ADAPTATION & ADVANCEMENT

Navigating the Next Decade of Private Capital Investing in East Africa

Report from Proceedings of the 8th EAVCA Private Capital in East Africa Conference held at Speke Resort Convention Centre in Kampala, Uganda, on June 13th 2024

Published: August 2024

Editor: Doris Odit Acheng

Transcriber: Arnold Mbaziira

On June 13th 2024, EAVCA held its 8th Annual Regional conference in Uganda. The event was attended in full collective force of industry as Limited Partners (LPs), General Partners (GPs), Government Representatives, Development Partners, Industry practitioners and advisors, and Entrepreneurs gathered to define and set sail for the next era of private capital investing in East Africa. The conference theme, "Adaptation and Advancement: Navigating the Next Era of East Africa's Investment Landscape," underscored the importance of evolving strategies to address the dynamic and rapidly changing investment environment in the region. The rationale behind the Conference was deeply rooted in the need to explore and map out what the next decade of private capital investing in East Africa would look like.

The shared consensus on the approach for investing in East Africa:

> The next decade of private capital investing in East Africa will call for a whole ecosystem approach, collaboration between the different pieces of the puzzle, financial innovation, attention to nuance - particularly in the region's frontier markets - a sprinkling of some homegrown solutions - supplementing traditional models, and, in some cases, a rethink and retooling.

The shared vision emerging from the Conference was as follows:

> As an industry, we are here to continue contributing to East Africa's economic growth story—extending impact boundaries to the frontiers, innovating and adapting our strategies for investing in the region's promising businesses to a changing world while retaining the agenda for investment with purpose. This is our shared vision.

While not comprehensive in transcribing the full scope of subjects and content covered during the 8th Private Capital in East Africa Conference, this report highlights insights emerging from key sessions through the lens of changes and dynamics that will influence private capital investing in East Africa in the next decade, narrowing this down to topical aspects of the fund investment cycle.

Contributors and Disclaimers: This report synthesizes the insights of the panellists and speakers at the 8th Private Capital in East Africa Conference. Doris Odit Acheng edited the report for technical clarity, depth, and flow, and Arnold Mbaziira transcribed the conference proceedings for the Uganda Chapter EAVCA. The insights shared at the conference have been paraphrased for ease of flow and readability.

Preface

At the 8th Private Capital in East Africa conference held in Kampala, Uganda, on 13th June 2024, the collective wisdom and insights of experienced and emerging private capital industry practitioners converged on a key consensus: the industry and the context in which the industry operates is fast evolving, and so must the strategies for investing in promising East African businesses over the next decade.

Rapid changes in our environment usually call for a pivot—an evolution in quantum leaps—an adaptation to survive, thrive, and advance. This is particularly true for private equity firms (GPs), which must remain agile and responsive to shifting market dynamics and investor expectations. To navigate these changes successfully, GPs need to leverage their track records strategically, demonstrating their ability to deliver consistent returns and enhanced value creation. This involves refining investment strategies, embracing innovative financing structures, strengthening relationships with Limited Partners (LPs), and proactively engaging with regulators to demonstrate impact on East Africa's economies and collaboratively enhance the enabling environment for investing. By focusing on enhanced and hands-on value-creation strategies in the enterprises they invest in, prioritizing early exits and embracing self-liquidating structures such as private credit funds so as to ensure faster turnaround on returns to LPs, maintaining transparency, and actively engaging with the LPs who invest in their funds, private equity firms (GPs) can build trust and secure ongoing support while continuing to contribute to East Africa's growth story. In so doing, they position themselves not only to weather the challenges of today but also to capitalize on the opportunities of tomorrow, ensuring long-term growth and sustainability in a competitive landscape.

Table of Contents

PART 1 1

Navigating a Changing Macro Environment in East Africa 1

PART 2 3

Holding Down the Forte in Frontier Markets: Lessons Learnt from Investing and Exiting as Local Domicile Funds and Local DFIs: A Case Study of Uganda 3

Edward Matsiko Isingoma (Dr.), Pearl Capital Partners (PCP); Kim Kamarebe, Inua Capital; Mona Muguma Ssebuliba, Agricultural Business Initiative (aBi) Finance Limited; and Susan Nangwale, Uganda Development Bank Limited (UDBL) 3

A. Equity Investments in SMEs in East African Frontier Markets 3

B. Exit Strategies and Realities in East African Frontier Markets 5

C. The Role of Local Country DFIs in Bridging the "Missing Middle" Funding Gap in East African Frontier Markets 7

D. The Role of Private Equity in Catalyzing Investments in Agriculture- Dispelling Myths on Commercial Viability of Agricultural Production 8

PART 3 10

Re-inventing the Wheel and Innovating: Evolving Fund Structures and Strategies 10

Agnes Aistleitner Kisuule, FirstCircle Capital; Edmund Higenbottam, Verdant Capital; Jo Fry, BII; and Roeland Donckers, iungo Capital 10

A. Private Credit Funds: Adaptive and Alternative Approaches to Supporting SME Growth In East Africa 10

B. SAFE Notes and Convertible Instruments: Flexible Financing for African Startups 11

C. Evergreen Funds: A Flexible Investment Approach for First-Time Fund Managers 13

D. Advice for First-Time Fund Managers: Simplifying Fund Structures and When Innovating, focusing on Strong Value Propositions 14

PART 4 16

Meeting in the Middle: Navigating the Rapidly Evolving GP-LP Dynamic 16

Audrey Obara, Swedfund; Eva Warigia, New Forests; Jarl Heijstee, XSML Capital; Johanna Raehalme, Finnfund; and Rosanne Whalley, AHL Ventures. 16

A. LP Perspective on the Power Dynamics between GPs and LPs 17

B. Keys to the Kingdom: Traditional LPs, namely DFIs, as Influential Players in the Strata of Fundraising - 1st Close Investors 18

C. De-risking Mechanisms: Non-Traditional LPs, namely foundations and family offices as Co-Investors - 2nd Close Investors 18

D. GP Perspective on the Power Dynamics between GPs and LPs 19

E. Bypassing the Middleman: Drivers for LP Co-Investments and Direct Investments and Competition Dynamics with GPs 20

F. Family Offices: Appetite for first-time fund managers, secondaries investing and debt versus equity funds 21

G. Finding the Balance: Commercial Returns Vs Impact Returns 22

H. Meeting in the Middle: Compromise in the GP-LP Dynamic 23

PART 5 26

Switching It Up: Leveraging the Potential for Local LPs to Diversify Investor Pools 26

Jane Nzau, Central Bank of Kenya Pension Fund; and Njeri Wagacha, CDH Kenya; 26

A. A Strategic Roadmap for Enhancing Pension Fund Industry Investments in Private Equity in East Africa 27

PART 6 29

Chasing Fund Track Records to Live Another Day: Strategies for Enhanced Fund Performance 29

Amanda Kabagambe, TLG Capital; Asif Noorani, Phatisa; and George Odo, AfricInvest. 29

A. Maintaining and Leveraging Track Records 30

B. Addressing Broader Industry Challenges and Opportunities 31

C. Trends in Fund Management and the Future of Private Equity 32

PART 7 33

Deploying Capital More Efficiently: Navigating Deal Origination Complexities in East Africa Frontier Markets........ 33

Frank Mwiti, Nairobi Securities Exchange (NSE); Kigen Chelimo, Open Capital; Martin Warioba, Warioba Ventures; Norah Koigi, Deal Flow Facility (DFF); Olivia Byanyima, Nordic Impact Funds; and Robert Hutchinson, Control Risks. 33

A. The Complexities of Deal Origination in East Africa 34

B. Viability of The Fly-In Fly-Out Model for Deal Origination 35

C. Delivering Quality Pipeline: The Role of Market Intermediaries 36

D. Market Intermediaries and Pre-Investment Due Diligence 37

PART 8 38

Returns, Returns, Returns: Preparing for and Effecting an Exit in East Africa 38

Edgar Mukasa, KPMG Uganda; Edward Burbidge, I&M Burbidge Capital; Kendall Evans, Bowmans; Marieke Geurts, Amethis; and Richard Mugera, Ascent Capital. 38

A. Preparing an Exit From the Fund Perspective........38

B. The Role of Fund Transaction Advisors During Exits 40

C. Timing and Key Drivers for Tax Structuring in Private Equity Exits 41

PART 9 42

Terraforming Regulatory Landscapes for Private Equity: A Case Study of Uganda 42

Doris Odit Acheng, Investment Policy Analyst; and Dr. Henry Honoria, ALP Advocates........42

