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FACULTY OF COMMERCE

DEPARTMENT OF BANKING AND FINANCE

**AN ASSESSMENT OF PRIVATE EQUITY AS AN ALTERNATIVE
FINANCING OPTION FOR PRIVATE COMPANIES IN ZIMBABWE**

BY

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DEDICATION

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ABSTRACT

The twin effect of persistent liquidity challenges and a very low deposit base for most banks has constrained the traditional sources of finance for businesses making alternative financing sources an imperative for business continuity. Private equity is a growing alternative asset class among the developed markets and since the global financial crisis of 2008 private equity investments have shifted their focus to include emerging and frontier markets in different geographical markets. The study was therefore conducted to assess the extent to which private equity financing addresses the funding gap among private companies in different economic sectors as well as to document the awareness levels of private companies and the feasibility of private equity as an alternative source of capital. The study also sought to determine the perceptions towards private equity among private companies. The scope of the study also encompassed an analysis of the extent of the existing private equity investments in Zimbabwe in terms of the quantum among other things. A qualitative descriptive design was employed to meet the objectives of the research. Open-ended questionnaires and in-depth interviews were utilized in this research covering a total of 68 respondents. The respondents comprised of individuals from private equity/venture capital firms, asset managers and key individuals of private companies in different economic sectors mainly agriculture, mining, information communications and technology and banking and financial services. Some of the major themes from the findings were indicative that private companies' capital requirements were not being met by their current sources and there is limited knowledge on alternative financing options such as private equity. The study also revealed that private equity investments in Zimbabwe remain dominated by a few key players who are both local and foreign. The findings highlight the need for the establishment of an umbrella institution that represents the interests of private equity firms as an emerging group of financiers in Zimbabwe. Increased sensitization towards alternative financing options such as private equity among financial market participants is necessary to boost awareness levels and to improve perceptions.

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LIST OF ACRONYMS

GFC	Global Financial Crisis
GRC	Gross Domestic Product
MSMEs	Micro, Small, Medium Enterprises
ARDC	American Research and Development
LPs	Limited Partners
GPs	General Partners
AAF	African Agriculture Fund
AfDB	African Development Bank
DBSA	Development Bank of South Africa
AECID	Spanish Agency for International Corporation and Development
EBID	ECOWAS Bank of International Development
PTC	Posts and Telecommunications Corporation
ICT	Information Communications and Technology
CEPRES	Centre for Private Equity
FOIA	Freedom of Information Act
IRR	Internal Rate of Return
NAV	Net Asset Value
PME	Public Market Equivalent
BRIC	Brazil, Russia, India, China
OHADA	Organisation for Harmonisation of Business Law in Africa
NTBF	New Technology Based Firms
CDC	Commonwealth Development Corporation

CHAPTER 1: INTRODUCTION

1.1 Introduction

Private Equity is fast becoming an attractive alternative investment asset class growing in leaps and volumes globally. In frontier markets private equity investment has been on the rise mainly because it has also managed to bridge the financing gap in these markets while at the same time offering superior returns and portfolio diversification. This chapter will sequentially include the following issues background to the study, statement of the problem, research objectives and questions and the significance of the study. Other issues contained in this chapter include the scope of the study. Assumptions made in carrying out the study and limitations encountered in conducting the research are also outlined.

1.2 Background to the Study

As a result of the Global Financial Crisis (GFC) of 2008, the United States of America financial sector's losses, reportedly reached between US\$350 billion to US\$600 billion, necessitating increasing capital for resuscitation; yet private equity industry had in excess of US\$400 billion in available funds (Wendell 2010). Demand for unprecedented new amounts of capital by the financial-services industry in the United States of America was likely to be on an upward trend. It was predicted that this capital was unlikely to come from the public markets, thus, the financial services industry increasingly turned to private equity as a capital source, (Wendell 2010).

A 2015 report by Equitise on Alternative Investment in Australia states that prior to the Global Financial Crisis (GFC), credit was extensively available and relatively cheap in Australia. Since the GFC, 'risk' has been repriced, and bank funding has been significantly restricted, to protect key stakeholders, and mitigate a reoccurrence of similar events. Credit conditions have tightened on both price and quantity. This ultimately has resulted in restricted capital financing options available for private enterprise in Australia.

Although Private Equity, also referred to as risk capital, is not a financing instrument for all types of companies as it cannot form a general substitute for traditional bank financing its availability is of utmost importance to finance the start and growth of young and innovative companies (The Association for Financial Markets in Europe, 2017).

The improved and tightened international bank regulations under Basel III affect the amount of capital required by banks. Under Basel III the minimum capital adequacy ratio (CAR) has increased to 7%, implemented with effect from 2015 with an additional capital conservation buffer to be implemented in 2019 (Deloitte Access Economics, 2013). Consequently, the Basel III new capital requirements should continue to mean a reduction in the total loans issued, an increase in the cost of capital that is higher fees and rates, as well as credit distribution, (Alternative Investment in Australia 2015). Hence, Diaconu (2017) suggests that private equity funds fill the gap between internal financing and traditional market sources (public equity and bank loans).

The Emerging Markets Private Equity Association (2012) also reported that the absence of capital in Europe is really across the board, the situation prevailing on the ground is that perfectly good companies no longer have access to the bank market at all; there is no door to knock on, and that is exacerbated by the European Banking Authority (EBA) deleveraging requirements on banks. Inescapably, European banks have retreated from emerging markets thus necessitating new means of non-bank financial intermediation to fill a growing finance gap. Private equity investors are well positioned to do so, (Emerging Markets Private Equity Association, 2012).

Private equity is indeed drawing attention as an alternative source of capital for private firms. According to the European Private Equity & Venture Capital Association (2012), between 2007 and 2012 European private equity fund managers invested some €271 billion in about 22,000 European companies of which 18,000 are still actively private equity backed. European banks will need to dispose of non-core assets—whether non-core by region or non-core by product—to meet more rigorous capital requirements. A home bias is therefore inevitable among European banks as they are likely to focus new lending toward Western European companies. Thus, emerging market private equity investors are positioned to take advantage of banks' retraction from these markets.

Amoros, Atienza and Romani (2010) noted that in Chile the commercial banks and other lending organizations partially furnish entrepreneurs' short term capital needs but are generally reluctant to supply long term and equity funding owing to high transaction costs in dealing with small businesses resulting from the size of the credits and the existence of information asymmetries related to the high failure rate of seed and nascent firms. Thus, presenting a financing gap for private businesses. However, in response to this financing gap

the Chilean government has intervened by providing supporting institutional frameworks and fiscal regimes promoting private equity. In support of the institutional and fiscal reforms in Chile a 2014 Ernst and Young Global Private Equity Outlook report on Latin America noted that Chile has long been a model for economic management in Latin America, and the fiscal stability that the country has built gained it access as the OECD's first South American member in 2010. In addition, it has 22 active free trade agreements that cover 86% of the world's Gross Domestic Product (GDP) and an innovative taxation structure that enables foreign investment and rewards long-term capital commitments to the country.

According to Divarkaran, McGinnis and Shariff (2014), the persistence of an "equity financing gap" is not surprising given that sourcing any external capital, even debt, is challenging for these private companies. However, Divarkaran McGinnis and Shariff (2014) also noted that unlike developed economies, where the equity-financing gap is most likely to affect new and innovative companies, in developing economies even the larger and more established enterprises are affected as well. Thus the demand for capital in developing economies is high as both the large, established and the young, new and innovative enterprises require financing.

Dickinson (2010) states that Private equity may serve a useful role in filling the gap between self-financing and conventional capital market activity for the African continent's dynamic and growing private enterprises. Dickinson (2010) further noted that all but the largest of companies in Africa still have great difficulty raising capital at competitive rates through conventional channels, such as borrowing from banks or issuing public securities. Such firms are constrained in their competitiveness and growth when necessary capital for new investments is unavailable or unaffordable.

The United Nations Development Program Report on Ethiopia (2013) stated that the African continent is increasingly viewed as having the strongest overall investment potential of all emerging markets globally. As a result, institutional investors plan to significantly increase their asset allocation in African markets over the coming five years.

While some of this new capital will come in the form of investments in publicly traded stocks, it will mostly come in the form of private equity and venture capital because of the limited size and depth of most African stock markets. To put it into perspective, of the 45,000 funds with US\$17.5 trillion under management by EPFR Global (a leading provider of fund flows and asset allocation data to financial institutions) tracks, approximately \$2 billion has

been allocated to African bonds and \$800 million into African equities in 2013 (The United Nations Development Program Report on Ethiopia, 2013).

The key to the effectiveness of the private equity model is that, by addressing the funding needs of African companies, it gives its investments a multiplier effect: Private equity not only creates profits for investors (e.g., limited partners, general partners and portfolio companies) but also engenders economic and social benefits for consumers, and has indirect effects on the stability and vibrancy of local and regional economies. At the same time, private equity channels significant flows of international capital into Africa, (Alemayehou and Kimball, 2014).

The persistent economic challenges in Zimbabwe have negatively impacted on the confidence of investors and the majority of the business community. However, the situation has presented opportunities for private equity and venture capital funds with high risk appetite (Mpofu and Sibanda, 2015). Furthermore, Mpofu and Sibanda (2015) posit that the inability of existing Zimbabwean companies to replace lost capital due to the limited financial resources in the banking sector compounded by exceptionally high interest charges on such limited, short-term funding, also promotes the existence of private equity and venture capital funds as they provide an alternative for funding companies. It is evident that there are indeed opportunities for private equity and venture capital investments locally.

1.3 Statement of the Problem

Private equity (risk capital) has been an important source of finance or capital for private firms. In emerging and frontier markets it is also increasingly gaining prominence. Like other financial markets that periodically undergo changes, Zimbabwe has witnessed a dwindling supply of finance or capital for private enterprises. The demand for finance or capital remains high especially given the mushrooming of Micro, Small and Medium Enterprises (MSMEs), which have limited access to formal financing channels such as banks and mining companies whose funding needs are capital intensive. Zimbabwean commercial banks have not been able to adequately meet the long term funding requirements of companies largely because of the low deposit base. In addition, the Zimbabwe Stock Exchange, capital market, has witnessed low activity with some firms delisting and little bond issuances for capital supply. The proportionate need for financing new ventures, underperforming and distressed firms with risk profiles those are unappealing to banks. Private equity may thus be suited as an alternative financing tool for private firms across different sectors in Zimbabwe.

1.4 Research Objectives

The main objective of this study is to investigate the extent to which Private Equity addresses the financing gap in Zimbabwe.

Sub- objectives of the study are as follows:

- To explore the awareness towards private equity among private business enterprises in Zimbabwe.
- To explore the perceptions towards private equity among private business owners in Zimbabwe.
- To document the current or existing constraints of private equity growth in Zimbabwe
- To analyse the performance of existing private equity investments in Zimbabwe

1.5 Research Questions

Based on the research objectives, the following research questions were formulated:

1. To what extent has private equity addressed the financing gap/demand for finance or capital by companies in Zimbabwe?
2. To what extent are private enterprises aware of private equity as a financing option?
3. How is private equity financing perceived by private enterprises?
4. What are the prevailing or current constraints of private equity growth in Zimbabwe?
5. How are the current private equity investments performing in Zimbabwe?

1.6 Significance of the Study

The study is beneficial to private enterprises as they may gain knowledge on other financing options available to them that result in the growth, development or resuscitation of their businesses. For both existing and potential private equity investors they may gain useful insights on private equity investment climate in Zimbabwe which includes its potential, risks and rewards.

As most business enterprises are struggling or are financially distressed this may serve useful by providing alternative investment classes for private equity firms. Given that the study seeks to establish and document the awareness levels and perceptions of private equity among the private enterprises it will unearth the missing linkages between the private enterprises and the existing and potential private equity players. Essentially this will assist in

enabling a match between what private equity investors are looking for and what investment opportunities available for them in Zimbabwe.

1.7 Scope of the Study

The study specifically looks at the use of Private Equity as an alternative financing tool by private companies in Zimbabwe between 2009 and 2016, a period which the country adopted the use of a multi-currency system. The research will focus on business enterprises that are not-listed on the Zimbabwe Stock Exchange which span across a spectrum of sectors which include agriculture, mining, technology, financial services and manufacturing. The study will specifically focus on registered private business under the company act of Zimbabwe. Investment managers from private equity firms and asset management firms will also be central in this research.

1.8 Assumptions of the Study

The study assumes the following:

- The private enterprises in Zimbabwe are not fully aware of private equity as a practical financing option for their businesses.
- The introduction of a multiple-currency system in Zimbabwe resulted in the financial stability of the country and this likely attracted private investment
- Based on the agency theory , both the agent (private company) and the principal (private equity firm) will enter into an optimal partnership

1.9 Limitations of the Study

The limitations of the study are noted as follows:

- Lack of a comprehensive data base for unlisted companies presented a challenge for the collection of data however, the researcher then took advantage of distributing the questionnaires through account relationship managers from corporate, SME and retail banking since researcher works in a bank.
- Limited knowledge on the private equity concept especially from the majority of private companies however researcher had to spend a considerable amount of time explaining the concept to some of the targeted respondents.

1.10 Definition of Terms

Private Equity - Gillian and Wright (2014) define private equity as risk capital provided outside the public markets noting particularly that “private” is not linked in any way to

secrecy. It simply contrasts with the 'public' quoted markets. The businesses invested in by private equity range from early-stage ventures, usually termed venture capital investments, through businesses requiring growth or development capital to the purchase of an established business in a management buyout or buy-in. This study will adopt the broad definition of private equity as postulated by Gillian and Wright (2014). In this sense private equity is a generic term that incorporates venture, growth and buy-out capital.

Frontier markets -This refers to a type of emerging market that is considered to have lower market capitalisation and less liquidity than many emerging markets. These types of market generally appeal to offer potential high returns with low correlation to other markets, (The Financial Times Lexicon, 2017).

1.11 Organisation of the Study

The introductory chapter provided all the relevant information and also oriented the reader with the contents of the research. Among other things the background to the study, statement of the problem, research objectives and questions were outlined. The study is organised into five chapters. A literature review on global private equity investment will be contained in Chapter two. The research methodology will be outlined in chapter three. The research methodology for this study is predominantly qualitative. Chapter four reports the findings of the study, the results of the study will be presented and interpreted and finally chapter five will summarise all work done in the study, and provide conclusions and recommendations pertaining to the findings in chapter four.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter will comprehensively tackle literature on private equity based on the objectives of the research. A succinct outline of the history and origins of private equity will be given. The chapter further discusses the global role private equity financing has played in different economic sectors of different economic markets. Private equity investment performance in developed and developing markets will also be discussed. Existing literature on the constraints to private equity growth will also be examined.

2.2 Origins, History and Development of Private Equity

The Hungarian Private Equity and Venture Capital Association(2012)stated that private equity origins can be drawn back to as early as the industrial revolution specifically when J. Pierpont Morgan himself purchased Carnegie Steel Co. from Andrew Carnegie and Henry Phipps for \$480 million in 1901. Up to this day this transaction is often regarded as the first major buyout, a milestone in the origins of private equity. The Hungarian Private Equity and Venture Capital Association (2012) further stated that in1946 the American Research and Development Corporation (ARDC) was established and this marked the beginning of formal and professional management of private equity investments within the Unites States of America. The ARDC was a publicly traded and closed-end investment company whose mission was to provide private-sector financing for new and small businesses.

