing PE capital was concerned, that SMEs with a clear long-term focus on their business were much more preferred by PE for investing in addition to the strength of the business case of an SME.

Finally, the research revealed that SMEs that failed to access capital from the banking system were unlikely to procure capital from PE and that the strategies that SMEs can use to improve their access to PE capital varied from one PE firm to another and these strategies should be informed by the critical skills and business practices that were important to each PE firm.