A. Catalyst: A Vehicle for Championing Policy Reforms 43

B. Serendipity: Setting the Stage for Policy Reforms 44

C. Convergence: Working Together Towards Policy Reforms 47

D. Odyssey: The Journey Ahead for Further Policy Reforms 49

I. Gap Analysis: LLP Structuring Options for Local Funds 49

II. Gap Analysis: Double Taxation Treaties for Foreign Funds........ 50

III. Gap Analysis: Bilateral Investment Treaties for Foreign Funds........ 52

IV. Gap Analysis: Priority Sectors-Productive Use of Energy 53

PART 10 56

The Nexus of Development Aid & Private Capital: A Case Study of Uganda 56

Daniele Nyirandutiye, USAID/ Uganda Mission Director; William John Nyakatura, Strategic Investments Activity, Chief of Party, Crisitna Banuta, Programme Manager Access to Finance, Climate Finance, Agribusiness and Land, European Delegation to Uganda 56

A. USAID: Strategies for Enhancing Private Capital 57

I. USAID's Four-Pronged Approach to Facilitating Investment 57

II. Case Studies: USAID's Interventions for Catalysing Investment Through Business Development Services Support to the Private Sector 58

III. Case Studies: USAID's Interventions in Leveraging Digital Tools to Promote Access to Finance . 59

B. EU: Leveraging Private Capital for Sustainable Development 60

I. The EU's Approach to Catalysing SME Financing 60

II. The EU's Global Initiatives for Bridging Financing Gaps 60

III. The EU's Uganda Portfolio Relevant to Private Capital 62

IV. Case Study: The Yield Uganda Investment Fund ("The Yield Fund"): The EU's Innovative Approaches to Building a Local Private Equity Industry such as to Expand Access to Finance 63

PART 1

Navigating a Changing Macro Environment in East Africa

Deploying capital to promising East African businesses more effectively will depend on navigating both localised and global macroeconomic challenges. Identifying these will be a viable first step to devising strategies for adapting and advancing amid current economic realities. Largely driven by shocks external to the region and the continent, the pressing macro challenges forming a backdrop of the current investment landscape in East Africa are diverse- as follows:

Rising Inflation and Currency Depreciation: Like most of Africa, the East African region is experiencing significant economic pressures, characterised by rising inflation rates and a spate of currencies whose values are depreciating against the US Dollar- with a few countries standing as exceptions to the latter. These trends are creating a challenging environment for investors as the decreasing value of local currencies against the dollar significantly increases local currency prices of import-dependent segments of the economy, subsequently accelerating inflation, eroding purchasing power, and inadvertently reducing overall sales volumes and profitability of prospective and existing portfolio companies. Inflation increases the cost of goods and services, impacting both consumer spending and business operations. For investors, these conditions necessitate careful planning and risk management to protect the value of their existing and prospective investments in portfolio companies and ensure sustainable returns in an unpredictable economic climate.

High Borrowing Costs: High borrowing costs for sovereigns, companies, and banks are another critical challenge in the East African investment landscape. Elevated interest rates increase the cost of capital, making it more expensive for businesses to finance their operations and expansion plans. This situation discourages investment and slows economic growth as companies struggle to achieve a return on investment that exceeds their borrowing costs. For General Partners (GPs) and Limited Partners (LPs) with direct investment strategies looking to deploy capital, understanding the implications of high borrowing costs is essential for evaluating the financial viability of potential investments and identifying opportunities for financing that can mitigate these challenges.

Slower Deal Flow: Deal flow in East Africa is slowing down due to a combination of election cycles, geopolitical tensions, and fraud risks. Political uncertainty during election periods can lead to delays in decision-making an investment and increased caution among investors. Geopolitical tensions further contribute to an unstable investment climate, while concerns about fraud and governance issues can deter investment. These factors collectively reduce the number of viable investment opportunities, making it more difficult for investors to identify and capitalise on high-potential deals. A strategic approach that incorporates political risk assessment and robust due diligence processes is crucial for navigating these complexities.

Shifting LP Perspectives: LPs are adjusting their investment strategies in response to the evolving economic landscape, impacting the dynamics of private capital investment in East Africa. LPs are becoming more selective, prioritising investments that demonstrate resilience and the potential for long-term growth despite economic challenges. This shift necessitates a deeper understanding of LP preferences and a focus on building strong relationships with investors. For GPs, aligning investment strategies with LP expectations and demonstrating value creation is crucial to securing funding for maiden and successor private equity and venture capital funds.

Complex Exit Markets: Due to unfavourable market conditions, exiting investments in East Africa is becoming increasingly challenging. Factors such as market liquidity, regulatory hurdles, and economic volatility complicate the process of realising returns on investments. GPs must navigate these difficulties to achieve successful exits, which are critical for returning capital to LPs and reinvesting in new opportunities. Developing innovative exit strategies, such as secondary sales or strategic partnerships, and fostering a robust local market infrastructure can help mitigate these challenges and enhance exit outcomes.

Unpredictable Tax Environments: The investment landscape in East Africa is further complicated by unpredictable tax environments. Frequent changes in tax policy create uncertainty for investors, affecting financial planning and investment decisions. Inconsistent tax regulations can lead to increased compliance costs and potential legal risks. To navigate this uncertainty, investors need to stay informed about tax developments, engage with policymakers, and develop flexible investment structures that can adapt to regulatory changes.

These economic and regulatory challenges highlight the need for adaptability, strategic planning, and collaborative efforts to navigate the changing investment landscape in East Africa. By addressing these issues, investors can better position themselves to capitalise on the region's growth potential and contribute to its economic development.

Regardless, other macroeconomic fundamentals remain robust in East African economies, and East Africa—as a region—is open for business and investment.

PART 2

Holding Down the Forte in Frontier Markets: Lessons Learnt from Investing and Exiting as Local Domicile Funds and Local DFIs: A Case Study of Uganda

Conference Panel Session Contributors:

Edward Matsiko Isingoma (Dr.), Pearl Capital Partners (PCP); Kim Kamarebe, Inua Capital; Mona Muguma Ssebuliba, Agricultural Business Initiative (aBi) Finance Limited; and Susan Nangwale, Uganda Development Bank Limited (UDBL)

Investing in East African frontier markets, particularly Uganda, demands creativity, flexibility, and non-textbook solutions. In these unique and nuanced markets, re-inventing the wheel is not just recommended but necessary for the survival of local GPs. Local solutions, in the form of locally situated fund managers and locally domiciled funds, are essential. These solutions, complemented by private capital financing products from local DFIs, play a crucial role in sustaining the flow of alternative capital to promising enterprises, particularly during periods of global private capital market liquidity challenges.

A. Equity Investments in SMEs in East African Frontier Markets

In Uganda, 95% of SMEs require financing between $100,000 and $1.5 million, creating a significant gap often referred to as the 'missing middle.' Despite the prevailing myth that investing in this segment, primarily through equity, is less viable, it remains a critical avenue for growth. The key is to adapt the approach to the local context. Effective equity investment in East Africa's SME sector requires a tailored, hands-on approach, a reconsideration of traditional fee structures, and a potential revaluation of fund structures. By adapting these strategies, GPs can unlock significant growth opportunities in this vital economic segment.

For SME equity investors in East African frontier markets, a strategic approach to SME investing that focuses on robust and hands-on value creation is paramount.

Equity investing in SMEs is fundamentally different from debt investing. While debt investors can rely on passive income through interest and often prioritise high volume and rapid turnover with minimal engagement with portfolio companies, equity investing necessitates a hands-on approach. As such, equity investors must be intricately involved in the operational and strategic aspects of their portfolio companies to unlock substantial returns. Equity investing thus involves a lower volume of investments but demands substantial resources and active involvement in portfolio companies. The success of equity investments in East Africa's missing middle hinges on driving margin growth and achieving exponential revenue expansion. GPs must engage deeply with portfolio companies, ensuring alignment in business models, strategies, and resources to enhance value creation. This proactive involvement not only mitigates risks but also catalyses significant growth. GPs need to have a team with robust experience in value creation.

There is a need to re-evaluate and rethink the "2 and 20" GP compensation and incentive model and innovate towards more appropriate compensation and incentive models for equity investing in frontier markets.

In the context of SME investing, which is both resource-intensive and heavily focused on active value creation, the traditional 2% management fee and 20% performance fee structure (2 and 20 model), long-standing in the private equity industry, may not be well-suited for SME equity investing in East Africa. This model was initially developed in an era where GPs could afford a light-touch approach with selected companies taken from public to private from established stock markets. There are documented successes of GPs in Africa achieving over 15% annual gross returns without adhering to the traditional 2 and 20 model. Rethinking the "2 and 20 model" can better align the interests of LPs, GPs, and SMEs, ensuring that resources and incentives are appropriately aligned to support the unique needs of SME equity investments in frontier markets.