Prior to World War II, the sources of capital available to business firms were limited to internal sources comprising mostly friends and family and external sources being government and banks. Besides the limited sources of capital supply most entrepreneurs were bridled from securing bank financing because of their high risk and lack of collateral. The gap between self-financing and traditional capital markets had to be filled and thus private equity financing emerged to provide capital to firms with potential for significant value appreciation (The Hungarian Private Equity and Venture Capital Association, 2012)

The Securities and Exchange Commission of Nigeria(2016) noted that though, for the time it was in existence, ARDC raised approximately US\$7.4 million and provided funding for Digital Equipment Corporation despite its subsequent failure; ARDC provided the tone and foundation for private equity as we know it today. The development and enactment of two pieces of legislation in the United States of America gave a real boost to private equity capital. An amendment to Section 1244 of the Internal Revenue Code allowed for a write off

of capital losses against ordinary income for those individuals who invested at least US\$25,000 in small new businesses. The Small Business Investment Act of 1958 established Small Business Investment Companies. In five years these companies raised near fifty times the amount raised by ARDC in its thirteen years of operation.

However, Africa depicts a different picture, an Ernst and Young (2012) stated that the history of private equity in Africa only dates back to the late 1980s with the emergence of funds based and focused on South Africa. It is also important to note that over the years' private equity financing has spread across Africa with notable investments in West Africa –Nigeria and Ghana, East Africa- Kenya and Tanzania and Southern Africa- Mauritius and Zimbabwe.

2.3 A Synopsis of the Private Equity Market Structure

Prowse (1998) posits that private equity growth and development is a very good example of how organisational innovation coupled with enabling support frameworks such as conducive regulatory and tax structures can lead to increased interest and activity in a specific market. Funding risky start-ups and providing management support for start-ups was the primary purpose of private equity. There has been notable and significant growth of private equity since the early 1980s and has become an important mechanism for channelling capital through national and international markets, and funding business activities at various stages of development.

As propounded by Prowse (1998), the organised private equity market has three main key-players, namely (1) investors, (2) intermediaries and (3) issuers of private equity. The arrows in Figure 2.1 indicate the activity and the flow of that activity between the role-players. Investors or partners to a private equity fund may include pension funds, investment banks, insurers, wealthy individuals and other investment companies. Gillian and Wright (2014) further noted that the main reasons institutional investors settle for an investment via a private equity model is the anticipation of greater risk adjusted returns in comparison with other investments, as well as the implied benefits that diversification into private equity brings into their overall portfolio. The simplest structure of the private equity is demonstrated in the figure below:

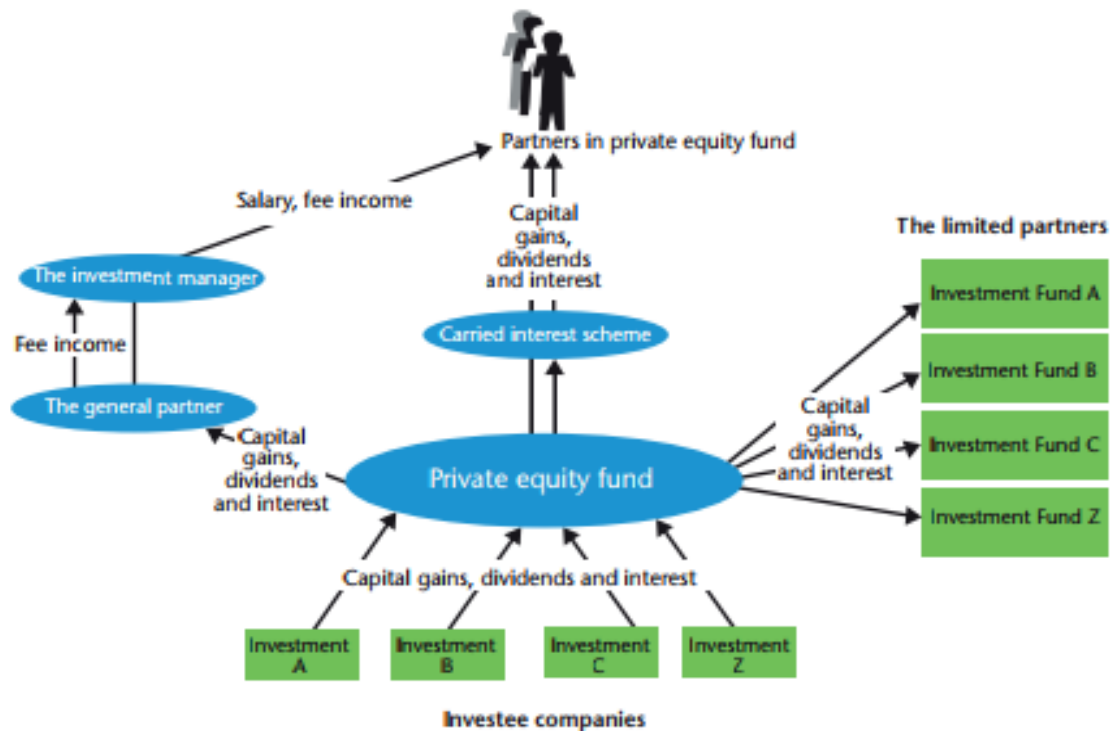


Figure 2.1: Typical Private Equity Structure

Source: Gillian and Wright (2014:38)

Limited partners (LPs) are the investors to a private equity fund because they commit a certain amount of capital to private equity funds which are run by general partners (GPs). The general partner is generally responsible for scouting and identifying potential investment opportunities. Once the investment opportunities have been identified by general partners, the general partners then call for the required funds from the limited partners. The general partners are compensated by the limited partners through management fees and a share of profits from investments. Carried interest is the term that is used to refer to the share of profits from the investments in the private equity fund. (Gillian & Wright, 2014).

2.4 The Investment Stages of Private Equity

The wide-ranging life cycles of companies offers private equity firms diversified asset classes or investment stages for them to invest in. Seed stage, startup stage, growth stage form part of the examples of a company's life cycle. The stages of a company's development are determined by the purpose for which the financing is required. The investment stages are outlined below as adopted from The British Private Equity and Venture Capital Association (2010):

2.4.1 The Seed Stage

The financing provided at this stage allows a business concept to be developed this often encompasses the production of a business plan, prototypes and additional research which is required prior to introducing a product to market and commencing large-scale manufacturing. The financing requirements of many of the private firms at the seed stage are often too small and necessitate the active management and support from the private equity firm to make them economically viable as investments. There are, however, some specialist private equity firms which are highly specialized and these may be worth approaching subject to the company meeting their other investment preferences.

2.4.2 The Start-up Stage

The startup stage involves financing the development of a company's products and funding their initial marketing that is the market penetration. Although many start-ups are typically smaller companies, there are an increasing number of multimillion start-ups. However, there are private equity firms that specialize in the startup stage, subject to the company seeking investment meeting the firm's other investment preferences.

2.4.3 The Other Early Stage

This stage involves financing a firm that has completed the product development stage but is not generating any profits as yet. For example, a manufacturing firm that requires financing to initiate commercial manufacturing and is still to generate profits from the sale of the goods. There has been significant interest shown by private equity firms for this type of investment stage over the years.

2.4.4 The Expansion Stage

This stage encompasses funding to support the growth and expansion of an established company. Capital supplied at this stage is also commonly referred to as development or growth capital. Some of the common uses for growth or development capital may include financing to increase production capacity, product development and marketing and to provide additional working capital.

2.4.5 The Management buy-out (MBO)

To enable the current operating management and investors to acquire or to purchase a significant shareholding in the product line or business they manage. MBOs range from the acquisition of relatively small formerly family owned businesses to well over £100 million buy-outs. The amounts concerned tend to be larger than other types of financing, as they involve the acquisition of an entire business.

2.4.6 The Management buy-in (MBI)

This stage enables a manager or group of managers from outside a company to buy into it.

2.4.7 The Buy-in management buy-out Stage (BIMBO)

This stage enables a company's management to acquire the business they manage with the assistance of some incoming management.

2.4.8 The Institutional buy-out Stage (IBO)

To enable a private equity firm to acquire a company, following which the incumbent and/or incoming management will be given or acquire a stake in the business. This is a relatively new term and is an increasingly used method of buy-out. It is a method often preferred by vendors, as it reduces the number of parties with whom they have to negotiate.

2.4.9 The Special Situations Stage: Rescue/turnaround

This stage of financing enables private equity firms to finance a company in difficulties or to rescue it from insolvency.

2.4.10 The Refinancing Bank Debt Stage

At this stage equity financing is accepted to reduce a company's level of gearing or leverage.

2.4.11 The Bridge Financing Stage

This is essentially short-term private equity funding provided to a company generally planning to float within a year. Bridging financing is normally short term in nature.

2.5 A Global and Sectorial Overview of Private Equity Financing

Private equity companies offer great miscellany and flexibility through their eminent position in the array of business financing power tools. The collective pockets of global private equity firms are deep, with a probable of several trillion dollars under their active management and hundreds of billions available at any given time for investing in private companies. Investments by private equity firms in private companies embrace a range of purposes such as capital acquisition, recapitalization and supplemental commercial construction loans. According to the Global Impact Investing Survey (2013) impact investors alone manage over USD 60 billion of global capital which is expected to reach USD 1 trillion by 2020. However, despite the large volumes of global capital the same survey noted that there is an alarming financing gap with respect to investing in early-stage companies with less than 10% of impact investors focused on early-stage investments. It is reasonably apparent that private equity funding is able to fill large capital abysses in private companies across the different economic sectors that traditional lending sources are unwilling to lend to.

Noble and viable projects frequently fall victim to capital shortfalls, particularly in a tight senior debt market where the demand for capital more is often greater than its supply. However, private equity companies are playing a progressively significant role in bridging the gap between available equity capital and the funding private business can obtain from traditional commercial channels such as banks and bond issuances. For private companies at whatever stage that is seed and early stage, growth or expansion stage and special situation as financial distress and even those with ambitious projects, private loans and equity capital can make the difference between success or failure (Aegisone Financial Solutions, 2016).

2.6 Private Equity Financing in Agriculture

Approximately 70% of Africa's population is engaged in agricultural activities where most of the countries have agro based economies as this sector is the largest single contributor towards gross domestic product. However, in many cases the agriculture sector continues to remain a relatively unproductive sector compared to international equivalents, with the industry fragmented, composed of small-scale producers often lacking in inputs, investment and access to finance(The African Development Bank , 2012).According to Aulusi, et al., (2015) agribusiness is more than just farming as it comprehensively includes the manufacture and distribution of farm equipment and supplies, processing, storage and distribution of farm commodities.

Thus, the expectations placed on modern agribusiness provide a special opportunity for private equity investments. Private equity firms can bring stable and patient growth capital to agribusinesses that may struggle to access funding given the irregular nature of their cash flows and the general unavailability and rationing of bank funding in many markets. Aulusi, Casey, Curmaly, Eckstein, & Joshua, (2015)opine the following as the merits of private equity financing in agriculture, leveraging industry expertise to help agribusinesses attain scale, strengthening banking relationships, and improving capital buffers thus making more sustainable enterprises. Another benefit for Limited Partners (LPs) that back private equity funds is that agribusiness can offer long-term financial and diversification value. The private equity data provider Preqin (2015) further noted the following, alongside the world's ever-increasing population; the farming sector has seen considerable growth in demand for crops, which creates the need for increased production. As a result, some private equity players seek to take advantage of the disparity between demand and supply and capitalize on potential investment opportunities. To augment their proposition Preqin (2015) stated that as at 2010 there were close to 190 private equity firms globally investing in agriculture. Of the 190

private equity firms, 63 firms were raising capital for private equity investments in the sector with an aggregate target of USD 13.3 billion. The following table provides a synopsis of private equity investments financing agriculture globally.

Table 2.1: The Top Five Agriculture Funds in 2015

PRIVATE EQUITY FUND	PRIVATE EQUITY FUND MANAGER	PRIVATE EQUITY FUND SIZE US\$/MILLIONS	PRIVATE EQUITY FIRM HEADQUARTERS	GEOGRAPHIC FOCUS OF PRIVATE EQUITY FIRM
TIAA-CREF Global Agriculture II	TIAA-CREF Asset Management	3,000	USA	Australia, Brazil, Chile, New Zealand
ACM Permanent Crops	Equilibrium Capital Group	250	USA	USA
New Zealand Dairy Fund I	Southern Pastures	NZ315	NZ	New Zealand
Homestead Capital USA Farmland I	Homestead Capital	173	USA	USA
Cultivian Sandbox Food & Agriculture Fund II	Cultivian Ventures	114	USA	Global, USA

Source: Preqin (2015)

2.6.1 The Private Equity Fundraising and Investment Trends of Agriculture in Emerging and Frontier Markets

Aulusi, Casey, Curmaly, Eckstein, & Joshua(2015) documented the following with regards to the investments trends in emerging and frontier markets, geographically the Latin America

private equity focused vehicles raised the most capital between the 2008 and 2014. The capital raised in the Latin America region approximately amounted to US\$1.9 billion in total. Asia and Sub-Saharan Africa focused private equity firms have demonstrated a discernible shift since 2010. Providing statistical values for private equity funds in the Asian emerging markets and Sub-Saharan frontier markets Aulusi, Casey, Curmaly, Eckstein, & Joshua (2015) have stated that the investments accumulated US\$2.1 billion and US\$1.3 billion respectively over a time span of ten years. With respect to single-country funds, Brazil-dedicated private equity vehicles have attracted the largest amount of capital by far. The total capital raised is estimated to be nearly US\$1.5 billion compared to US\$356 million for China, the second-largest destination. The figure below shows the distribution of private equity funds

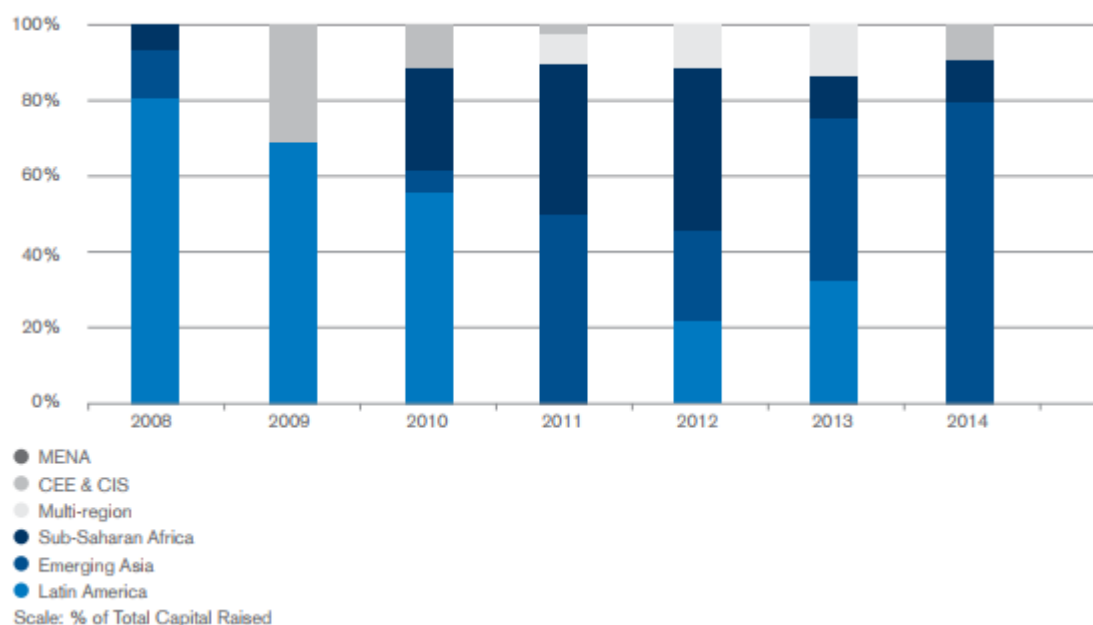


Figure 2.2: Agribusiness Private Equity Fundraising by Geographic Focus, 2008-2014

Source Aulusi, et al, (2015:54)

In response to a 2008 African food crisis the African Agriculture Fund (AAF) was created. The African Agriculture Fund (AAF) is a private equity investment vehicle and its principal investors include the African Development Bank (AfDB) in partnership with Agence Francaise de Développement, the West African Development Bank, the ECOWAS Bank of International Development (EBID), the Development Bank of South Africa (DBSA) and the Spanish Agency for International Corporation and Development (AECID). The fund makes use of different combinations of private equity financing and technical assistance. The

primary focus of the AAF is investing in companies operating in food production, processing, manufacturing, storage, distribution and marketing. Of its US\$26 million investment funds, US\$14 million have been apportioned to the technical assistance facility will be used to build business linkages and business development services for small and large enterprises (The African Development Bank , 2012).

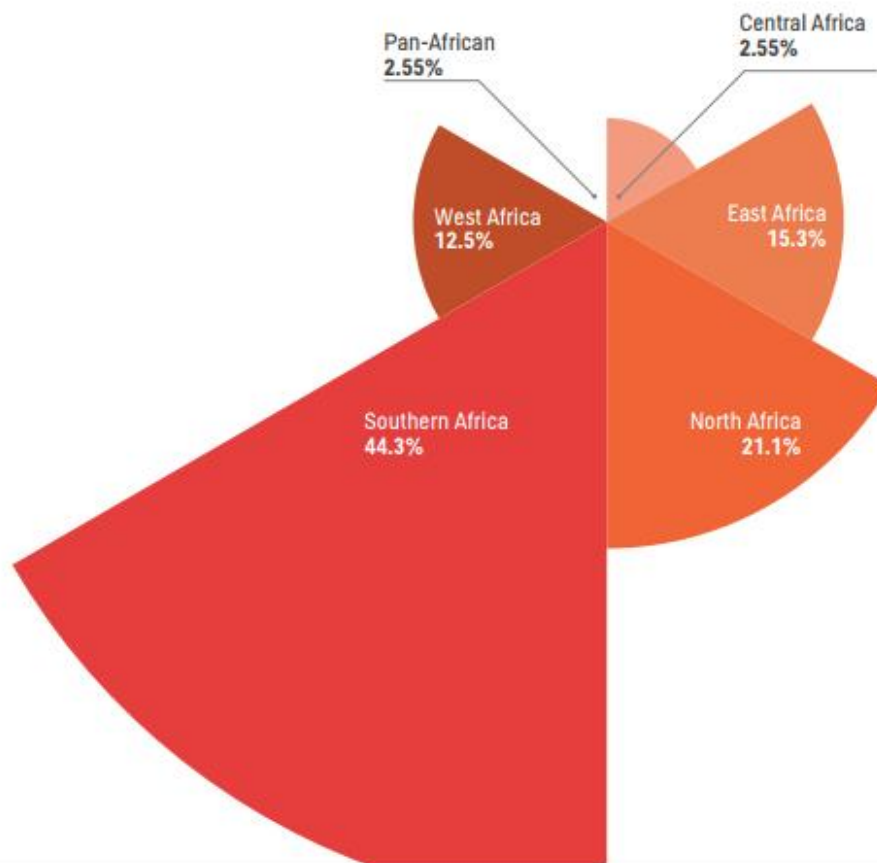


Figure 2.3: Distribution of Private Equity Investments : African Agricultural Fund (AAF)

Source: African Development Bank (2012:27)

The African Development Bank (2012) documented the following example of private equity financing agriculture, headquartered in Nigeria is Notore Industries is an emerging producer and supplier of agricultural products for African markets. The company began its operations in 2005 through the purchase of assets from the National Fertiliser Company of Nigeria, including an ammonia and urea fertiliser manufacturing plant in Rivers State, which had been defunct since 1999. Notore Industries has emerged as a major player in the manufacturing of urea fertiliser in sub-Saharan Africa after a successful rehabilitation to resume production in 2009. Private equity played a part in the plant’s original foundation in 1981, with the firm

Kellogg, Brown and Root taking a 30% stake. Now, after an investment of US \$23.2 million by Emerging Capital Partners in 2007, Notore Industries is looking to grow further and take part in a revolution in African agriculture.

2.7 Private Equity Financing in Banking and Financial Services

Ernst and Young (2014) documented that investments in banking and financial services totalled US\$156million in Sub-Saharan Africa in 2013. The sector accounts for approximately 13% of the capital invested by private equity in the region during 2013. There have been 40 private equity transactions from 2010 through 2013, with an aggregate value of US\$772million, or about 19% of total private equity value for the entire period. In a leading transaction of 2013, Actis invested US\$95m in Paycorp Holdings (Pty.) Ltd., a South Africa-based third-party switch provider and major ATM deployer and service provider.

Documenting similar private equity investments trends in the banking services among the Latin America and North America region, a KPMG (2016) report stated that, investment in venture capital-backed fintech companies more than doubled, reaching a record USD13.8 billion in 2015. The number of deals supporting fintech backed investments in banking also increased to 653 from 586 the year before. Private equity funding flowed freely into the fintech industry in 2015, supporting an overall trend that has seen startups opt to stay private for longer (KPMG, 2016).

2.8 Private Equity Financing in Mining

The mining sector is a risky business due to the volatile nature of global commodity prices. A 2015 report by Berwin Peighton and Paisner on private equity into mining documented that there has been an increase in private equity fund investments in mining across the globe. The increased funding may be indicative of the general difficulties faced by mining companies in the sector with low commodity prices. Mining markets (2013) stated that there is some hope, however, that private equity will help fill the vacuum left by the public markets as they negated the sector due to the decrease in metal prices in 2013.

Although, there has been a buzz regarding increased capital deployed to minerals only a few funds for this sector have been raised in terms value and the number of deals. Statistical data provided by Mining Markets (2013) on some of the big private equity players that have raised money to invest in mining include companies with many years of experience investing in mining. Private equity players like Resource Capital Funds (US\$2 billion), and Brookfield's BCP III fund (US\$1 billion). A few new players have been noted these include Mick Davis'

X2 Resources (US\$1 billion), and generalist firm Apollo Global Management (US\$1.3 billion), which are also looking for acquisitions.

Unlike other economic sectors such as Agriculture and natural resources private equity investments in mining are not very significant. It is noted that private equity has shied away from the sector in the past some of the cited reasons being the lofty valuations for companies, volatile commodity prices, a lack of technical understanding of mining; and the fact that the public equity markets have been a more than sufficient source of capital (Mining Markets, 2013).

However, since the public markets have also fled the mining space because of the changing metal prices, private equity firms can refocus on the mining sector particularly because of their long term focus. It is a prospect that private equity firms need to look into. (Mining Markets, 2013) noted that there just isn't enough private equity money to replace the missing capital from the public markets, the mining industry will have to temper its expectations of private equity. Hence, the funding gap in the mining sector remains largely unfilled as private equity has not adequately addressed this abyss. The US\$10-15 billion that was expected to be raised for mining investment is just a drop in the bucket for an industry that has been starved of capital for over two years now (Mining Markets, 2013). Similarly, the private equity data provider (Preqin, 2015) stated that not all private equity investors are ready to make investments in the mining sector just yet. In a record year for funds raising capital to invest in natural resources, the mining sector remained a weak spot, with only US \$0.4 billion capital funds committed.

Denina(2015) opinites that private equity firms are silent about their investment plans in the mining sector, but typically tend to operate in more mature markets like Australia and Canada. Investments have also been noted in resource-rich Russia or West Africa although the norm is avoidance of politically challenging environments. The interest of private equity in the mining sector will probably be limited to niche situations, where they can see a story or a situation that plays to their strengths and perhaps financial engineering or distressed situations.

2.8.1 Geographical Synopsis of Private Equity Investments in Mining in 2015

Berwin Leighton Paisner(2015) found the following investment trends in mining across the globe :

The majority of the mining deals concluded in 2015 were in the North American region. A total of 12 investments were made into companies with projects based in Canada and a further 11 investments into companies with projects based in the USA. Even though the number of deals in North America has been on the increase the total value of the investments has been decreasing. The total amount invested in North America significantly dropped from US\$1 billion to US\$282.9 million.

Unlike North America the number of investment deals in Europe decreased although there was a substantial positive trajectory noted in the deal amounts. Investments in Europe increased from a mere US\$173.2 million to a whopping US\$1 billion. Like North America, African projects witnessed a decrease in the amount raised to US\$114.6 million with only 13 projects attracting private equity investment. The other significant change was that Australian projects saw more investments from private equity. In 2014 the majority of the private equity money being invested in Australia was to back management teams whereas this shifted in the first half of 2015 as US\$247.5 million invested into nine projects.

2.9 Private Equity Financing in Information, Communication and Technology

Alemayehou & Kimball(2014) explicated that private equity has broadened its usefulness by filling gaps currently left vacant by more traditional sources of finance such as bank loans and bond issuances. Observing notable developments emanating from private equity investments in the telecommunications industry, Alemayehou & Kimball(2014) noted that prior to 1998, the telecommunications industry in Africa was virtually non-existent, and what little existed was dominated by inefficient, government-owned landline operators. For example, Zimbabwes telecommunication industry had the then Posts and Telecommunications Corporation (PTC). However, entrepreneurs such as Sudanese Mo Ibrahim, the late Mike Rwayitare from Rwanda and Zimbabwean born Strive Masiyiwa had the ideas of creating mobile telecommunications in Africa. Private equity financing not only demonstrated its usefulness in filling the funding gap but also the social and economic transformation it carries. Mo Ibrahim raised and invested US\$415 million principally from private equity firms and this resulted in the birth of Celtel. Hence, private equity financing enabled the mobile network and telecommunications to take shape in Africa (Alemayehou & Kimball, 2014). African private equity will likely continue to increase its visibility and

influence in Africa's evolving economic landscape. It is not an exaggeration to say that Mo Ibrahim's tapping into private equity investment facilitated him in transforming the telecommunications industry in sub-Saharan Africa.

Important to also note is how part of the transformations that private equity investments in information, communication and technology (ICT) have brought are changing the economic infrastructure of Africa. Private equity investments have transformed and still continue in transforming the way in which the financial services sector interacts with the banked, under-banked and un-banked populations, through technologies such as mobile banking. At this very moment, cell phones are providing Africans with additional innovation platforms such as access to the internet and social networking—with consequences that reach all the way into the political sphere. In short, this industry that was born of the marriage between a great idea and available private equity financing is likely to greatly influence African countries in the coming decade (Alemayehou & Kimball, 2014).

2.10 The Performance of Private Equity Investments

Cendrowski et al (2012) suggested that tracking the performance of private equity funds has been relatively difficult, as private equity firms are under no obligation to publicly reveal the returns that they have achieved from their investments. The investment model of private equity funds is such that investments are made in privately held, owner-operated companies looking to grow and are not listed on the public market and this result in limited information to the public. In most instances information regarding the investment performance is a limited to small group of people such as the investors in the funds, academic institutes (as CEPRES Centre of Private Equity Research) and the firms themselves. The comparison between performance of different firms becomes a difficult task so does the establishment of market benchmarks.

However, in an effort to address the availability of information relating to the performance of private equity investments a notable number of states in the United States of America applied the Freedom of Information Act (FOIA). This has made certain performance data more readily available. Specifically, FOIA has mandated certain public agencies to disclose private equity performance data directly on their websites. Similarly, in the United Kingdom, the second largest market for private equity, more data has become available since the 2007 publication of the David Walker Guidelines for Disclosure and Transparency in private equity (Cendrowski, et al., 2012). While there is an on-going effort to continue to make the information regarding the performance of private equity available and accessible, Appelbaum

& Batt(2016) posit that the data available to researchers is improving, but no comprehensive, unbiased, and widely available data yet exists that can be used to evaluate PE performance.

2.10.1 Measuring Private Equity Investment Performance

According to Appelbaum & Batt, (2016), the private equity industry has long relied on the “internal rate of return” (IRR) as its primary performance measure, but that metric has been widely discredited not only in the academic finance discourse but also among management consulting firms such as McKinsey & Company. Some of the cited limitations of using the IRR is that it makes investments look much better than they actually are. In a survey of over 200 Limited Partners, Da Rin & Phalippou, (2014) document that Limited Partners indeed focused on investment historical performance. Their study revealed that an average of 16 to 26 days is spent (depending on the fund type) on due diligence for each fund they invest in. More than 90% of the Limited Partners calculate their own measure of General Partners past performance and benchmark that past performance against other General Partners.

From their survey Da Rin & Phalippou(2014) further documented that typical private equity fund has an investment period of five or six years and a fund life of at least ten years. After the investment period, the typical private equity firm will seek to raise a new fund so that it can continue to invest while its previous investments mature. As a result, when Limited Partners evaluate the performance of a General Partners most recent fund, they must rely on net asset values (NAVs) reported by the fundraising General Partners. This is particularly relevant for buyout funds since the performance of already resolved funds (e.g., third and fourth back in a sequence) appears to contain little predictive power on average.

Brown, et al., (2016)stated that GPs make investments in companies that are privately held, and thus market prices are not observable for most of the fund’s unrealized assets. This therefore makes it potentially challenging for GPs to obtain a valuation for each portfolio company at the end of each reporting period (normally quarterly). Resultantly, GPs observe contemporaneous and lagged company characteristics for their portfolio companies (e.g., sales, profits, etc.) as well as public market characteristics for other, sometimes quite similar, companies, industries, and markets. In addition, GPs may observe, but only with a lag, the performance of their competition – that is, the performance of other funds of similar vintage and investment strategy.

In contrast to private equity general partners, most finance economists measure fund performance using a metric known as the “public market equivalent” (PME). A performance metric formulated by finance economists Steven Kaplan and Antoinette Schoar in 2005. This measure compares returns from investing in private equity with returns from comparable, and comparably timed, investments in the stock market, as measured by the S&P 500 or other stock market indexes. This measure provides limited partners with more reliable information about two things: how much money they get back at the end of their 10-year investment in a PE fund relative to their initial investment, and how that compares with the return they would have earned if they had invested in some other asset instead — say in companies that trade on the stock market (Appelbaum & Batt, 2016).