Contrary to the risk spread practice, there is a strong anecdotal correlation between investment concentration, proximity to portfolio companies, and returns. Therefore, narrowing the fund's focus to a single country and single region may be ideal.

Contrary to popular opinion, concentrating investments within a specific or single geographic area can significantly enhance returns in the context of East African frontier markets such as Uganda. There is both anecdotal and empirical evidence that investors who maintain proximity to their portfolio companies tend to achieve higher returns and more consistent profitability as it allows for a more proactive and context-nuanced value creation approach. In contrast, remote SME investing often results in portfolio underperformance, with a higher likelihood of failing to meet hurdle rates. This has implications for the investment thesis in terms of target countries and regions as well as in-country office locations.

From an investment thesis perspective, a shift towards single geography-focused funds—whether country-specific (e.g., Uganda) or regional (e.g., East Africa)—may be required and could enhance returns by fostering closer relationships with both deal pipeline providers and post-investment, with portfolio companies towards the implementation of more hands-on value creation strategies, and deeper market insights. However, fund managers must be prepared to navigate the complexities associated with exiting investments in these settings.

There is a need to assess the viability of closed-ended funds in the context of East African frontier markets towards greater adoption of open-ended fund structures.

Closely linked to the above point, from a fund structure perspective, once a target geography has been determined as part of the investment thesis, it is essential to evaluate the suitability of the planned fund structure for said particular geography. In the context of Uganda and East Africa, primarily through these lenses of SME investing, the closed-ended fund structure may not be optimal for SME equity investing in these specific geographies. Considering the liquidity challenges in East African frontier markets, closed-ended funds may face difficulties with timely exits within the 10 to 12-year lifecycle of a typical closed-ended fund. Therefore, there may be a need to explore open-ended fund structures for these unique markets.

B. Exit Strategies and Realities in East African Frontier Markets

Exits are a fundamental aspect of the private equity model and represent the tail end and end goal of the fund lifecycle. GPs must employ a combination of strategic planning, creative exit mechanisms, and careful communication to navigate these markets' unique challenges. By doing so, they can achieve the dual objectives of delivering financial returns and contributing to positive social impacts, all while establishing a solid track record for future investment activities.

Disclosing exits to dispel misconceptions that the market is not delivering exits- particularly in frontier markets- is necessary but may require navigating market sensitivities and regulatory challenges to exit disclosures.

Despite common misconceptions, exits do occur in East African markets. However, they may not always be publicly disclosed due to regulatory scrutiny, despite significant compliance with relevant regulatory requirements pertaining to the exit. GPs are thus often cautious about disclosing exits. In Uganda, as a case study, development partners, industry collective efforts under the Uganda Chapter of EAVCA, and the government have been instrumental in championing the policy environment for taxation, which is expected to encourage more transparent disclosures as the tax framework becomes more favourable for exits.

Clear communication with founders on exit strategies prior to investing is crucial for managing expectations and aligning goals.

In the private equity model, planning for exits is critical from the onset of an investment. This approach, often described as agreeing on the divorce before entering the contractual marriage, is essential because private equity funds have fixed end lives and must return capital to LPs through exit events, typically towards the tail end of the fund's lifecycle. Further, for GPs, successful exits are necessary to establish a track record as a pre-requisite for successfully fundraising for future [successor] funds- as such exits ensure the continuity of the GP's business into successor funds. Clear communication of long-term and exit strategies to founders helps manage expectations and align goals, particularly in sectors like agriculture, where financial returns and positive social impacts are intertwined.

Exploring creative exit mechanisms that may be unique to each market and sector is necessary to navigate exit challenges and ensure returns to LPs are required.

In Uganda, creative exit mechanisms have been successfully employed to navigate the challenges of exiting investments. These include put options, personal guarantees, and the conversion of equity instruments into debt. Additionally, strategic exits to other strategic acquirers higher up the value chain of a specific portfolio company by corporate acquirers pursuing vertical integration and supply chain optimization strategies – particularly in sectors such as agriculture, have been successfully utilized. These innovative strategies are tailored to the unique dynamics of the East African market, ensuring that GPs can exit investments while maintaining the growth trajectory of the enterprises involved.

Building a robust, ecosystem-focused country and regional secondary market may provide a viable alternative route to exit and a source of deal pipeline.

Speaking of innovating as far as exits are concerned, the development of a secondary market is essential to catalyse exits in the private equity space. Early-stage funds have significant potential to provide a deal pipeline of secondary transactions for growth-stage funds and, similarly, for growth-stage funds to serve as a pipeline for mid-market private equity funds- in essence, combining exit and deal origination and investing events. This creates a holistic local and regional ecosystem that supports a more vibrant and fluid exit environment.

C. The Role of Local Country DFIs in Bridging the "Missing Middle" Funding Gap in East African Frontier Markets

DFIs are essential in addressing the "missing middle" in financing, particularly in contexts like Uganda. The "missing middle" refers to enterprises that are too large for microfinance but too small or risky for conventional commercial banking. These enterprises often fall through the cracks because they do not fit the typical profiles catered to by grants, private equity, or traditional debt providers. Local DFIs target this segment by providing the necessary capital to support innovative and commercially viable businesses that may not qualify for conventional funding.
By targeting innovative companies at various stages of development and across different sectors, DFIs not only provide crucial capital but also support broader economic and social development goals. Their commitment to Environmental, Social, and Governance (ESG) principles further ensures that investments contribute to sustainable development, making DFIs critical players in the economic transformation of regions like Uganda.

Aligning sectors of focus with sectors prioritized in national development plans is crucial for Local Country DFIs, given that the ownership structure of local DFIs is wholly state-owned.

Local DFIs in Uganda play a crucial role by investing in pre-revenue, early-stage, and growth-stage companies, often in sectors prioritized in national development plans such as ICT, renewables, e-mobility, and agro-processing. These sectors are not only strategic for economic growth but also align with the social impact missions of DFIs, which are typically government-owned. The focus is on companies that can deliver both commercial financial returns and positive social outcomes.

In agriculture, which is a priority sector for a resource-dependent country such as Uganda, the approach of local DFIs varies across different stages of the agricultural value chain, including production, agro-processing, and trade (export). At the production stage, where most farmers are smallholder subsistence producers, DFIs often prefer to fund farmer cooperatives. These cooperatives aggregate the produce of smallholder farmers, creating commercially viable volumes for large-scale trade. This aggregation process de-risks the smallholder farmers, making them more attractive for commercial financing. However, DFIs typically offer debt products at this stage, rather than equity, due to the difficulty in valuing biological assets and the limited innovation occurring at the farm level.

Local DFIs, nevertheless, see great potential and multiple entry points for equity investments in the agro-processing and export stages of agricultural value chains. At these stages, companies are typically more structured and have clearer pathways

to market, making them suitable for equity financing. In deploying equity financing, DFIs' equity arms work closely with their trade finance divisions to support importers and exporters in agricultural value chains, ensuring these businesses have access to both capital and market opportunities.

ESG Integration in DFI Investment processes is key to ensuring investments align with the dual objective of financial returns and positive socio-economic impacts.

In seeking to ensure that investments contribute to sustainable development, Local DFIs implement robust ESG policies and green finance strategies across their investment processes, from deal origination to due diligence and post-investment monitoring and evaluation. These policies ensure that investments meet high standards of environmental and social responsibility, with a focus on inclusive growth that involves women, youth, and vulnerable groups.

D. The Role of Private Equity in Catalyzing Investments in Agriculture-Dispelling Myths on Commercial Viability of Agricultural Production

Contrary to prevailing opinion, private equity funds do invest in primary agricultural production, recognizing its potential for significant returns despite the inherent risks. The perception that agricultural production is not commercially viable stems from misunderstandings about the sector's complexities and potential for growth. In reality, primary agriculture can offer substantial opportunities for value creation, particularly when investments are coupled with long-term, patient capital. Private equity has a crucial role in catalyzing investments in agriculture, particularly in regions where traditional financing may be limited. By dispelling myths about the commercial viability of agricultural production and focusing on sustainable practices, private equity funds can unlock significant value in this sector.

Private equity investors looking to invest in agricultural production will need to be conscious of the inherent challenges in agricultural production investments.

Investing in primary agriculture does come with unique challenges, particularly concerning climate impact and compliance with stringent ESG requirements. Large-scale agricultural production can have significant environmental impacts, including land degradation and the use of chemical pesticides and fertilizers. For investors focused on sustainability, these issues necessitate a careful approach to value creation, which may include promoting regenerative and organic farming practices. These practices not only help mitigate adverse environmental impacts but can also lead to certifications that enhance the marketability and value of agricultural products. Despite these challenges, there have been successful private equity investments in commercial agricultural production, such as those in northern Uganda. These investments, often combining equity and debt financing, have achieved successful exits, demonstrating the sector's potential.