2.10.2 Private Equity Performance in Emerging Markets

According to RisCura (2013), African private equity deal multiples are estimated at roughly eight times (multiplier effect, 8x) based on performance over the past nine years. Although the Brazil, Russia, India China (BRIC) boast a better performance, with an average multiple of about ten times (multiplier effect, 10x), this result is mainly skewed upward by China, with its two-digit multiple level (approximately 17x multiplier effect); by contrast, Brazil’s and India’s multiples average only between the ranges of 7-8 multiplier effect. The Emerging Markets Private Equity Association(2015) noted that private equity investments in India have since changed since the golden era the average deal level returns surpassed a gross IRR of 40% prior to 2007.

However, according to RisCura (2013) these numbers must always be treated with caution this is because much of the information related to private funds is not disclosed. Our experience suggests that the true multiples are lower. Nevertheless, with multiples probably close to those for Brazil and India, sub-Saharan assets can be viewed as a good investment opportunity for venture capital companies, especially compared with the IRRs observed on mature markets (RisCura, 2013). The figure below represents a summary of the private equity returns in Emerging Markets:

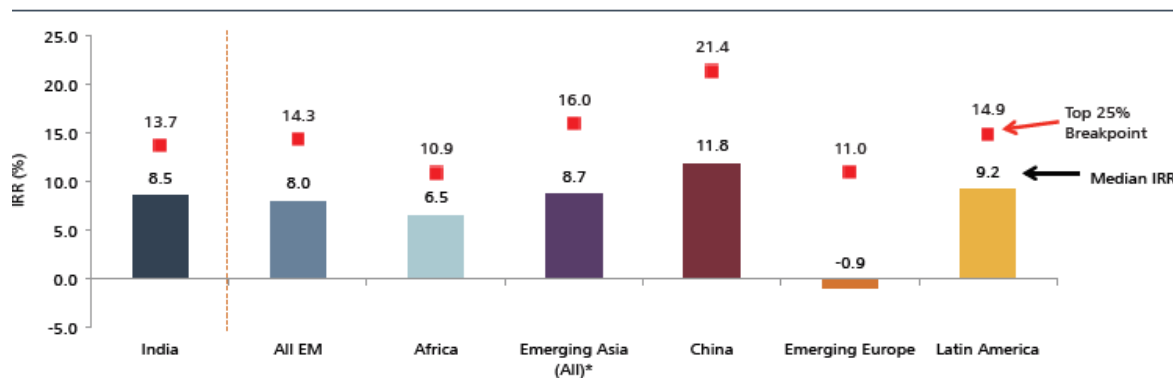


Figure 2.4 Emerging Markets Private Equity Investment Returns

Source: The Emerging Markets Private Equity Association(2015:41)

2.10.3 Private Equity Performance in Africa

The African Private Equity and Venture Capital Association, (2016)provides performance statistics for an Index of African private equity investments comprised of 50 funds with an investment focus on Africa. According to The African Private Equity and Venture Capital Association, (2016) the funds had a total capitalization of over US\$12 billion as of September 30, 2016. The index includes Pan-African, regional, and country-specific funds (13 of which are focused primarily on South Africa). It is documented that the asset classes are as tabulated below:

Table 2.2: Summary of the number of funds of private equity investment classes

INVESTMENT ASSET CLASS	NUMBER OF FUNDS
Buyouts	13
Growth Equity	33
Mezzanine	2
Venture Capital	2
TOTAL	50

Source: The African Private Equity and Venture Capital Association (2016:6)

Important to note from the Index statistics is the exclusion of other investments in economic sectors such as real estate, forestry, and/or infrastructure. Investment-level data includes investments made in Africa by Africa-focused funds noted above, as well as other private equity and venture capital funds in the Cambridge Associates global private investments database. Individual investments were headquartered or had their primary domicile in 33

different African countries or abroad. Below is a tabulated summary of the Private Equity African Index Performance and statistics for other private equity indices.

Table 2.3: Comparative analysis of Private Equity Indexes

INDEX	1- QUARTER	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Africa Private Equity & Venture Capital Index	2.15	1.55	-2.00	0.25	4.26	5.47
Africa ex South Africa Private Equity & Venture Capital Index	1.26	-0.12	-2.25	0.65	5.76	6.39
Cambridge Associates LLC US Venture Capital Index	3.31	0.53	2.18	16.78	14.24	10.31
Cambridge Associations LLC Private Equity Index	3.75	8.04	8.54	11.16	13.78	10.69
MSCI Emerging Index (Gross)	9.15	16.36	17.21	-0.21	3.39	4.28
MSCI World ex US Index (net)	6.29	3.12	7.16	0.33	6.89	1.88
MSCI World Index (net)	4.87	5.55	11.36	5.85	11.63	4.47
MSCI Emerging Frontier Markets Africa (gross)	6.21	20.21	8.05	-0.81	3.27	5.31

Source: The African Private Equity and Venture Capital Association (2016:8)

¹The private equity funds are reported from an index whose horizon calculation is based on data compiled from 50 Africa private equity and venture capital funds, including fully liquidated partnerships, formed between 1995 and 2014.

1. Private indexes are pooled horizon internal rate of return (IRR) calculations, net of fees, expenses, and carried interest. Public indexes are average annual compounded return (AACR) calculations only. Direct comparison of IRRs to AACRs is not recommended. For a more accurate means of comparing private investment performance relative to public alternatives, see the Modified Public Market Equivalent (mPME). Sources: Cambridge Associates LLC, MSCI Inc., MSCI Inc. and Thomson Reuters Data stream. MSCI data provided "as is" without any express or implied warranties. Notes: Total returns for MSCI Emerging Markets indexes are gross of dividend taxes. Total returns for MSCI Developed Markets indexes are net of dividend taxes.

2.11 Constraints to Private Equity Growth: Emerging and Frontier Markets

The emerging and frontier markets are increasingly attracting private equity investments. While these markets have been the focus of many of the investors due to the superior returns these markets do not also go without their limitations. Some of the major constraints to private equity growth in emerging and frontier markets include the development of financial markets or financial systems, qualified and talented personnel and regulation and legislation. The section below will discuss the constraints of private equity growth.

2.11.1 Financial Markets

Compared to financial markets of other emerging countries Severino & Barraton(2013) posit that African banking systems operate largely on a short-term basis with more than 80% of deposits being short-term deposits or deposits with a maturity of less than one year. The presence of high intermediation constraints (loan/deposit ratios are 30 per cent lower, on average, than in banks in other developing countries) and have high interest rate spreads and margins (interest margins in African banks are 44 percent higher, on average, than in the rest of the world). Nonbanking segments of Africa's financial system show an even lower degree of maturity than banking. For instance, only 24 of the 53 African countries have stock markets, and only a few of these are liquid (Egypt, Morocco and South Africa). It is, therefore, the inefficient allocation of financing as much as its level that serves as a constraint on African economic development.

It is noted that private businesses particularly younger firms benefit from a higher development of the financial system as this reduces the negative effects of information asymmetry(International Finance Corporation, 2010a).For example, the lack of credit reference bureaus in most African countries continues to promote information asymmetry between the firms and commercial banks. Aghion et al. (2007) cited in Ignaci & Sinha (2011) reinforce the importance of the development of financial markets in allowing access to external finance for small firms. Therefore, it is imperative for governments of emerging economies to facilitate conducive and enabling environments that foster the growth and development of financial systems.

2.11.2 Knowledge

There are critical issues to consider when making a private equity investment. Information is important for arriving at better decisions after careful consideration of all the accessible and available information. Meerkart & Liechtenstein(2010) stated that the knowledge of the

market, companies, government, culture and environment is critical when making a private equity investment. Private equity investors rely heavily on quantitative analysis. However, information in many developing countries, for example India and Brazil, is non-existent, incorrect or old. Therefore, this places a huge constraint on potential private equity investors. This dearth of good information in developing countries makes valuing companies' worth and growth prospects difficult if not impossible. There are no large databases for prospective companies to invest in, and in countries like China the best companies may be unregistered and operating without all the requisite approvals (Meerkart & Liechtenstein, 2010).

2.11.3 Regulation and Legislation

As noted by Severino & Barraton (2013) it is difficult in the majority of African countries, to identify the appropriate legal regime under which private equity investment activities fall. In some settings, funds may not be permitted at all. Financial corporations may be subject to major regulatory barriers, making it difficult to develop small vehicles with limited financial means and modest teams. In general, financial regulations have tended to support the concentration of corporations and made it difficult for smaller vehicles to function, given that they lack the capacity to deal with onerous regulatory constraints, such as anti-money-laundering rules.

A report by Allen and Overy(2015) noted that in the African frontier markets local regulatory frameworks pose as an obstacle because policymakers and regulators take time to become familiar with private equity. There exists multiple jurisdictions and restrictions on private equity operations which encompass access to local capital such as domestic pension funds, exchange controls, local content requirements and ownership restrictions are still a problem. However, developed frameworks in Nigeria and South Africa could drive regional regulatory harmonisation, but progress is slow. The Indigenisation Act in Zimbabwe is an example of a piece of legislation that may unlikely result in the constrained growth of private equity investments.

Local regulations in certain countries can preclude governance arrangements that might otherwise identify and overcome inefficient management. For example, the Organisation for the Harmonization of Business Law in Africa (OHADA) legal system, which covers all the francophone countries in West and Central Africa, as well as some others, makes it difficult for minority shareholders to recover decision rights if the chief executive officer performs badly (Severino & Barraton, 2013).

2.11.4 Qualified Personnel

Smolarski, Wilner and Yang (2011) described private equity as a specialized investment field requiring specific managerial and industry skills to be successful. Furthermore, Severino and Barraton (2013) suggest that the scarcity of high-skilled and experienced local staff makes the hiring of quality middle management difficult for investee companies. History demonstrates that the majority of private equity deals are not made for a hasty profit. The main strategic focus is to wring as much value out of the company as possible and good management is a prerequisite for this to occur. In the majority of private equity deals, a team of managers will replace managers of the highest quality. Ignaci & Sinha(2011) stated that the demographics of developing countries represent a major challenge to private equity investors arguing that the developing countries have a small and difficult to rich cadre of experienced executive managers and entrepreneurs despite having talented professionals in areas like engineering and information technology. Hence, the absence of experienced managers poses as one of the constraints to the growth of private equity.

2.11.5 Weak Exit Markets

Severino & Barraton(2013) postulate that the scarcity of listed markets in sub-Saharan Africa largely contributes to the weak exit markets of private equity. Exits in the sub Saharan markets are weak and more complicated than in other emerging markets. This presents an apparent lack of an opportunity for private equity exits that is the ability of funds and their investors to realise the returns on their investment at the end of the fund's maturity. Listed market scarcity therefore has been a stumbling block for many investors who have run their eye over the African private equity industry. The majority of exits in the last couple of years have been direct sales to strategic investors with the exception of some initial public offerings mainly in South Africa. In support of this, The African Development Bank Report on Private Equity in Africa (2012) noted that the trade sales are a more suited exit model for private equity investment in Africa. A trade sale encompasses an exit through which the portfolio company is sold to a larger regional or international enterprise.

Exists through trade sale or strategic sale is a more feasible mechanism for Africa-focused private equity funds to capitalise on the growth of their portfolio companies.The African Development Bank(2012), has documented that trade sales exits are very possible, several of the funds in which the African Development Bank group has invested successfully exiting from their portfolio companies in 2010 and 2011. However, (Severino & Barraton, 2013) argue that secondary exits remain rare due to the lack of sufficiently mature assets available

for other financial investors. Investors have therefore often opted to invest in African companies throughout their entire life cycle (Severino & Barraton, 2013).

Table 2.4: Selection of Private Equity exits announced or completed in Africa in 2013

COMPANY	EXITING PE FIRM	COUNTRY	SECTOR	EXIT ROUTE	BUYER
Capital Properties	Actis	Tanzania	Real Estate Development	Sale to PE firm	Sanlam
Compagnue Miniere de Toulssit	Emerging Capital Partners	Morocco	Metals and Mining	Strategic Sale	OSEAD, OMM's parent company
DFCU	Actis	Uganda	Banking and Financial Services	Strategic Sale	Norfund and Rabo Development
Express Life Insurance	Leapfrog Investments	Ghana	Financial Services	Strategic Sale	Prudential
HFC Bank	Abraaj Group	Ghana	Financial Services	Strategic Sale	Republic Bank Ltd
MTN Cote d'Ivoire	Emerging Capital Partners	Cote d'Ivoire	Telecommunications	Other	Planor Capital International
Opalia Pharma S.A	Abraaj Group	Tunisia	Pharmaceuticals and Biotechnology	Strategic Sale	Recordati SpA
OSEAD Maroc Mining	Emerging Capital Partners	Morocco	Metals and Mining	Sale of shares on listed exchange	N/A
Reatile Timrite	Standard Bank Private	South Africa	Diversified Industrial Products	Strategic Sale	Thebe Mining Resources

	Equity				
UAP Holdings	Abraaj Group	Kenya	Banking and Financial Services	IPO	N/A

Source: Ernst and Young (2012:14)

2.11.6 Taxation

Ignaci & Sinha(2011) postulated that the most apparent cost is that higher tax rates on businesses can reduce incentives of investment and risk taking because post-tax profits would be lower. In addition, the cost of compliance with the administration of taxes can be high and thus discouraging private investments. According to Severino & Barraton (2013) taxation is often a problem for private equity because African tax systems vary considerably, but more and more countries heavily tax profits on equity when investors exit. This is especially a problem in the absence of a taxation treaty between investor and investee countries; double and excessive taxation occurs in these cases and represents an obvious constraint for investors. Tax can therefore be a constraint to the growth of private equity investments.

2.12 Theoretical Framework

The financing behaviours and choices of firms largely depend on various factors. Examples of these factors include the firm size, ownership structure and type of management. It is important to note that much of the theory developed has centred on listed firms and large firms. However, some of the financing theories can be adopted for use among the unlisted and small firms. Against this background this research will explicate financing behaviours of private firms based on the following theoretical frameworks asymmetry of information hypothesis, pecking order hypothesis and agency theory.

2.12.1 Asymmetric of Information Hypothesis

Asymmetric information means a situation in which one party in a transaction has more superior information compared to another. Afrasiabishan, et al (2012) proposes that the asymmetric of information hypothesis is premised on the idea that the flow and availability of information between the managers and external investors is uneven. In comparison with external investors, managers have more information about the rate of internal cash flows, investment opportunities and, generally, about the future landscape and real value of the company. Since external investors have less information about the firm this often leads to the undervaluation of shares. Therefore, information disclosure must be considered as an important factor. The information asymmetry between the external investors and managers of the firm is likely to present a harmful situation because one party can capitalise on the other

party's lack of knowledge. For instance, one can postulate that the information asymmetry that exists between traditional financiers such as banks and small firms thus makes it impossible for small firms to receive financing from banks. This eventually leads to the problems of moral hazard and adverse selection (Afrasiabishan, et al., 2012). The same information asymmetry can potentially exist between the small firms and potential private equity investor such that it becomes a challenge for proper company valuation to take place to enable private equity financing.

2.12.2 Pecking Order Theory of Financing Choice

As a consequence, to the information of asymmetry hypothesis the pecking order theory of financing choice was formulated. The pecking order theory is based on the assumption that business firms do not have a target capital structure. The pecking order theory was first propagated by Donaldson in 1961 but there have been modified versions of the hypothesis from other scholars such as Myers and Majluf in 1984. Pecking order theory suggests that firms have a particular inclination order for capital used to finance their businesses. Owing to the information asymmetries between the firm and potential investors, the firm will prefer retained earnings to debt, short-term debt over long-term debt and debt over equity (Chen & Chen, 2011).

Myers and Majluf (1984) cited in Chen & Chen (2011) argued that if firms issue no new security but only use its retained earnings to support the investment opportunities, the information asymmetric can be resolved. That implies that issuing equity becomes more expensive as asymmetric information insiders and outsiders increase. Firms which information asymmetry is large should issue debt to avoid selling under-priced securities. The capital structure decreasing events such as new stock offering leads to a firm's stock price decline. An announcement of increasing capital structure events is received by the market as good news.

Berger & Udell(2006) noted that the capital structure decision between equity and debt is different for small firms than for large firms in part because small businesses are usually more informationally opaque than large firms. In addition, since small businesses are usually owner-managed, the owner/managers often have strong incentives to issue external debt rather than external equity in order to keep ownership and control of their firms. Furthermore, if raising new funds, it might be optimal to raise them in the form of debt or in the form of equity. In each case, what is expected to be optimal in the next period will help to pin down the relevant comparison for the firm in the current period (Luigi & Sorin, 2009)

2.12.3 Agency Theory

This theory is grounded in economics and it also assumes that there exists information asymmetry between the agent (private company) and the principal (private equity firm). Landstrom(1993) postulated that the agency theory is based on the premise that both principals and agents are assumed to be rational economic-maximizing individuals. Based on this assumption both the general partners of the private equity firm and the investee private company desire to get the maximum from the partnership. Therefore, when private firms receive private equity financing the separation of ownership and control will result in decisions by the agents which are not always in the principal's best interest and there will arise costs (agency costs) of bringing the agent's behaviour into line. For example, costs arise which are incurred by the principals when monitoring and controlling the behaviour of the agent (so-called monitoring costs), and costs incurred by the agent in demonstrating compliance with the wishes of the principals these are often called bonding costs (Landstrom, 1993). The agency theory demonstrates that both parties to a private equity financing deal desire the maximum output.

2.13 Empirical Evidence

Much of the research done on the financing behaviours and capital structure of firms has vastly covered listed firms especially in the developed and mature markets. The section below discusses case examples of unlisted firms in different geographical areas. The case examples will also include the methodologies used to conduct the studies and the research gaps will also be identified.

2.13.1 Canadian Experience

In a study conducted in Canada on small to medium enterprises the Government of Canada (2006) noted that risk capital sources were from both the formal market, which is essentially venture capital companies managing third-party capital, private equity and initial public offerings (IPOs) on public markets, and the informal market, which comprises business angel investments and investments from friends and family. The study was conducted using a qualitative descriptive design where structured interviews were conducted on key personnel of private firms. The study revealed that formal risk capital was considered particularly important for those SMEs with high growth potential seeking substantial amounts of capital for expansion in return for a share of the business. This proportion of SMEs was rather small as only a small fraction constituting 1.2 % of the 1.36 million SMEs sought formal risk capital in the form of private equity and venture capital. Hence, it may be concluded that

private equity and venture capital financing was mostly used by those firms that were in their growth and expansion stages (Government of Canada, 2006).

The study documented that among Canadian SMEs while external sources of financing were used, mostly the informal equity financing was preferred over the formal sources of private equity. Hence, perceptions of private equity among private small companies were still very low as more informal external sources of risk capital were preferred. Business angels were considered a major financing option as more than 200,000 of Canadian SMEs, or about 15 % of the 1.36 million SMEs in Canada received this form of funding. By comparison, friends and family have been involved financially in more than 328 000 Canadian enterprises, almost 25 percent of the total 1.36 million SMEs. Important to note is that professional service and the agricultural and primary sectors were not attractive to the friends and family (Government of Canada, 2006).

2.13.2 The Case of Tanzania

Similar to the Canadian study, Olomi & Mori, (2015) using a qualitative exploratory methodology among twenty SMEs, three private equity firms and five private individual investors documented that the use of private equity finance by small to medium enterprises in Tanzania had not yielded much fruit. It is important to contextualise the Canadian and Tanzanian cases, both studies are conducted in different time periods and in different markets. A local private equity firm Social Action Trust Fund (SATF) has had to invest in listed companies rather than financing SMEs as per their initial investment strategy after experiencing failure with SMEs. Cited in Olomi & Mori, (2015) Oluwajoba & Oluwagbenga (2005) posit that the financing motives and behaviours of SMEs are often different from those of large companies. SMEs often have a strong desire for control and hence are averse to external equity finance. Hence, private equity financing for SMEs in Tanzania has not been fully successful and this failure can be exclusively explained by the financing behaviors of SMEs. Furthermore, some equity investors have business models that are more suited to SMEs than others. This is in support of Cusmano (2015) who noted that unlike private equity firms, angel investors and crowd funders have much lower cost structures. They meet SMEs through social networks and can easily follow them up.

Private equity and Venture capital financing options often have high cost models that rely on highly paid experts to undertake due diligence and therefore are more suited to larger businesses. In their study Olomi & Mori (2015) noted that eight of the ten SMEs that had received private equity and venture capital financing were founded and led by university

graduates. A possible explanation to this is that higher education prepares people better to meet the requirements of equity investors. Since private equity investors are formal it becomes important for a certain level of education to enable communication of ideas, plans and also to understand the complexity of structuring ownership and risk and returns sharing.

2.13.3 The Indian Experience

The Indian corporate sector witnessed a paradigm shift over the last two decades emanating from the initiation of certain measures of financial liberalisation within its financial system and markets. This liberalisation of the financial system thus facilitated Indian firms to raise capital from alternative options such as private equity or venture capital (Beena, 2012). Documenting the evidence from Indian firms using a longitudinal study covering the periods from 2000-2009, Rao and Dhar (2010) cited in Beena, (2012) observed that the services sector was exposed to large share of private equity or venture capital investments as compared to the manufacturing sector. The deregulation of India's financial system thus led to increased capital inflows which also included private equity financiers. However, the private equity financiers were most received and adopted by firms in the services sector.

2.13.4 The Italian Case

Capizzi, Giovannini, & Pesic (2011) have suggested that venture capital and private equity are the financial intermediaries best suited for situations where information is significantly asymmetric such as start ups, micro, small and medium enterprises. In their study of private equity and venture capital financing in Italy their results confirm that, as in the US, Italian venture capitalists and private equity firms are more likely to finance firms that are younger and smaller, and thus riskier. Nonetheless, some of Italian firms studied perceived private equity as a tool for capitalists to loot companies. This was mainly because the large profits earned by private equity funds and their investors as 20% of the return goes to the fund while 80% is paid back to investors. Hence, private equity and venture capital were not a common alternative financing tool for some of the Italian private firms. Capizzi, Giovannini, & Pesic, (2011) from their study further explicate that private equity and venture capital were most common and in use for those start up firms particularly in the technology sector what they referred to as New Technology Based Firms (NTBF). They offer a reasonable explanation that start up firms in the technology sector were perceived to develop and expand fast as had been the case in USA with examples of Apple. Thus both the private equity and venture capital firms and new technology based firms perceived the private equity financing model to work.

2.13.5 The Case of Serbia

Eric, Stefanovic, & Bradic-Martinovic(2008) noted that most entrepreneurs, owners and managers of Serbian firms had a few conventional financing options at their disposal due to the comparatively undeveloped financial systems which are mainly bank-orientated. In their study of twenty firms using in depth interviews, they frequently contacted with owners and managers of Serbian firms. Their qualitative study led them to conclude that undoubtably one of the biggest and most serious issues amongst Serbian private firms was the limited approach to good quality longterm sources of financial resources. Managers and business owners had very limited knowledge on other alternative financing options other than bank loans and retained earnings. The study is however silent on the educational level of the managers and business owners a factor that may contribute to their findings.

2.13.6 Studies on Developing Countries

One of the key components to a firm's growth is external finance as concluded by Demirgüç-Kunt et al (2008). In their study Demirgüç-Kunt et al. (2008) review the investment climate of seventy-one developing countries by distributing survey structured questionnaires. The aim of their study was to identify the main sources of external finance for firms. They find that more than 40 % of large firms, around 35 % of medium firms and only over 20 % of small firms use some type of external finance for new investments. Hence, it may be generally concluded that the size of the firm contributes significantly to the financing choice. Large firms only get 30 % of their new investment from external sources of finance, whilst small firms only finance 15 % externally. Not surprisingly, bank debt is the most common source of external finance, particularly for large firms. Demirgüç-Kunt et al. (2008) therefore from their study conclude that debt financing remains the most common external financing source in comparison to other alternatives such as private equity.

2.14 Summary

The origins, history and development of private equity were detailed in this chapter. A simple private equity structure was given and the key players explained. An array of different sectorial private equity financing investments was also discussed with an emphasis on the agriculture sector and mining sector. The performance of private equity investments was also discussed together with the widely performance indicators. Constraints to private equity growth were outlined. The chapter ended with a discussion of the financing theories of business firms and some empirical evidence.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

This chapter gives insight on how the research was conducted. Issues expounded in this chapter include the research design, research population and research sample. The methodologies employed to collect the data and the instruments used in the data collection process will also be outlined. The data presentation and analysis plan will also be defined. Of significant to the chapter is the justification of the selected approaches in conducting the research. To comprehensively tackle all research questions a qualitative approach was adopted.

3.2 Research Design

In order to achieve the objectives of this research a qualitative descriptive research design was adopted. A descriptive research design often aims to provide answers to the questions of who, what, where and how associated with a particular research problem (University of Southern California Libraries, 2016) . According to Collin & Hussey (2009) a descriptive research offers a complete description and analysis of the research subject, without necessarily limiting the scope as well as the responses from the participants. The research seeks to unearth a spectrum of issues as outlined in the objectives and research questions pertaining to private equity with a holistic technique encompassing the investment managers and the potential and current investee companies. Furthermore, Kothari(2004) stated that qualitative descriptive design is most suited for small samples while its outcomes are not measurable and quantifiable. For this reason, a descriptive design is considered appropriate for this research as the study seeks to fathom the perceptions and awareness levels pertaining to private equity in Zimbabwe. In addition, a descriptive design will allow solicitation of the respondents' opinions.

One of the limitations of a qualitative descriptive research is the small sample size which often makes it difficult to conclude the results as reflective of the population (Kothari, 2004). However, to address this limitation; the researcher also adopts the use data triangulation and data saturation techniques. A large sample size does not guarantee one will reach data saturation nor does a small sample size rather, it is what constitutes the sample size (Burmeister & Aitken, 2012).

3.3 Research Population

The respondents of this study emanated from a population that consisted of the following individuals and or groups of people: Venture Capital/Private Equity firms, Asset management firms and the private companies that are not listed on the stock exchange who operate in a spectrum of sectors which are Information Communications and Technology (ICT) mining, financial services, agriculture, manufacturing and processing.

The relatively informal nature of private equity investments in Zimbabwe in comparison to other countries such as Kenya and South Africa made the identification of the private equity firms difficult. However, the researcher identified a total of firms considered to be involved in private equity investments in Zimbabwe. The list of firms identified by the researcher include the following Matamba Anonaka Technology Holdings (MATHS), Nurture Invest, Brainworks Limited, Takura Capital Ventures, Spear Capital, Masawara and AfricInvest.

As adopted from the Securities Exchange Commission of Zimbabwe website a total of 16 registered asset management companies were identified for the purposes of this research. In addition to these, other commercial banks that offer asset management services were also considered part of the population for this research. The asset management companies included the following Atria Asset Management, ABC Asset Management, Alpha Asset Management, CBZ Asset Management, Ecobank Asset Management, Equivest Asset Management, Fidelity Life Asset Management, First Mutual Wealth Management, Imara Asset Management, Invesci Asset Management, Old Mutual, Platinum Investment Managers, Purpose Asset Management, Smartvest Wealth Management and Zimnat Asset Management.

All the private companies that are not listed on the Zimbabwe Stock Exchange were considered as part of the population for this research. The lack of a readily available database of all the private companies in Zimbabwe in some instances made it difficult to identify the companies.

3.4 Research Sample

As Emmel (2013) explained, qualitative sampling is not a single planning decision, but it is an iterative series of decisions throughout the process of research. A reflexive researcher then makes adjustments and considers the implications of sampling on interpretation. Therefore, the appropriateness and adequacy are paramount in qualitative sampling. Against this background the researcher adopted the use of purposive sampling techniques to identify part the respondents of the research who are investment specialists in private equity in Zimbabwe.

Purposive sampling was adopted for the first group of respondents who are the investment managers and private equity specialists.

For the unlisted companies since the lack of a data base posed a major challenge to the identification of private companies. However, the researcher adopts a stratified purposeful sampling procedure where private companies in specific targeted sectors are identified. The identified strata from the targeted population are the following mining, agriculture, banks and financial services and information communications and technology. Another basis for the identified strata is that private equity firms have demonstrated interests in these sectors thus the sectors are good points of departure.

Sample sizes in qualitative research must not be too small that it becomes difficult to reach data saturation and sample sizes must not be too large that it becomes difficult to undertake a deep case oriented analysis (Creswell, 2002). Guasorra et al (2015) posit that information power indicates that the more information the sample holds, relevant for the actual study, the lower amount of participants is needed. Thus the size of a sample with sufficient information power depends on the aim of the study, sample specificity, use of established theory, quality of dialogue and analysis strategy. Against this background the researcher adopted the sample sizes outlined in table below.

Table 3.3: Sample size requirements and strata used

RESPONDENTS	Strata	Number sampled
Asset Management Companies & Private Equity Firms	• Investment Managers	30
	• Private Equity Specialists	15
Private/Unlisted Companies	• Mining	5
	• Agriculture	10
	• Banking and Financial Services	10
	• Information, Communication & Technology	10
	• Other	5
Total sample size		85

3.5 Data Collection Methods and Instruments

The data collection for the research is to be collected using both the primary and secondary sources. Primary data will be collected through the interviews and questionnaires. Secondary data will be collected from the websites of private equity firms who have made investments in Zimbabwe. However, given the very nature of private equity and the unavailability and accessibility of private company financial information the researcher will primarily rely on the primary data as collected through interviews and questionnaires.

3.5.1 Primary Data

Primary data will be collected by means of prudently designed questionnaires. The researcher designed two separate questionnaires for each of the identified groups of respondents that is the investment managers and or private equity specialists and the unlisted or private companies. The questionnaires were designed in a standard manner expected at assisting the researcher to meet the research objectives and also in answering the research questions.