The success of investments in agricultural production often requires significant post-investment support and technical assistance grants.

Investing in agricultural production often requires substantial post-investment handholding, which can be resource-intensive. This includes not only financial capital but also expertise in sustainable farming practices, supply chain management, and market access strategies. To offset these costs, private equity funds can benefit from technical assistance grants, which can help cover the expenses associated with these critical support activities. Development actors, such as government agencies and international development organisations, can play a crucial role in providing these grants.

The integration of ESG considerations, supported by technical assistance grants and development partnerships, ensures that these investments contribute positively to both financial returns and broader socio-environmental goals. This approach not only enhances the sustainability of agricultural enterprises but also aligns with the growing demand for responsible investment practices in the private equity industry.

PART 3

Re-inventing the Wheel and Innovating: Evolving Fund Structures and Strategies

Conference Panel Session Contributors:

Agnes Aistleitner Kisuule, FirstCircle Capital; Edmund Higenbottam, Verdant Capital; Jo Fry, BII; and Roeland Donckers, iungo Capital

There is an increasing diversity of fund structures, including private credit funds and innovative mechanisms such as evergreen funds and SAFE notes. Some of these new structures could enhance capital flows, reduce risks, and improve returns for investors and fund managers alike. As East Africa continues to attract a diverse range of investments, it becomes essential to explore new and innovative fund structures that could better align with the region's unique challenges and opportunities. It is further essential to explore the benefits and challenges of different emerging fund structures. In addition, it is essential to consider these in the context of emerging fund managers who will need to navigate these complex structures to attract diverse LP profiles.

A. Private Credit Funds: Adaptive and Alternative Approaches to Supporting SME Growth In East Africa

Private credit funds are increasingly becoming a crucial source of financing for SMEs in East Africa, offering flexible and complementary options compared to traditional banks. In East Africa, private credit funds can complement the role of traditional banks by providing debt financing that banks may be unable or unwilling to offer due to regulatory constraints and collateral requirements. Private credit funds can

work closely with borrowers, gaining better visibility into the cash flows and growth prospects of the businesses they finance. This closer relationship allows for more customised financing solutions, aligning with the needs and growth trajectories of SMEs. For SMEs and borrowers, private credit represents a non-dilutive form of capital, meaning they can access the necessary funds without giving up equity in their businesses. This is a significant advantage for business owners who wish to retain control over their companies while still accessing growth capital.

Rationale: From an LP's perspective, one of the key advantages of private credit funds is their predictability in terms of cash flows and returns. Unlike private equity, where returns are often realised upon exit, private credit funds offer regular and predictable cash flows, providing a more stable investment option for LPs seeking consistent returns. This stability can be desirable to LPs looking for reliable income streams, as private credit investments are self-liquidating and not event-driven, thereby reducing the J-curve effect typically associated with private equity investments. Structurally, private credit funds provide a layer of protection for LPs, as the debt sits above equity in the capital structure, offering a buffer against potential losses. This structure not only provides a good risk-return profile but also diversifies LPs' portfolios, adding an asset class with predictable cash flows and lower volatility compared to private equity.

Returns: From an LP's perspective, when comparing the returns of private equity and private credit, it's important to note that private equity has been established for longer, making direct comparisons challenging. However, private credit funds generally offer more regular cash distributions throughout the fund's life, whereas private equity returns are typically realised towards the end of the investment period. Some LPs have observed private credit funds completing their investment cycles and returning capital in Africa, underscoring the potential for reliable returns in this asset class. Additionally, the predictability of cash flows and timing in private credit investments provides LPs with greater visibility into their returns, unlike private equity, where the actual value is often only realised upon exit, and prior visibility is based on subjective valuations.

B. SAFE Notes and Convertible Instruments: Flexible Financing for African Startups

SAFE (Simple Agreement for Future Equity) notes and convertible notes are popular financial instruments for early-stage investments. SAFE notes, introduced by Y Combinator, are a type of convertible debt note that converts into equity at a future-priced round. These instruments provide startups with essential capital while offering investors a clear path to equity ownership. By offering flexible, interest-free ways to gain equity in a company at a future date, typically during a subsequent priced round of funding, SAFE notes and convertible notes are particularly beneficial for

early-stage startups. For African startups, domiciling in Delaware and utilising SAFE notes can significantly ease the fundraising process, providing the necessary capital to fuel growth while ensuring favourable conditions for both founders and investors.

SAFE Notes vs. Priced Rounds: The decision between using SAFE notes and conducting priced rounds is influenced by both the startup and the investor, depending on factors such as the startup's stage, funding needs, and investor preferences. SAFE notes offer startup founders significant flexibility in terms of their raise and speed. However, founders must understand terms like "SAFE stacking," dilution impact, and the distinctions between "post-money" and "pre-money" SAFEs.

Advantages of SAFE Notes: SAFE notes are advantageous for both investors and startups. For investors, the lack of interest accrual and the conversion of preferred debt into preferred equity during a qualifying equity financing round positions them favourably in the capital structure, allowing them to benefit from the startup's future growth without immediate equity issuance or valuation disputes. For startups, SAFE notes offer simplicity and reduce complexity, providing a straightforward approach that avoids the complications often associated with convertible notes, which typically include interest accrual and a maturity date. This makes the fundraising process smoother and more efficient for both parties

.Jurisdictional Considerations: For venture capital investors in Africa, there is a notable preference for SAFE notes over priced rounds, with African startups domiciled in Delaware due to the clarity and security of Delaware's legal framework. Delaware's favourable business laws and regulatory environment make it the ideal domicile for startups raising capital through SAFEs.

Consequently, many African startups are headquartered in Delaware to facilitate smoother and more attractive fundraising processes for international investors. This trend underscores the importance of jurisdictional considerations in structuring investment agreements, as the appetite for dealing with multiple jurisdictions in Africa remains low among venture capital investors who often have a multi-country strategy, which would increase compliance costs. Given these advantages, African startups are encouraged to domicile in Delaware to enhance their fundraising efforts and attract more capital, as SAFE notes fit well within the U.S. legal context. By adopting this strategy, African startups can increase their appeal to international venture capital investors, thereby bringing more capital to the continent.

C. Evergreen Funds: A Flexible Investment Approach for First-Time Fund Managers

Evergreen funds, which allow continuous fundraising and investment without a fixed end date, are a viable structure for first-time fund managers. This fund structure offers a more flexible investment approach, enabling managers to build a track record over time without the pressure of adhering to a traditional fund lifecycle. The ongoing capital-raising capability and open-ended nature of evergreen funds provide fund managers with the opportunity to reinvest returns and make new investments, fostering a sustainable growth strategy.

Evergreen funds offer a flexible and sustainable investment approach, particularly beneficial for first-time fund managers. By aligning with LP preferences and maintaining flexibility in structure, evergreen funds can provide a continuous growth strategy and an effective means of building a track record. This approach not only facilitates ongoing investment and reinvestment but also positions the fund manager to attract future investment more effectively. The ability to raise capital continuously and invest dynamically offers a promising pathway for new fund managers to develop their portfolios and demonstrate performance over time.

The GP-LP Power dynamic in structuring decisions and advantages of evergreen funds for first-time fund managers

In the GP-LP dynamic, LPs typically hold significant bargaining power, influencing the success of fundraising through their structural preferences. Some LPs exhibit apprehension about evergreen structures due to their open-ended nature and undefined end-of-life events, with most LPs more familiar and comfortable with the standard and widely utilized closed-ended funds with a finite life. However, evergreen structures can be highly advantageous for first-time fund managers who lack a track record. For first-time fund managers who compete for the same investment dollars as established fund managers who are similarly bringing new [successor] funds to market, securing traditional LP backing can be incredibly challenging- particularly from traditional LPs, such as DFIs, investing in emerging market funds. Further adding to the complication, relying on a closed-ended structure could result in protracted fundraising periods for younger, smaller funds.

An evergreen fund is open-ended and allows first-time fund managers to start the fund cycle and invest with smaller amounts raised, continuously raise capital- from a diverse pool of non-traditional LPs-and invest while building a track record. This gradual approach is crucial for future fundraising efforts and mitigates the risks associated with being a first-time fund manager. The continuous nature of evergreen funds allows for a more dynamic and responsive investment approach. Hence, flexibility is a crucial advantage of evergreen funds. The ongoing capital-raising capability and open-ended nature of these funds allow for reinvestment of returns and new investments, fostering a sustainable growth strategy. This flexibility

is particularly beneficial for first-time fund managers who need to adapt to the evolving preferences of LPs and market conditions.

Evergreen funds and mechanisms for investor entry and exit

Evergreen funds may have a mix of debt and equity investors in their LP base. For equity investors, it is a long-term commitment. Some evergreen funds add a layer of preferred equity, allowing the GP to repay capital to shareholders while servicing debt principal to debt investors. For mezzanine and debt investors, liquidity typically returns sooner than for equity investors, making it easier to manage. This layered structure can provide the necessary liquidity for various types of investors while maintaining the long-term investment horizon of equity investors.

Structural considerations for first-time fund managers

Evergreen funds often operate as holding companies (HoldCos), owning and managing a portfolio of investments. This structure facilitates a long-term investment horizon and can appeal to LPs who prefer stable, ongoing liquidity returns rather than the exit-driven approach of traditional closed-ended funds. While the structural aspect is essential, it should not overshadow the primary goal of meeting LP expectations in making structuring decisions. Structure should not be the GP's primary concern. The key consideration should be LP preferences, which should subsequently guide structuring decisions. LP requirements are paramount, and depending on the target amount of capital being raised, a first-time fund manager should remain flexible in making decisions on the fund structure using target LP preferences as the guiding light. The structure options may evolve as the GP’s business grows and adapts to meet LP expectations and market conditions.

D. Advice for First-Time Fund Managers: Simplifying Fund Structures and When Innovating, focusing on Strong Value Propositions

First-time fund managers should prioritise simplicity in fund structure and investment thesis, maintain standard management fees, and limit the number of LPs investing in the fund- given potential challenges in meeting the unique needs of each of the LPs they bring on board and clearly demonstrate their expertise and strategy. By following these principles, emerging fund managers can build a strong foundation for their fund and attract committed investors.

The following are key areas of note for first-time fund managers on aspects of fund structuring and fundraising for said fund:

Simplicity is key in structuring funds and enhances the likelihood of successful close.

For emerging fund managers, the guidance is straightforward: keep fund structures simple. Complex structures can deter potential LPs and complicate the fundraising

process. It is already difficult enough to sell funds with investment strategies focused on high-risk emerging and developing markets, and adding complexities in structure can complicate LP's willingness to commit to a fund. A plain vanilla, well-understood fund structure is more attractive to potential LPs and can streamline investor relations, making it easier to attract capital. Overly intricate fund structures can deter LPs- who prefer tried and tested structures and strategies- and may raise concerns about transparency and manageability. First-time fund managers should avoid unnecessary complexity and focus on creating a fund structure that is easy to understand and manage. This approach can help build trust with investors and facilitate smoother operations.

If opting for innovative fund structures such as Evergreen Funds, a first-time fund manager should ensure that the value proposition is strong and clear.

Innovative fund structures such as Evergreen funds can provide flexibility to first-time managers trying to build track records. Still, first fund managers opting for these structures must also offer compelling reasons that align with an LP's return and impact interests for LPs to commit capital in these non-traditional vehicles, such as a strong investment thesis and the potential for consistent returns.

Limit the number of LP prospects so as to avoid excessive side arrangements.

Engaging too many LPs can lead to an overwhelming number of individual requests and requirements—in the form of side arrangements- complicating the fund's management. A more focused LP base allows for better alignment and easier relationship management. It's essential to strike a balance between securing sufficient capital and maintaining a manageable number of investor relationships.

Further, While it's common for different LPs in a fund to negotiate terms unique to their own needs in the form of side arrangements, first-time fund managers should be cautious about accommodating too many special requests in the form of side arrangements as they may struggle later on to balance these.

For instance, some LPs may seek reduced management fees, but it's crucial to maintain the standard fee structure, especially for a first-time fund which must meet its running costs using said fee structure. LPs interested in investing in a first-time fund manager in emerging and developing markets may have to show a willingness to support the full standard management fees, reflecting the value of the manager's expertise and strategy.

To elicit LP backing, a GP must demonstrate expertise and a solid strategy, even without a fund track record, as may be the case for first-time fund managers.

Even as a first-time fund manager, it's possible to raise capital for a vintage 1 fund successfully. The key is to clearly demonstrate expertise, a strong team, and a well-defined strategy for delivering returns. LPs are more likely to invest if they see a compelling plan for implementing the strategy and achieving the fund's objectives.

PART 4

Meeting in the Middle: Navigating the Rapidly Evolving GP-LP Dynamic

Conference Panel Session Contributors:

Audrey Obara, Swedfund; Eva Warigia, New Forests; Jarl Heijstee, XSML Capital; Johanna Raehalme, Finnfund; and Rosanne Whalley, AHL Ventures.

There has been a significant shift in the power dynamic between LPs and GPs, with a notable bifurcation in the market from two perspectives.

First, GPs with multiple funds (e.g., Fund 3 and beyond) continue to wield considerable power in the fundraising process due to their proven track records and ability to demonstrate successful exits. Conversely, first-time fund managers face significant challenges in raising funds, as LPs demand higher standards and more stringent requirements and place strong emphasis on fund track records as prerequisites for commitments- especially in a tough fundraising market where LPs are being more selective on allocations.

Second, despite the relative power of established GPs holding substantive track record, LPs increasingly control the terms of investment, particularly during the initial fundraising stages. LPs are becoming more discerning, focusing on GPs that can deliver consistent returns and meet rigorous performance benchmarks. The power dynamic, hence, now stands as skewed in favour of LPs- marking a shift. Regardless, there's a need to meet in the middle on critical aspects so as to drive sustainable growth and create lasting value in East Africa and beyond.

A. LP Perspective on the Power Dynamics between GPs and LPs

The power dynamics between GPs and LPs are fluid and influenced by various factors, including market conditions, the track record of fund managers, and the fund's lifecycle stage. While experienced GPs continue to hold significant sway, first-time managers face a more challenging landscape. Effective coordination and strategic alignment between GPs and LPs are essential for navigating these power shifts and achieving successful investment outcomes.

In the current fundraising environment, power is skewed in favour of LPs, who have become notably more selective in commitments as the market fails to deliver returns at the speed with which it was anticipated exits and returns would be achieved.

The private equity landscape is experiencing a notable shift in power dynamics between GPs and LPs. As some LPs withdraw from the market due to unmet return expectations from funds they have previously invested in, the fundraising environment has become increasingly challenging. Concurrently, there is a strong demand among LPs for high-performing fund managers with proven track records looking to bring new successor funds to market, particularly those who have demonstrated successful exits with past funds. These established fund managers with track records have a significant influence on the fundraising process.

There is a market bifurcation, with first-time fund managers having more challenges bringing new funds to the market, whereas established managers are thriving.

The market is currently bifurcated, with a clear distinction between established fund managers and first-time fund managers. More mature fund managers who are in their third fund or beyond possess substantial power in the fundraising process, as their proven ability to deliver returns makes them highly attractive to LPs. Conversely, there is a noticeable shift in power towards LPs in other segments of the market- notable being first-time fund managers who are increasingly finding it hard in the current environment to bring new funds to market. For first-time fund managers without a track record, the power dynamic is not in their favour. In the current fundraising climate, where track record is a critical and paramount consideration for LPs, first-time fund managers face significant challenges in securing commitments.

B. Keys to the Kingdom: Traditional LPs, namely DFIs, as Influential Players in the Strata of Fundraising - 1st Close Investors

DFIs often serve as anchor investors in East African and, more broadly, emerging market-focused private equity funds and thus play a pivotal role in the fundraising process. Their influence is determined by several factors, including the stage of fundraising at which they enter- as either first close or second close; the ease or difficulty of the GP's fundraising process -i.e. how many other LPs are interested in committing capital the GP's fund-; the size of the DFI's [planned] commitment relative to commitments from other investors, and the GP's track record.

DFIs, which often anchor capital commitments into funds coming to market, typically participating at first close, yield significant power as they bear the burden of initial vetting and decision-making in the fundraising process.

The strategy adopted by non-traditional LPs, such as foundations and family offices, typically participating at the second close of the fundraising process—shifts the burden of initial vetting and decision-making to traditional LPs—namely DFIs as anchors—implying that, in essence, these hold the keys to the fundraising kingdom and substantive power in the fundraising process. DFI involvement at the first close stage can help to set the tone for the fund's terms and conditions, potentially shaping the expectations and participation of subsequent LPs. DFIs' influence can be substantial at the first close of a fund, as their participation can provide a signal of credibility and stability, attracting other investors into the LP pool.

DFIs' influence in fundraising, however, depends on the broader fundraising context.

If a fund is having an easy time raising capital and has commitments from a diverse pool of LPs, the GP may have more bargaining power in the fundraising process and be less reliant on DFIs. Conversely, in a challenging fundraising environment, DFIs can exert significant influence in setting the terms of their commitment into a fund, particularly if they are providing a large portion of the capital.