The basis for the design of the research instrument emanated from the research questions posed in this study and therefore formed thematic areas under which respondents were asked about their opinions, perceptions, and experiences regarding private equity. Each of the questionnaires includes a mixture of both closed and open ended questions. Closed ended questions will allow the researcher to prompt the respondent's view with regard to questions considered to have a limited set of possible responses and also to maintain the focus of the research. To further the level of information of the research on the closed questions, respondents were also requested to justify their responses through responding to the open ended questions. Open-ended questions were also included to solicit the opinions of respondents where it was felt that the range of possible responses could not be ascertained.

The researcher adopted the use of questionnaires primarily because they facilitate an extensive coverage at a minimum expense both financially and in effort. This in turn justified their use because of their convenience with regard to the time constraints in carrying out the research. The questionnaires were also considered useful and effective by the researcher given the nature of the respondents, investment managers and chief executive officers may not ordinarily be available for interviews because of their tight schedules. Hence, the questionnaires proved convenient as they can be electronically administered through emails and respondents are able to respond regardless of their geographical location.

The adopted data collection instruments do not go without their own limitations as experienced. A high probability of non-response and unwillingness to respond from some

respondents might be observed by the researcher. This is primarily as a result of lack of appreciation of the research process and high levels of conservatism of company information regarded as private. The researcher intends to overcome this limitation by heavy and constant follow-ups supported by interviews aimed at explaining the intentions of the research. This will enable a high response rate to be realized. Questionnaires are regarded as a relatively slow method of data collection, which might have affected the response rate as a deadline was attached to the questionnaires. However, multiple distribution channels were used to enhance the pace of data collection.

The researcher also carried out personal face to face interviews with a number of asset managers and experts both in the private equity market. These involved asking questions on the real life situation on the ground regarding private equity. Courtesy of this method, the researcher managed to obtain clarity with regard to grey areas not fully explained in the questionnaire responses.

3.5.2 Secondary Data

Secondary data also forms part of the data collected for the purposes of this study. The researcher was cognisant of the information that is readily available on the internet for use in the research. Some of the private equity firms avail information pertaining to the investment sectors, investment size and private companies that would have been financed. Secondary data from private equity data providers such as preqin, private equity investor and CDC Investment works was also used for this research. To augment the research findings, the researcher therefore regarded it befitting to combine both primary and secondary data sources.

3.6 Data Validity and Reliability Tests

Golafshani (2003) stated that reliability and validity are conceptualized as trustworthiness, rigor and quality in qualitative research paradigm. The researcher applied pre-testing of the questionnaires to facilitate validity and reliability. Factors affecting reliability like clarity, specificity of items on the questionnaires and the length of the questionnaire were considered. Items were made as simple as possible and to the point. For validity, pre-testing helped to ensure the thoroughness and completeness of the questionnaire and the follow-up interviews scheduled.

Healy and Perry (2000) cited in Golafshani (2003) explicated that on judging validity and reliability within the realism paradigm which relies on multiple perceptions about a single reality. They argue the involvement of triangulation of several data sources and their

interpretations with those multiple perceptions in the realism paradigm. As a result, the researcher adopted the use of data collection triangulation methods to ensure that both validity and reliability were ensured in conducting this research. The triangulation strategy can yield a richer and more balanced picture of the phenomenon, and also serves as a cross-validation method (Elliott & Timulak, 2005).

3.7 Data Presentation and Analysis Plan

Due to the qualitative research design of the research the researcher intends to make use of qualitative presentation and analysis tools. A thematic approach to analysis of the responses from the research questionnaires and interviews will be used at two levels which are the basic level and the higher level analysis. The basic level analysis will entail giving descriptive accounts of the data that is descriptive statistics. Data analysis will also include the use of figures, and percentages to describe the responses on relevant issues that emerged from the research and also use of tables, charts and graphs to enhance clarity of research findings.

3.8 Ethical Considerations

The researcher was fully aware of the research ethics that had to be maintained throughout the research especially in dealing with the respondents. In this regard, all the information that the researcher received from the respondents remained confidential and was used only for the purpose of this study. The researcher notified the respondents of the purpose of this study on the introduction part of the questionnaire. The data collected was not being tempered with in any other way other than the purpose of analysing and interpreting it as discussed above.

3.9 Summary

The issues deliberated in this chapter include the research design used in the study and the rationale for choosing the design. Research population and sample were also deliberated in the chapter. In addition, the chapter also discussed how research instruments were developed and the methods of data collection employed in the research. Data validity and reliability tests were also outlined in this chapter. The data presentation and analysis plan was also outlined and ethical considerations also factored in conducting the research. The next chapter focuses on critical analysis, presentation, and discussion of the research findings before drawing conclusions from the research.

CHAPTER 4: DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The study assessed the extent to which private equity financing is an alternative source of financing among private companies in Zimbabwe. By using a qualitative descriptive design, the study aimed at answering the following questions what are the awareness levels of private equity, how is private equity perceived by private companies and what constraints to private are equity growth in Zimbabwe. The findings of this research from both primary and secondary sources will be conferred in this chapter. Interpretation of the data will also be done and an analysis of the research findings will be done guided by the existing literature on private equity.

4.2 Analysis of Response Rates

A total of 85 questionnaires were distributed to the respondents of this study. The distribution of the questionnaires among the respondents as well as the response rate of the study is shown in the table below:

Table 4.1 Questionnaire Response Rate

SAMPLE ELEMENT	QUESTIONNAIRES DISTRIBUTED	QUESTIONNAIRES RETURNED	QUESTIONNAIRES REJECTED	RESPONSE RATE (%)
Asset Managers	30	24	6	80%
Private Equity Specialists	15	10	5	67%
Private Companies	40	34	6	85%
TOTAL	85	68	17	80%

The majority of questionnaires were distributed electronically via email to enable ease of follow-ups. For ease of monitoring the return receipt functionality was used. Periodic follow ups were also done to ensure the high response rate. The researcher was also fortunate in that she was employed by a bank hence the distribution of the questionnaires for the private

companies was done through Corporate and SME account relationship managers who distributed to their clients in various industry sectors. This resulted in an increased response rate.

The researcher also made use of interviews to gather more in depth information especially on issues that required further elaboration or probing. Given the busy schedules of the respondents the researcher only managed to secure five interviews out of the intended ten. A fifty percent response rate is considered fair. The table below gives a summary of the interview response rate:

Table 4.2 Interview Response Rate

SAMPLE ELEMENT	PLANNED INTERVIEWS	SUCCESSFUL INTERVIEWS	RESPONSE RATE %
Asset Managers	10	6	60%
Private Equity Specialists/Investors	8	5	63%
Private Companies	10	7	70%
TOTAL	28	18	64%

4.3 Demographic Information

Demographic trends from the respondents were analysed in order to provide useful insights that could be of interest to the research questions at hand. In addition, the demographic analysis also lays a foundation from which the research questions horizon can be expanded.

4.3.1 Age of the Respondents

The age distribution of the total respondents is summarised in the graph below. The distribution reflects that the majority of the respondents fall between 31- 40 years. Asset managers and private equity specialists comprised the majority in the 31- 40 years range while the chief executive officers, chief financial officers, managing directors and accountants of private companies fell in the plus 40 years range.

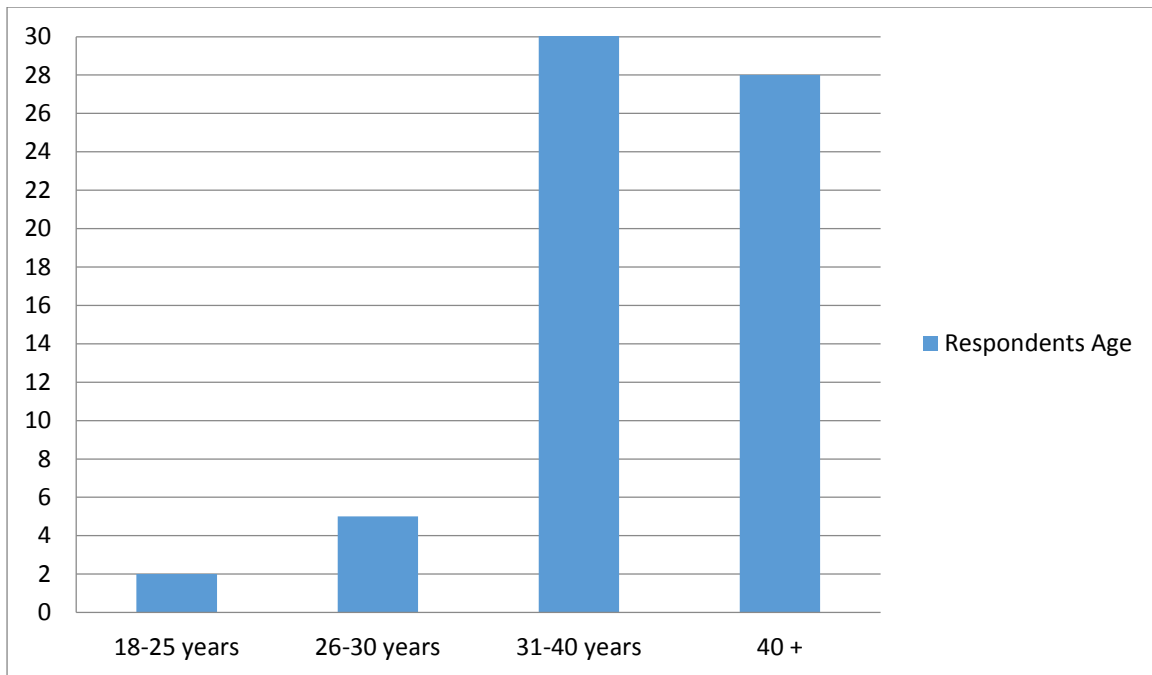


Figure 4.1: Respondents Age Distribution

4.3.2 Educational Qualifications

Most of the respondents have attained some form of tertiary level qualification as demonstrated below. Some of the respondents had attained two or more academic qualifications and in certain instances coupled by some professional qualifications such as Chartered Financial Analyst and Financial Risk Manager. The educational qualifications of each of the respondents are summarised by the graph below:

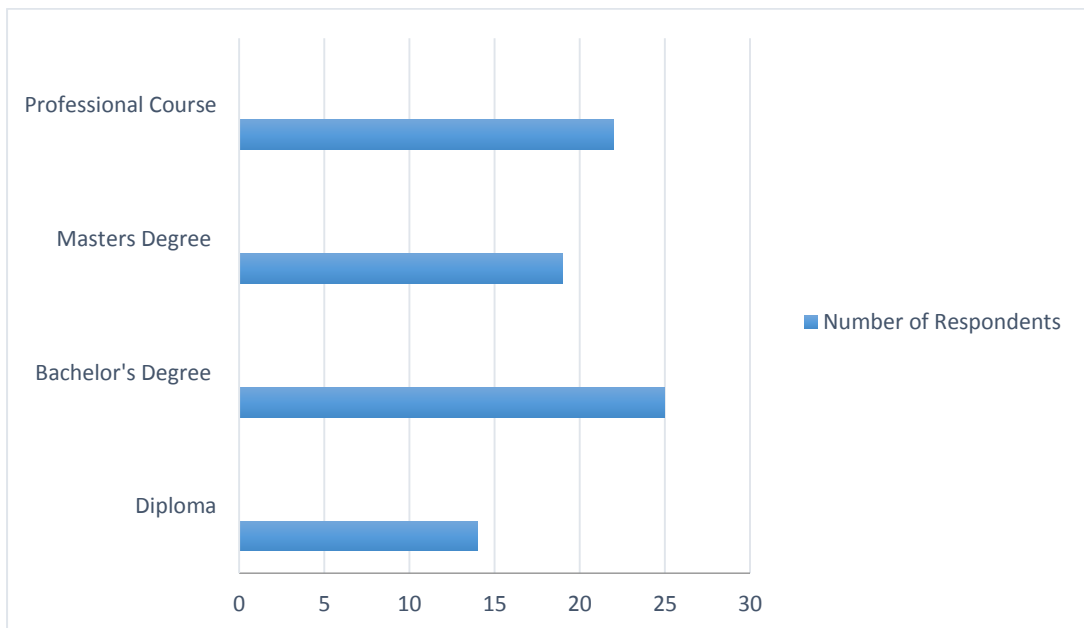


Figure 4.2: Educational Level of Respondents

4.3.3 Work Experience

The majority of the respondents fall between 6- 10 years' work experience. The work experiences of the respondents show that the work experience is positively skewed, meaning that majority of respondents have vast work experience. An overview of the work experience for the respondents is given below:

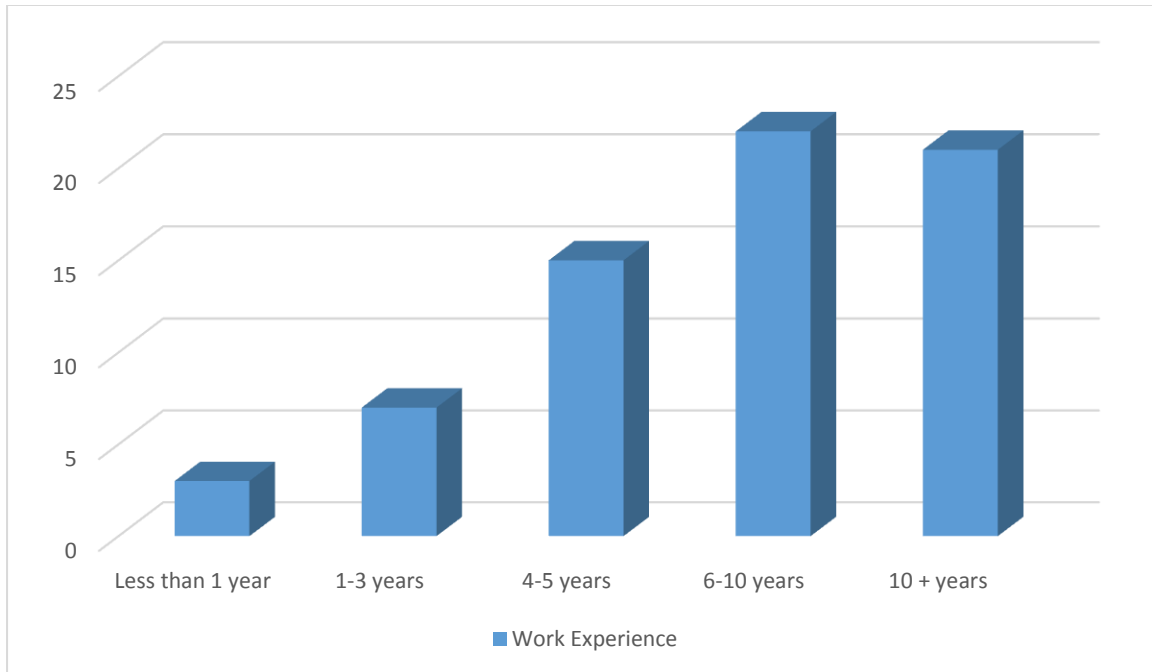


Figure 4.3: Respondents Work Experience

4.4 Data Presentation and Analysis

The findings of the research are presented in the subsequent section. A thematic presentation is made in line with the objectives of the research. The researcher also analyses the findings of the research and links the findings to the existing literature that has been discussed in the literature reviewed in chapter two.