C. De-risking Mechanisms: Non-Traditional LPs, namely foundations and family offices as Co-Investors - 2nd Close Investors

At the second close of the fundraising process, nontraditional LPs, such as foundations and family offices, typically come in, often participating as co-investors.

Non-traditional LPs, such as foundations and family offices, are increasingly adopting a strategy of participating in the second close phase of the fundraising process for funds coming to market. This approach serves as a de-risking mechanism, allowing these non-traditional LPs to leverage the due diligence and initial risk assessment conducted by traditional LPs, typically DFIs, who anchor the first close of funds. Despite entering at a later stage of the fundraising process, their influence is not to be underestimated, as they bring a new perspective to the table.

D. GP Perspective on the Power Dynamics between GPs and LPs

While experienced GPs with successful track records may enjoy some benefits in terms of trust and slight negotiation flexibility when raising successor funds, the power dynamics in the private equity fundraising environment heavily favour LPs. GPs must navigate these dynamics carefully, balancing the need for compliance with LP demands with the desire to innovate and grow.

While having a substantive advantage over first-time fund managers, the bargaining power for GPs with a proven track record is present but generally limited.

Even for experienced fund managers with a proven track record beyond the third fund, the power dynamics between GPs and LPs are heavily skewed towards the LPs. While one might assume that a successful track record would heavily shift the power balance in favour of the GP, the reality is more nuanced. At the point of raising the third fund, GPs may have established trust with LPs who have previously invested and seen successful exits and returns. This trust can provide GPs with some negotiating leverage, but this leverage is generally limited. Ultimately, even seasoned and established GPs must recognise the dominant position of LPs in setting the terms and conditions for an investment into a [successor] fund.

The bargaining power of an established GP with a proven track record in the fundraising process may vary from Fund 1 to Fund 3 and Beyond.

Raising the first fund (Fund 1) is notoriously challenging, with GPs needing to establish credibility and trust from scratch. Fund 2 typically does not see a significant shift in this dynamic; it remains challenging as GPs must demonstrate that initial successes were not flukes. Fund 3, while slightly more manageable due to a more established track record, still leaves the GP mainly at the mercy of LP demands. By Fund 4, the process can become more complex, especially as the GP may seek to expand the fund size and, consequently, the LP base. This expansion often introduces new LPs with their unique requirements, leading to a proliferation of side arrangements and special considerations that the GP must balance.

From a bargaining power perspective, the transition from Fund 2 to Fund 3 does bring some changes in the GP-LP relationship, primarily due to the accumulated track record and demonstrated ability to deliver returns. However, the fundamental power dynamics remain essentially unchanged- from a material perspective. LPs, especially institutional investors, maintain significant control over the terms and conditions of their commitments into a fund. GPs may gain some flexibility in negotiating specific terms, such as management fees or investment strategies, but this leeway is usually minimal. For example, a GP might push back on replicating previous fund strategies if they feel it hinders growth or innovation, but LPs generally prefer continuity and proven approaches.

Further, regardless of a track record, the pressure to conform to the "2 and 20" fee structure remains strong, with LPs often pushing for even lower management fees. This standard model, which includes a 2% management fee and 20% performance fee, is rarely bespoke, making it challenging for GPs to adjust the compensation better to reflect the fund's unique circumstances or growth objectives.

E. Bypassing the Middleman: Drivers for LP Co-Investments and Direct Investments and Competition Dynamics with GPs

Traditionally, DFIs have invested in funds and supplemented these investments with co-investments and direct investments, using these latter tools to diversify their portfolios. However, there is a growing trend among DFIs to prioritise direct investments or co-investments alongside their investments in funds. This shift towards more co-investments and direct investments is driven by a desire by DFIs traditionally investing in emerging market funds to adapt in a changing context and re-invent their roles as investors, guided by the strategic focus and directives set by their owners (shareholders, i.e. governments) and the overarching development mandates they must adhere to, to align with their owners' interests.

The shift towards direct investments is driven by the need to adhere to an assortment of thematic areas, often driven by the owners of the DFIs. These owners set specific goals and priorities based on developmental and strategic imperatives.

DFIs are increasingly concentrating on thematic areas where they can demonstrate tangible impacts and build a strong track record. These thematic focuses are often driven by the DFI owners (shareholders, i.e. governments), who set specific goals and priorities based on developmental and strategic imperatives necessitating DFI alignment with these priorities. Direct investments (and, to an extent, co-investments) allow DFIs to clearly showcase to their shareholders their contributions to these specific priority themes, aligning with the broader trend in impact investing that emphasises storytelling and measurable outcomes.

Furthermore, the trend towards direct and co-investments is due to the fact many DFIs and other LPs are becoming more professional and sophisticated, developing in-house capabilities for on-the-ground due diligence and deal origination.

Historically, LPs relied upon GPs for the functions of on-the-ground due to delligencing, deal origination, and post-investment asset monitoring due to a lack of expertise- which is why intermediating was a key strategy. However, as LPs establish local offices in target markets for investments and gain on-the-ground experience, the capabilities gap between LPs and GPs as pertains to on-the-ground deal origination, pre-investment due diligencing and post investement asset monitoring is narrowing. This increased capacity allows DFIs to source and manage direct investments more effectively.

This shift towards more co-investment and direct investments by LPs raises the question of whether LPs are becoming competitors to GPs in deal-making. The answer varies depending on the type of investment.

In debt investments, LPs can indeed become competitors to GPs offering similar products, as LPs can now originate and execute deals independently. However, in equity investments, DFIs typically remain passive investors in equity deals and rarely lead investment rounds. They often prefer to co-invest alongside GPs in equity deals, allowing the latter to take the lead in structuring and managing the investment. This approach ensures that DFIs can participate in impactful projects without directly competing with GPs for deal opportunities.

F. Family Offices: Appetite for first-time fund managers, secondaries investing and debt versus equity funds

Family offices are refining their investment strategies to focus on more established fund managers, larger fund sizes, and innovative structures that provide liquidity and predictable returns. The evolving landscape also includes a growing interest in secondary investments, which offer unique opportunities for family offices to navigate emerging markets more effectively.

Family offices are evolving investment strategies and challenges, and they show a greater preference for more direct equity and debt investments.

Over the past decade, family offices have made numerous investments in first-time fund managers to catalyse the private equity industry in emerging markets. However, this strategy has not consistently yielded the desired returns. As a result, family offices have become more sophisticated, developing in-house capabilities for both direct debt and equity investments. This evolution has been driven by the fundamental need for performance and a reassessment of the initial strategy.

Family offices are further showing greater preference for established fund managers and larger funds (>$50 million) than for first-time fund managers and smaller funds.

Given the challenging nature of backing first-time fund managers in tough markets, family offices are increasingly prioritising fund managers with a demonstrable track record and a minimum scale in fund size. While innovative approaches can create successful funds with fund target sizes below $50 million, they often require different types of capital other than the commercially oriented capital offered by family offfices. Family offices, which are purely private capital seeking commercial returns, now favour more mature fund managers with target fund sizes over $50 million. Additionally, there is a growing preference for making commitments in self-liquidating and mezzanine-like funds, as these structures can provide more predictable cash flows and shorter hold periods compared to traditional private equity funds.

Among family offices, there is growing interest in secondaries investing.

Family offices are increasingly interested in secondaries within equity funds. The secondary market offers opportunities for liquidity, allowing family offices to invest in funds where they can assess the underlying assets rather than entering a blind pool. This approach provides the potential for arbitrage opportunities, attracting more capital through the secondary fund market. The emergence of a more active secondary market in the region is seen as a positive development, providing family offices with additional avenues for investment and liquidity.

G. Finding the Balance: Commercial Returns Vs Impact Returns

While commercial returns remain a top priority for LPs, even for impact-focused DFIs, there is a nuanced understanding that impact returns can and should coexist with financial returns. This dual focus is especially important in the context of emerging markets, where achieving both financial success and developmental impact is critical. For GPs, the challenge lies in balancing these priorities and communicating the dual value proposition to potential LPs effectively.

There has been a notable shift in financial returns in recent years, with LPs increasingly focusing on net returns rather than merely expected returns.

This change reflects a growing emphasis on actual cash returns to investors, as opposed to projections or theoretical gains. For GPs, demonstrating real returns—actual cash distributions to investors—is crucial for successfully raising successor funds. This requirement is especially significant for commercial investors, who not only seek returns but also prefer to see these returns materialise consistently throughout the fund's lifecycle rather than waiting until the end of a typical 10-year fund period. This preference for regular, predictable returns gives private credit funds an edge over private equity funds, as they offer more stable cash flows.

There is an increasing convergence in the [financial] return expectations of impact-focused DFIs and returns-focused commercial investors.

While DFIs traditionally focus on achieving developmental impacts alongside financial returns, commercial investors are primarily concerned with financial returns. However, both groups now show a growing interest in ensuring that investments yield tangible, timely returns, with impact-focused DFIs notably shifting their financial return expectations closer to those of commercial investors. This shift reflects a broader trend where even impact-driven investors, like DFIs, prioritise the financial viability of their investments.

Regardless of the increasing focus on financial returns, even by impact-focused investors such as DFIs, the pursuit of commercial and impact returns is not a zero-sum game, and there must be a balance between impact and return.

LPs, particularly DFIs, seek to achieve both financial returns and measurable social or environmental impacts. For DFIs, whose mandates often include fostering economic development in emerging markets, the dual objectives of return and impact are closely intertwined. The definition of impact extends beyond the deployment of capital; it encompasses ripples from deployed capital in action in the economies in which investments are made, including creating jobs, generating tax revenues, and reducing greenhouse gas emissions. These impacts are inherently linked to the growth and profitability of portfolio companies. The fundamental aspects of impact investing include supporting businesses that not only solve real-world problems but also grow and become profitable.

Furthermore, the role of impact capital includes catalysing commercial private capital by- through their investments in tough markets- demonstrating that profitable investments can be made in challenging markets such as East Africa; hence, to prove the concept, impact-focused DFIs must demonstrate to commercial investors that returns can and have been achieved in emerging markets- hence the emphasis on financial returns, alongside impact. Private capital – particularly from commercial investors- is attracted to opportunities that promise financial returns, and for impact-focused investors such as DFIs, demonstrating profitability is key to attracting further non-DFI private investment into regions such as East Africa.

H. Meeting in the Middle: Compromise in the GP-LP Dynamic

While the consensus is that LPs presently enjoy significant bargaining power in fundraising processes, the power dynamic does evolve as the fund closes fundraising and begins other phases of the fund lifecycle.

The power dynamic between GPs and LPs evolves over the lifecycle of a fund. During the fundraising stage, depending on the market, LPs may wield significant power in determining the level of commitments and the specific terms under which they invest. This power includes negotiating management fees, hurdle rates, and other key terms that can significantly impact the fund's operations. However, as the fund progresses from the fundraising stage into the investment, management, and exit phases, the power held by LPs tends to decline.

While LPs retain certain structural powers under the Limited Partnership Agreement (LPA) when making commitments to a fund, such as advisory roles and veto rights, these powers are not always actively enforced or exercised. For instance, if a fund is nearing the end of its lifecycle and struggling with exits and returns, LPs may find themselves with limited options for intervention despite these formal powers.

Given these dynamics, there is a growing need for enhanced coordination between GPs and LPs, particularly concerning legacy funds nearing maturity and requiring strategic exits.

Improved communication and collaboration can help align GP and LP interests and strategies, facilitate smoother exits, and ensure that both parties' objectives are met. This coordination is crucial in navigating the complexities of underperforming funds and optimising outcomes for all stakeholders involved.

From the perspective of LPs, including DFIs, there is a clear objective of deploying capital effectively while balancing their institutional mandates and risk appetites.

DFIs often have specific goals related to development impact, ESG considerations, or regional focus, which they seek to incorporate into their investment terms. While they may be willing to negotiate on specific percentages or terms, they generally aim to avoid exercising opt-out rights, as doing so can disrupt the fund's capital base and stability. For GPs, the challenge lies in accommodating these various requirements while maintaining a cohesive investment strategy and fund structure. It is in the GP's interest to limit opt-out rights and other destabilising factors, as these can complicate fund management and reduce overall efficiency. However, effective communication and feedback mechanisms between GPs and LPs are crucial. They help align expectations, enhance the deployment of capital, and address market challenges collaboratively.

Support Provided to GPs by LPs

a) Thematic Technical Assistance: LPs often provide technical assistance to GPs in specific thematic areas such as sustainability, climate change, gender equality, and capacity building. This support is not aimed at the GP's core business operations. Still, it is designed to enhance complementary aspects that can significantly impact the GP and its portfolio companies' success. For instance, technical assistance might involve implementing sustainable business practices, promoting gender diversity within portfolio companies, or enhancing the operational capacity of these businesses.

b) Close Engagement and Knowledge Transfer: LPs are becoming more intentional about maintaining close engagement with GPs post-fundraising and during the capital deployment phase. This ongoing interaction allows LPs to gain a nuanced understanding of the challenges and opportunities that GPs encounter. By sharing these insights, LPs can help less experienced first time fund managers navigate similar issues, fostering a culture of continuous improvement and learning within the investment community.

c) **Establishing Regional Local Offices:** In response to the unique challenges faced by GPs in different regions, many LPs are establishing regional local offices. These local offices enable LPs to better understand the specific market conditions and cultural nuances that GPs may be dealing with. This closer geographic presence facilitates more effective communication and support, not only for GPs but also for the LPs' direct investment portfolios. By being on the ground, LPs can offer more tailored guidance and leverage local insights to support both GPs and the broader investment ecosystem.

PART 5

Switching It Up: Leveraging the Potential for Local LPs to Diversify Investor Pools

Conference Panel Session Contributors:

Jane Nzau, Central Bank of Kenya Pension Fund; and Njeri Wagacha, CDH Kenya;

As traditional LPs investing in East African funds become more selective on the GPs they back, creativity calls for GPs to tap more fully into previously unexploited investor bases, with East Africa's pension fund industry- both public and corporate pension funds- representing the most viable channel for this. This is relevant given the increasing importance of local capital in sustaining investment flows amidst global market volatility. Effectively leveraging local pension funds and other local institutional investors can drive the growth of private equity in the region. While the last decade has seen pension funds become increasingly important, with these investing in the private equity asset classes in countries such as Kenya, Uganda and Rwanda, pension funds are yet to reach their upper allocation caps and invest only a fraction of permissible allocations (10-15%). As such, there is a need for a roadmap for effectively integrating pension fund resources into the private equity ecosystem.

A. A Strategic Roadmap for Enhancing Pension Fund Industry Investments in Private Equity in East Africa

Regulatory bodies play a crucial role in facilitating local capital investments by pension funds, especially in the private equity asset class, necessitating regulatory support and flexibility to enhance pension industry allocations to the asset class.

Progressive regulatory changes are vital in frameworks guiding the pension fund industry, such as increasing the allowable limits for the allocation of Assets Under Management (AUM) to alternative investments and providing clear guidelines for private equity investments. For instance, Kenya has set a precedent by permitting up to 10% of AUM to be allocated to alternatives, including private equity. This regulatory framework serves as a model for other countries in the region. However, there remains apprehension among pension fund managers about the perceived lack of regulation in the private equity industry. For pension funds, which serve as custodians of retirement savings, it is imperative to ensure guarantees not only on returns but also on recourse in the event of disputes. Strong oversight and sound regulation of the private equity industry- from the perspective of local pension funds- is essential to safeguard the interests of pension fund beneficiaries.

One of the significant barriers to leveraging local capital is the lack of understanding and awareness among trustees and pension fund administrators about the private equity asset class, which necessitates education and knowledge sharing.

Continuous education and targeted training programs for pension fund trustees are crucial for demystifying the private equity asset class and building confidence among local investors. Practical steps include conducting workshops and informational sessions to explain the benefits and risks associated with private equity investments. Collaboration among industry associations, fund managers, regulators, and institutional investors is essential for creating a conducive environment for local capital investments. Structured platforms where stakeholders can regularly engage, share insights, and align on regulatory and investment frameworks are necessary to bridge the knowledge gap.

Effective risk management strategies and thorough due diligence are crucial in protecting pension fund assets invested in private equity funds before and during the investment.

For pension funds, engaging skilled legal advisors and leveraging participation in the limited partner advisory committees (LPAC) can help ensure that their interests as LPs invested in a private equity fund are adequately protected.

Pension funds can mitigate risks associated with investing in the private equity asset class by taking minority stakes in funds and actively participating in advisory committees. However, as minority stakeholders, pension funds must take additional steps to protect their interests in the private equity funds they invest in, such as hiring competent lawyers to conduct legal due diligence and negotiate favourable

terms through side letters or side arrangements. This legal oversight is vital to ensuring that pension funds' rights and interests are safeguarded.

For pension funds with a previous history of investing in the private equity asset class, sharing success stories is a strategy for expanding pension fund industry allocations to the private equity asset class in East Africa.

Showcasing success stories and tangible results from previous investments in the private equity asset class is crucial for building trust and attracting more local capital. Sharing examples of funds that have delivered impressive returns reinforces the potential of private equity as a viable investment option for local pension funds. Highlighting these successes helps to convince more institutional investors to allocate a portion of their portfolios to private equity, thus fostering a more robust local investment ecosystem.