4.4.1 Awareness of Private Equity

The results from the study indicated that private companies have very little or limited knowledge on private equity. Thus, the awareness levels of private equity were generally low among private companies. An in depth analysis of the findings however, points to no knowledge of private equity on private companies that have smaller annual turnovers of less than US\$500,000.00 and limited branch network coverage. For private companies that reported to have limited knowledge on private equity their annual turnover was high and branch network wide. This led the researcher to believe that large companies had more

knowledge on alternative sources of funding for their businesses in comparison to the small and medium enterprises.

Asset managers revealed that the awareness levels of private equity were rather low as it is often regarded an asset class of the elite thus very few are aware of it. Asset managers also indicated that in their line of work regulatory measures often resulted in a bias towards traditional assets such as public equities. Thus, there are other factors such as regulation contributing significantly to the low awareness levels not only among the private companies but also among asset managers. Similarly, private equity specialists also echoed the same sentiments as asset managers that awareness levels of private equity among potential investee companies was rather low and somewhat discouraging. Further elaborating on the awareness of private equity, private equity specialists revealed that the low awareness levels made their work challenging particularly when they are scouting for potential investments.

4.4.2 Perceptions towards private equity

Having determined the awareness levels of private equity by private companies in Zimbabwe above, the researcher further established the perceptions towards private equity among the business owners. The figure below summarises the perceptions towards private equity among business owners in Zimbabwe:

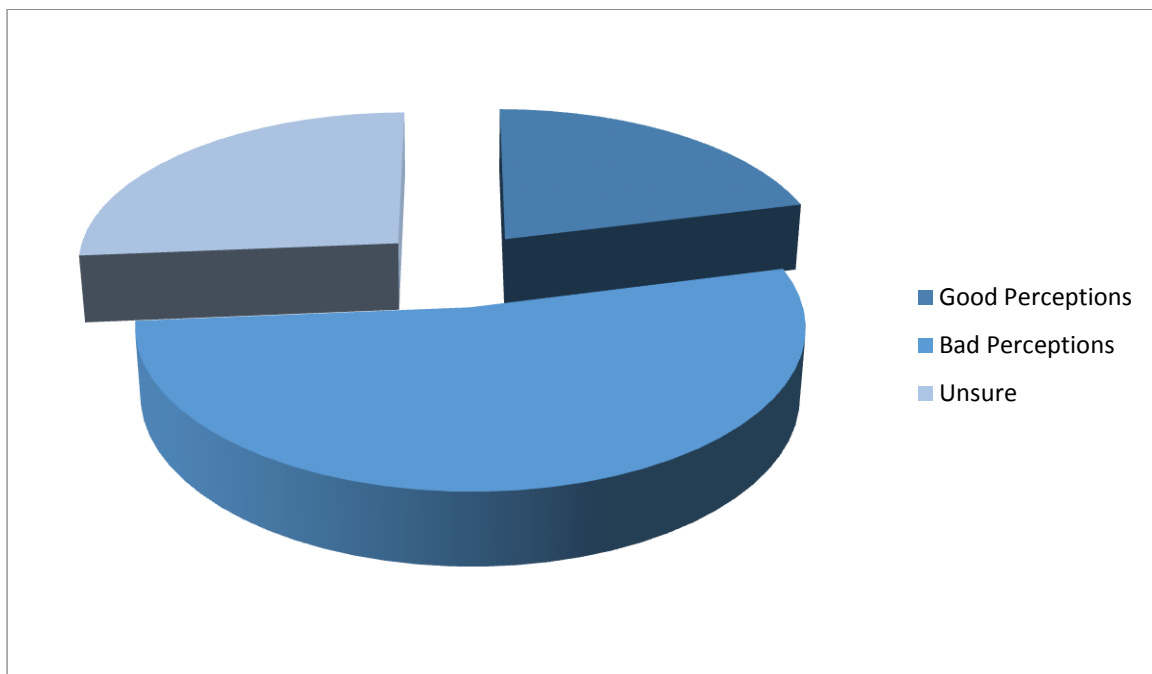


Figure 4.4 Perceptions of Private Companies towards Private Equity Financing

Only a few large private companies constituting 7.5% of the private company respondents, particularly in the agriculture sector perceived private equity as a good and acceptable financing option for the business operations. The very few good perceptions towards private equity among larger private companies are not surprising as Oluwajoba & Oluwagbenga (2005) cited in Olomi & Mori, (2015) posit that the financing motives and behaviors of SMEs are often different from those of large companies. Furthermore, Capizzi, et al.(2011) in their study of Italian firms documented that private equity financing is perceived differently by firms of different sizes and in different economic sectors. From their findings some of the especially those not in the technology sector had bad perceptions towards private equity as a financing tool. The Italian firms had perceived private equity firms as a looting tool for capitalists. Hence, the research findings relate to other studies.

The 7.5% private companies indicated to have benefited from private equity financing and perceived this financing tool as good mainly because of its long term nature. In addition, of the private companies in the agriculture sector a total of 2 private companies, a 5% representation of the total 34 firms revealed that private equity financing has been instrumental for their firms as it has assisted in the resuscitation of their operations.

The firms further elaborated that having been in financially distressed positions, they were unable to access funding from the traditional sources such as banks. And in cases where they had been granted facilities the facilities were often working capital loans rather than long term capital expenditure facilities which the firms were in much need of. One of the private firms in the agriculture demonstrated how well it perceived private equity. The firm indicated that it had managed to expand and increase their presence across the African continent as a result of growth capital injection from international private equity firms.

The researcher regarded it befitting to also document the perceptions of private equity from the standpoint of investors experiences in Zimbabwe. Thus asset managers and private equity specialist's responses to investee company's perceptions were also documented. 80% of the private equity investment managers indicated that private equity had not been well perceived by potential investee companies. They indicated that many players were not fully aware of what private equity is and also of the benefits of private equity. The same sentiments were also reported by asset managers who cited that private equity financing is a financing tool that is regarded for the elite few and is out of reach of most companies. Further elaboration was documented from private equity specialists who target technology focused start-ups and

seed stage companies and indicated that while the companies were in much need of the financing, they had major challenges with issues to do with ownership and control which they were unwilling to give up.

Important to note is the common view of the private equity specialists with regards to perceptions towards private equity among the existing investee companies. While 65% of the private equity specialists indicated that their investments had not been fully realised, it was encouraging that most of the existing investee companies had accepted and benefited from private equity financing hence formed the basis of their good perceptions towards private equity financing. Another factor that private equity specialists suggested that might have led to the acceptance and good perception towards private equity financing was that most of the financing done by private equity firms had targeted financially distressed firms. These financially distressed investee firms had managed to shift their financial positions for the better hence the good perceptions towards private equity financing.

4.4.3 Sources of Funds for Private Companies

The study documents that the sources of funds for the majority of the private companies regardless of the sector were internal financing tools in the form of retained earnings and shareholder loans and to a certain extent external sources such as traditional bank loans and leasing. However, a sectorial analysis of the sources of funds for the private companies revealed the following:

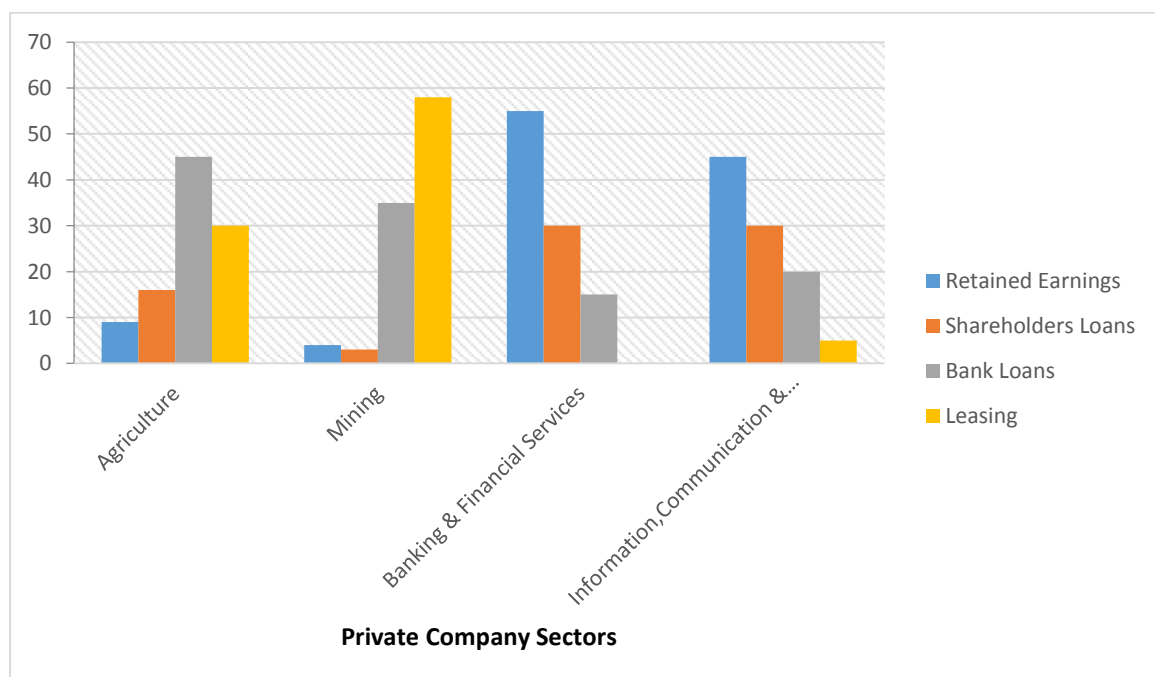


Figure 4.5: Sources of Funds for Private Companies

Retained earnings and shareholder loans were the two most common sources of funding for the majority of the private companies. A considerable number of the private companies (65%) reported retained earnings and shareholder loans as the major sources of funding. In addition to the most common sources of funding mentioned above 50% also indicated that bank loans were also accessed to substitute their capital needs. On responding to the question whether the firms were aware or had considered other alternative financing options, these are some of the responses, *“we only know of financial institutions such as banks and microfinance institutions”*. This finding concurs with Eric et al., (2008) who found that Serbian firms had a few financing options at their disposal mainly due to the undeveloped financial system which was mainly bank oriented. The general theme that emerged from these companies revealed that the company size, management and ownership structure had a bearing on the sources of funding.

Companies with annual turnovers less than US\$500,000.00 reported that accessing supplement capital through bank loans was rather difficult. However, 35 % also indicated that since the Reserve Bank of Zimbabwe’s financial inclusion drive improvements have been noted in accessing bank funding. Interestingly, 80% of the total private companies cutting across all the sectors under study revealed that their current sources of funding were not meeting their firm’s needs.

A small number nearing 25% of the private companies reported to have sought alternative financing options for both working capital and capital expenditure requirements. A common alternative financing option among most of the mining companies and a small proportion of the agriculture companies reported to have used lease financing. The study revealed that the small number of companies that had sought alternative financing options comprised of companies with larger turnovers, an expansive network and more experienced management. 20% of the companies cutting from mainly the agriculture, agro processing and banking and financial services sectors reported have benefited from private equity financing since the adoption of the multiple currency system.

4.4.4 The private equity investment climate in Zimbabwe

A good number of the private equity investment specialists indicated that there was huge investment potential with regards to the private equity. The majority of the investments had been made in private equity were both from local private equity firms and foreign private equity firms. Private equity investments were also made in various sectors of the economy. One private equity specialist had this to say, *“Although it’s becoming nearly impossible to*

predict what shape the economy will be in the next 5-7 years’ presently we have noted an increasing trend in private equity investments since the adoption of the multiple currency system in Zimbabwe.” This response is augmented by secondary data collected from various websites of the active private equity players in Zimbabwe indicate that to a lesser extent indeed private equity is active. The secondary data indicates that the majority of the investments are dominated by one private equity firm. The table below shows private equity investments from the key players in the industry since the adoption of the multiple currency system that is 2009 to 2016:

Table 4.3: Documented Private Equity Investments in Zimbabwe

PRIVATE EQUITY FIRM	PRIVATE EQUITY FIRM TYPE	INVESTEES COMPANY	CAPITAL INVESTED USD/MILLIONS	SECTOR
Takura Capital	Local	Agricom	22.5	Food Processing
Takura Capital	Local	Cailogistics	22.5	Business Services
Takura Capital	Local	Cairns Holdings	22.5	Food Processing
Takura Capital	Local	Introwise	22.5	Trade
Takura Capital	Local	Lobels Holdings	22.5	Food Processing
Takura Capital	Local	Medical Investments	22.5	Public Services
Takura Capital	Local	Montana Meats	22.5	Food Processing
Takura Capital	Local	Talwant Trading	22.5	Trade
Emerging Capital Partners Africa	Local	New Dawn Mining Corporation	44.9	Mining Extraction
Investec Asset Management	Foreign	FBC Bank	30.0	Financial Services

Equator Capital Partners	Foreign	FBC Holdings Limited	10.0	Financial Services
Progression Capital	Foreign	Microhub Financial Services	10.0	Microfinance
Spear Capital	Foreign with Local focus	Metro Peech Wholesalers		Trade
Spear Capital	Foreign with Local focus	Dendairy		Agro processing
Matamba Anonaka Technology Holdings	Local	Gikko		Information and Communications Technology
Matamba Anonaka Technology Holdings	Local	Goodbook Investments		Information and Communications Technology
Matamba Anonaka Technology Holdings	Local	ComTainer-Lab		Information and Communications Technology
Matamba Anonaka Technology Holdings	Local	Starfish Mobile Zimbabwe		Information and Communications Technology
Brainworks Capital Management		Ecobank Zimbabwe		Banking
Brainworks Capital Management		Get Bucks Financial Services		Microfinance

		Zimbabwe		
Brainworks Capital Management		FML Company Zimbabwe	Oil of Zimbabwe	Distribution
NurtureInvest	Foreign	Payserv Africa		Financial Services
AfricInvest	Foreign	Microcred Zimbabwe		Microfinance
Standard Chartered Bank –Private Equity division		Ariston Holdings	20.0	Agri-Business
Standard Chartered Bank-private equity		Export Trading Group	74.0	Agri-Business

Source: Commonwealth Development Corporation

Although some of the data relating to the some of the private equity investments in Zimbabwe could not be attained such as the invested amount it is generally noted that there is potential for a more active private equity environment. The number of known and documented private equity deals has been on an upward trend since the introduction of a multiple currency system in 2009.

4.4.5 Private equity investment strategies in Zimbabwe

The few players of private equity revealed that there still tasted the waters in Zimbabwe Private equity specialists indicated that however, investment potential was present in Zimbabwe as the country has been marred with liquidity challenges. The liquidity challenges had limited the credit availability for private companies. The investment managers further elaborated that the macroeconomic challenges currently faced present a good opportunity for private equity challenges. One of the private equity specialists had this to say, *“our focus is on venture capital investments with a minimum 25.1% shareholding structure for negative control. We focus on highly cash generative businesses with unique value propositions or those that are well positioned in high growth sectors that are 2-5% growth above GDP growth.”* “The investment strategies of the private equity firm’s active indicated that both the specialised strategy and diversified strategy were employed by firms.

The table below summarises the investment strategies employed by private equity specialists:

Table 4.4: Investment Strategies for Private Equity Firms in Zimbabwe

INVESTMENT CLASS	STRATEGY/ASSET	PRIVATE EQUITY INVESTMENTS
Start up and Seed Stage		8
Growth and Expansion Stage		15
Special Situations		3

4.4.6 The Performance of Private Equity Investments in Zimbabwe

A large proportion of the asset managers constituting 80% highlighted how difficult it is to know about the performance of private equity investments globally and thus Zimbabwe is no different. Asset managers stated that information regarding the performance of private equity in Zimbabwe was not privy to the public. The majority of the asset managers indicated that unlike the traditional public equities information concerning the performance private equity investments is only shared amongst interested parties such as the limited partners, general partners and investee companies. This finding is supported by Cendrowski et al (2012) who noted that tracking the performance of private equity funds has been relatively difficult, as private equity firms are under no obligation to publicly reveal the returns that they have achieved from their investment.

However, some of the asset managers about 30% highlighted that tracking the performance of private equity is also exacerbated by the absence of an overarching private equity organisation governing the activities of private equity firms in Zimbabwe. A further 65% of the asset managers cited that in addition to the absence of a private equity association, the absence and lack of private equity regulation and legislation have also contributed significantly to the challenge of tracking performance of private equity investments. Hence, regulation and legislation may be important tools to assist in tracking the performance of private equity investments. Similarly, citing examples from the United States of America and United Kingdom, Cendrowski et al (2012) noted that regulation such as the Freedom of Information Act (FOIA) and the David Walker Guidelines for Disclosure and Transparency had improved the availability of information pertaining to private equity investment.

4.4.7 The Constraints to Private Equity Growth

Uncertainty and country risk were the major themes that emerged from both the private equity specialists and the asset managers with regards to the constraints in the currently existing private equity investment climate. A significant number of asset managers constituting 90% revealed that heavy regulation and legislation as the major constraint to investing in Zimbabwe. However, their responses were in relation to their experiences with regards to portfolio limits on strategic asset allocation. They indicated that in their work, private equity is not regarded as an asset class. There exists multiple jurisdictions and restrictions on private equity operations which encompass access to local capital such as domestic pension funds, exchange controls, local content requirements and ownership restrictions are still a problem (Allen and Overy , 2015) Hence, they were strictly prohibited from allocating portions of their portfolios to investments in private equities. Allen and Overy (2015) noted that in the African frontier markets local regulatory frameworks pose as an obstacle because policymakers and regulators take time to become familiar with private equity.

Private equity specialists demonstrated a harmonious response as all indicated the following as the major constraints to private equity growth in Zimbabwe: weak exit markets, regulation and legislation low awareness levels. The limited activity on the Zimbabwe stock exchange was an indication of the underlying liquidity challenges faced in the country private equity specialists revealed that this was a significant contributory factor to weak exit markets. Although the private equity managers indicated that the majority of their investments in Zimbabwe had not been realised yet weak exit markets are challenges notable in African emerging and frontier markets.

These findings concur with the views of Severino & Barraton (2013) who postulated that the scarcity of listed markets in sub-Saharan Africa largely contributes to the weak exit markets of private equity. Compared to exits in other emerging and frontier markets the exit markers in the Sub-Saharan region were still weak. This presents an apparent lack of an opportunity for private equity exits that is the ability of funds and their investors to realise the returns on their investment at the end of the fund's maturity. Hence, this is a constraint to the growth of private equity as potential investors are reluctant to invest in markets were exiting may be a challenge.

4.5 Summary

The findings of the study indicate that private equity financing is active in Zimbabwe although it is still limited. In this regard to a smaller extent private equity financing has addressed the funding gap. Knowledge and awareness levels of private company was very limited as the majority of the knowledge on alternative financing options was rather confined to the larger private companies than the smaller private companies. The majority of the good perceptions towards private equity were documented from private companies who are investee companies of private equity funds. The analysis of measuring and monitoring the performance of private equity investments was difficult as most investments had not been realised in addition to the some of the respondent's reluctance to divulge such information. The results also indicate a consensus among investment managers and private equity specialists with regards to the private equity growth constraints.

CHAPTER 5: SUMMARY, CONCLUSIONS & RECOMMENDATIONS

5.1 Introduction

The summary for the entire research, conclusions and recommendations is presented in this chapter. Suggested recommendations are also outlined based on the findings of the research. Lastly, the chapter closes by proposing areas of further research.

5.2 Summary of the Study

The study was aimed at investigating the extent to which private equity addresses the demand for capital/funding gap in Zimbabwe particularly after the introduction of a multiple-currency system. To achieve this some of the research questions designed included assessing the awareness levels and perceptions of private equity by both existing and potential investee companies. Various pieces of literature on private equity were discussed from a variety of examples covering diverse markets such as developed, emerging and frontier. A sectorial analysis on private equity financing in the mining, agriculture, banking and financial services and information communications and technology was carried out. The data for the research was collected primarily from questionnaires which were distributed to asset managers, private equity investments specialists/investors and private companies. The informal nature of private equity market made the identification of firms challenging. In addition, the lack of a comprehensive data base made the identification of sector specific private companies difficult. Data validity and reliability were improved by the use of data triangulation thus interviews and secondary data were also applied in the collection of data. Some respondents deemed the information required to be highly sensitive and proprietary in nature and thus could not divulge key details. However, the findings of the research generally indicate that private equity is active in Zimbabwe but it is dominated by a few key players. There is still a lot that can be done to exhaust its full potential.

5.3 Conclusions

The following conclusions have been drawn from the research findings:

- The absence of private equity umbrella association makes information dissemination difficult given secondary data to a lesser extent private equity has addressed the demand for capital
- The awareness levels of private equity among private companies range from low to limited depending on the size and sector of company

- There are mixed perceptions towards private equity by private companies however, there a few companies who perceived private equity to be a good financing option.
- Analysing performance of private equity investments in Zimbabwe was challenging as information relation to performance and investment size was deemed proprietary
- Constraints to private equity growth in Zimbabwe included weak exit markets, regulation and legislation and talented personnel.

5.4 Recommendations

In view of the conclusions made above, the study makes the following recommendations:

5.4.1 Formalisation of private equity in Zimbabwe

As noted in other countries it is important to have structures and institutions in place that provide an enabling and conducive environment for private equity growth. Zimbabwe must those emulate private equity markets that are highly formalised. For example, the private equity market in South Africa is formalised by the existence and operation of the South African Venture Capital Association. Such an association in Zimbabwe will foster the gathering and dissemination of information relating to private equity. This will be central to private companies who would want to consider private equity as financing option since the availability of information is key for decision making. Other important objectives of a private equity association in Zimbabwe to name but a few may include the following:

- Promoting and maintaining the private equity profession in Zimbabwe
- Representing the private equity practitioners at the national, regional and global level financing
- Stimulating the growth and expansion of venture capital and private equity in Zimbabwe
- Researching on factors affecting growth of private equity in Zimbabwe
- Setting up guidelines and standards for measuring private equity returns objectively
- Working towards an improved corporate, fiscal and regulatory environment for venture capital and private equity firms in Zimbabwe

5.4.2 Regulation and Legislation

There is a general consensus that the private equity industry can deliver significant social, infrastructural and economic returns. With this in mind and with the benefit of smart, flexible regulation, African governments can benefit from this growing desire to achieve sustainable infrastructural and economic growth. Nigeria and South Africa are shining beacons of

African countries that have made key amendments to their legislation in order to recognise private equity as an investment class in which pension funds can invest. Zimbabwe needs indeed emulate these leading private equity markets by enacting laws that support the use and recognition of private equity. Regulation is a stepping stone to the stimulation of private equity growth as it fosters elements and standardisation which are key for attracting participation by potential investors.

5.4.3 Increased Awareness of private equity

It is imperative to have increased awareness of private equity not only among private companies but in the overall Zimbabwean financial market. It is important for financial market participants particularly borrowers to be aware of the full basket of financing options or tools that can be utilised. Increased awareness may be done through better information dissemination. This can be achieved through expanding coverage on the activities of private equity firms through platforms as newspapers, radio, television, mobile advertisements and online sources.

5.5 Suggestions for further Research

The research is an investigation of private equity as a financing option for private companies in Zimbabwe. Given that private equity financing has been instrumental in the development and growth of start-up firms elsewhere and has led to their expansion and listing on public exchanges. This implies more research should be applied on private equity financing. It is important to investigate the impact of private equity financing in Zimbabwe on firms that have received this form of risk capital. Of particular importance is to determine the extent to which private equity financing has impacted the financially distressed firms. Private equity is considered an alternative investment. It may very well also be within the scope of related research activities to compare private equity financing to other alternative investment classes such as art, jewellery and crypto currencies since they are within the same market sphere.

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APPENDICES

APPENDIX A PRIVATE COMPANIES QUESTIONNAIRE

BACKGROUND INFORMATION

To answer any question in this section kindly put an X in your most appropriate response from possible responses given.

SECTION A: DEMOGRAPHICS

1.1 Sex

Male Female

1.2 Age

18-25 26-30 31-40 Above 40

1.3 Education

Diploma Bachelor's Master's Professional

Other, Kindly state

.....
.....

1.4 Job Title

Chief Executive Officer Chief Financial Officer Managing Director Treasurer

Other, kindly specify.....

.....

1.5 Experience

< 1 year 1-3 years 4-5 years 6-10 years > 10 years

SECTION B: The Private Company

2.1 What is the size of your firm? (annual turnovers, branch network, customer base, number of employees)

.....
.....

2.2 What is the nature of business of your organisation? (kindly include sector)

.....
.....

2.3 State the geographical location of your company, outlining the main/head office and branch network distribution

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SECTION C: SOURCES OF FUNDING

3.1 Briefly outline the sources of funding for your company since the adoption of the multi-currency in Zimbabwe.

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.....

3.2 Have the sources of funding for your company changed from the period before the adoption of a multi-currency system in Zimbabwe? Please explain

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3.3 Do your current sources of funding meet your organisations funding requirements or demands? Please explain.

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.....

3.4 What other alternative funding sources have you considered for your organisation?

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SECTION D: PRIVATE EQUITY

4.1 What do you understand by private equity financing?

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.....
.....

4.2 Do you know any company (ies) in Zimbabwe that has made use of private equity financing?

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.....
.....

4.2.1 In your opinion and analysis has/have the company (ies) benefited from private equity financing? Please explain briefly

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.....
.....

4.3 Would you consider private equity financing for your organisation? Please explain

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4.3 In what ways would private equity financing be beneficial to your organisation?

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.....

4.4 What are the constraints of private equity growth in Zimbabwe?

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4.5 For each of the constraints mentioned in 4.4 above what measure should be put in place to deal with the constraints?

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THANK YOU!!!!

APPENDIX B: THIS QUESTIONNAIRE IS PRIMARILY FOR INVESTMENT MANAGERS AND PRIVATE EQUITY FINANCING PRACTITIONERS AND SPECIALISTS.

BACKGROUND INFORMATION

To answer any question in this section kindly put an X in your most appropriate response from possible responses given.

SECTION A: DEMOGRAPHICAL INFORMATION

1.The Investment Manager/Private Equity Specialist

1.1 Sex

Male Female

1.2 Age

18-25 26-30 31-40 Above 40

1.3 Education

Diploma Bachelor's Master's Other

Other(Please specify)

.....
.....

1.4 Work Experience

< 1 year 1-3 years 4-5 years 6-10 years > 10 years

SECTION B: OTHER INFORMATION

2. Activities and Profile of the Private Equity Investment firm.

In the section below kindly put an X in the box which corresponds the closest to the required information.

2.1 Size of the PE firm.

2.1.1 Net Asset Value (NAV)

< 10 M 11-25 M 26-50 M 51-75 M > 75 M

2.1.1 Annual Revenue

< 10 M 11-25 M 26-50 M 51-75 M > 75 M

2.1.1 Size of total investments (Domestic and Foreign)

< 10 M 11-25 M 26-50 M 51-75 M > 75 M

2.1.1 Total number of offices (Domestic and Foreign)

< 10 11-25 26-50 51-75 > 75

2.2 In a few words please outline your firm's principal Investment strategy or strategies.

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.....
.....
.....
.....
.....
.....

2.3 Has your firm previously participated in any of the given asset classes below?

(Please tick inside the applicable box)

Seed/early stage Growth Capital Buyout Special Situations

In what other asset classes or special situation asset classes has your firm previously participated in?

.....
.....
.....
.....
.....

2.3 From the choices below which sectors of the economy does your firm most invest? (Please tick inside the applicable box)

Information, Communication & Technology <input type="checkbox"/>	Banking & Financial Services <input type="checkbox"/>	Mining <input type="checkbox"/>	Agriculture <input type="checkbox"/>	Light Industries <input type="checkbox"/>	FCMG <input type="checkbox"/>	Transport and Haulage <input type="checkbox"/>	Manufacturing and Heavy Industry <input type="checkbox"/>	Food and Fisheries <input type="checkbox"/>	Tourism and Hospitality <input type="checkbox"/>
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Other sectors, kindly state.

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.....

2.4 How many companies (not listed on an exchange) has your firm has Invested in locally (Zimbabwe?)

< 5 5-10 10-15 15-20 > 20

2.6 State the USD value of the investments your firm holds in Zimbabwe

< 10 M 11-25 M 26-50 M 51-75 M > 75 M

2.8 Please summarise the general performance of your current investments in Zimbabwe paying attention to any asset classes that have performed exceptionally well and the possible reasons for that. In your summary kindly outline the performance measuring indicators adopted by your firm.

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2.9 What do you think are some of the factors impeding on the growth of PE as an alternative asset class for financing in Zimbabwe post dollarization period?

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.....

2.10 What changes do you think can be made to improve the current investment climate for Private Equity firms operating in Zimbabwe?

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.....

3. Investment climate for Private Equity firms.

3.1 Briefly assess the private equity investment climate in Zimbabwe?

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3.2 In your opinion, to what extent is PE financing an important component of the basket of financing options available to players looking for financing alternatives in Zimbabwe? How would you rate it in comparison to other countries and regions in Africa and the world at large?

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3.3 May you comment on the awareness levels of private equity as a financing option both among existing and potential investee companies and borrowers in Zimbabwe?

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.....

3.4 In your opinion how is private equity perceived by both existing and potential investee companies and borrowers in Zimbabwe?

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3.5 What do you feel are the major risks faced by private equity firms in Zimbabwe?

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3.6 What do you consider to be the main constraints for private equity growth in Zimbabwe?

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3.7 With reference to the constraints mentioned in 3.6above briefly indicate the measure(s) that can be adopted to curtail or possibly eliminate such constraints.

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.....

Thank you for taking your time to participate in this questionnaire survey. Please enjoy the rest of your day