There is already ample evidence of foreign capital achieving substantial returns in Africa. Local pension funds need to contribute to the tapestry of success narratives for investing in the private equity asset class in East Africa. One notable example is a pension fund that invested in a private equity fund in 2016, achieving double-digit returns, which have been reinvested and generated returns as high as 40%. This demonstrates the significant potential for local pension funds to benefit from private equity investments, provided they navigate the market with informed strategies and robust governance frameworks.

Tips for GPs looking to fundraise from local East Africa pension funds: Focus on convincing pension fund asset managers about the merits of investing in the fund coming to market. Their say-so is crucial in getting approvals from pension fund trustees for the investment.

Private equity funds seeking to raise capital from local pension funds should be aware that these institutions prioritise returns and adhere to strict compliance standards, including Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF) regulations. In terms of investment strategies, while interested in financial returns, pension funds will typically rely on GP's discretion in deciding on investment strategies that will deliver optimal financial returns.

The most effective approach for private equity funds in raising capital from local pension funds is to engage with the fund managers of pension funds, as they act as investment advisors and are integral to the decision-making process of pension fund trustees. The timeline from pitch to investment decision typically ranges from 3 to 6 months, depending on the fundraising cycle and internal approvals.

PART 6

Chasing Fund Track Records to Live Another Day: Strategies for Enhanced Fund Performance

Conference Panel Session Contributors:

Amanda Kabagambe, TLG Capital; Asif Noorani, Phatisa; and George Odo, AfricInvest.

Private equity firms must adapt to evolving investor preferences and market conditions, leveraging their track records to secure future LP investments into successor funds and drive sustainable growth. For GPs, building a solid fund track record is crucial and existential, as failure to do so can hinder the ability to raise successor funds, which is essential for a GP firm's survival. The latter, given LP's increasing emphasis on track record as a prerequisite for allocations for new funds coming to market. Addressing the challenges and strategies involved in maintaining and leveraging track records is imperative, with a focus on early exits, robust investor relations, and adaptability to market changes. Lessons from established fund managers with three-plus funds highlight the importance of consistent performance, strategic exits, and proactive investor engagement. In the face of declining allocations to private markets and increased investor scrutiny, it is vital for private equity firms to navigate these challenges effectively to ensure continued success and growth.

A. Maintaining and Leveraging Track Records

Achieving early exits is a crucial strategy for maintaining a solid fund track record.

Early exits allow fund managers to demonstrate to LPs their ability to generate returns, thereby building confidence among a fund's LP base. The strategy involves exiting investments earlier than might feel comfortable for the GP, rather than waiting 4-6 years. This approach not only provides immediate returns to LPs but also mitigates the risks associated with holding investments for extended periods, including risks such as a scramble to exit at the tail end of a fund. Partial exits, where portions of investments are sold when opportunities arise, can also be a prudent strategy. This method ensures that some returns are realised, even if the full potential of the investment has not been reached, as subsequent offers at a future time may not exceed and are often comparable to previous ones. The critical takeaway is to avoid waiting too long to exit, as the perfect time may never come.

Regarding lessons learned, there is a need to continue the debate on balancing IRR and multiple invested capital (MOIC) as [fund] performance metrics.

In the private equity industry, there has been an ongoing debate over the prioritisation of Internal Rate of Return (IRR) versus Multiple on Invested Capital (MOIC) as a measure of fund performance. Historically, established fund managers have aimed for a MOIC of 3X or higher. However, focusing solely on MOIC as a measure of fund performance can be misleading, as it does not account for the time value of money. IRR, which considers the timing of cash flows, often provides a more accurate measure of an investment's performance. The lesson here is that early exits, even within four years, can yield substantial IRR benefits, often outperforming MOIC-focused strategies. The adage "IRR eats MOIC for breakfast" underscores the importance of timely exits in enhancing fund performance.

A critical aspect of building a solid track record on funds is selecting portfolio companies that can facilitate smooth and profitable exits; hence, investing in the right companies at the onset is crucial for successful exits.

The principle that "you make money on entry, not on exit" emphasises the importance of choosing the right businesses to invest in from the start. Companies that are challenging to sell at the point of exit often indicate fundamental issues with the business that may have been present or could have been easily identified at the point of investment, making it difficult for the GP to exit, generate the needed returns, build needed track record and subsequently complicating efforts to raise successor funds. Therefore, due diligence and market analysis prior to committing an investment are essential to identify businesses with solid growth potential and attractive exit prospects. This will facilitate smoother exits down the road.

Close relationships with founders are vital in private equity as they pertain to implementing enhanced value-creation strategies in companies, which is vital in making these companies exit-ready.

These relationships can significantly influence the success of an investment. A positive relationship with founders can help rectify underperforming investments, while a negative relationship can undermine even the best opportunities.

Beyond financial capital, funds must provide real industry value to portfolio companies, such as helping them enter new markets, launch new products, or manage risks.

This represents the value added above and beyond capital infusion. Founders increasingly demand this value-added product from private capital investors, and investors must leave businesses in better shape at the point of exit than when they were acquired at the point of investment. This reflects a growing emphasis on value-add beyond financial capital, with fund managers needing to demonstrate their ability to provide strategic and operational support as value-add to the businesses they invest in, in addition to capital infusions.

Maintaining strong investor relations is critical for securing ongoing support from LPs and building trust, particularly when navigating market fluctuations that may affect fund performance and ability to generate returns.

Continuous engagement with LPs invested in a GP's fund, including regular updates and transparent communication, helps manage LP expectations and maintain confidence, even in challenging market conditions. One GP, for instance, has a dedicated team for investor engagement, which is essential for proactively and intentionally managing relationships with LPs, particularly when navigating complex issues or market fluctuations. While GPs with smaller-sized funds may not be in a position to have an in-house investor relations team, the key takeaway is that this constant engagement with LPs is vital as LPs become more sophisticated and demand more from their investments in funds.

B. Addressing Broader Industry Challenges and Opportunities

The private equity industry in Africa faces several broader challenges and opportunities. One significant issue is the relatively shallow capital markets, which limit exit opportunities through public markets. Additionally, innovative fund structures like evergreen funds and blended finance vehicles offer flexibility and can attract a broader range of investors. These structures can help private equity firms navigate changing market conditions and enhance their resilience.

Further, engaging with regulators to deepen capital markets is essential for the industry's growth, particularly as the industry faces increasing regulatory scrutiny.

Private capital is no longer, and can no longer afford to be private, particularly given greater regulatory scrutiny over transactions. Increasing regulatory visibility means the industry must come out of the woodwork to demonstrate its impact on local economies and engage and collaborate with regulators to build a more favourable environment. This proactive engagement will mainstream nuanced aspects of private equity investing into regulatory processes towards a more favourable enabling environment for private equity investing in East Africa.

C. Trends in Fund Management and the Future of Private Equity

The private equity industry is expected to see increased M&A activity.

PART 7

Deploying Capital More Efficiently: Navigating Deal Origination Complexities in East Africa Frontier Markets

Conference Panel Session Contributors:

Frank Mwiti, Nairobi Securities Exchange (NSE); Kigen Chelimo, Open Capital; Martin Warioba, Warioba Ventures; Norah Koigi, Deal Flow Facility (DFF); Olivia Byanyima, Nordic Impact Funds; and Robert Hutchinson, Control Risks.

The deal origination landscape in East Africa is notably fragmented, with a significant disconnect between investors and investees. Investors often independently source deals, while businesses struggle to find suitable investors, leading to a scenario described as "organized chaos." This disjointed communication hinders the matching of capital with viable opportunities, highlighting a critical need for systems and processes to facilitate better connections between market participants. The challenge lies in developing a differentiated deal origination process compared to more developed markets where abundant data and organic deal flow are standard. East Africa's market peculiarities require innovative approaches to bridge this gap. From an advisory perspective, the landscape is nuanced. The issue isn't solely the inability to find transactions or capital but also involves deeper, underlying factors. There is a need for the region to enhance its attractiveness to capital, addressing regulatory clarity and structuring issues. The question is not just about the capability to originate deals but also the willingness of investors to invest in the region under current enabling environment conditions.

A. The Complexities of Deal Origination in East Africa

The complexities of deal origination in East Africa require a multifaceted approach. Market education, relationship-building with family-owned businesses and, more broadly, clear communication of value creation that private equity brings into the businesses they invest in, and thorough commercial due diligence are all critical components. Intermediaries are essential in East Africa's investment ecosystem, providing the necessary support and information to bridge gaps and facilitate successful investments. By addressing these challenges comprehensively, the private equity market in East Africa can grow and thrive, ultimately contributing to the region's economic development.

Educational challenges in the private equity market

The private equity asset class is still relatively new in East Africa, necessitating significant efforts to educate the market. Some advisors have been involved in transactions that appeared promising initially but fell through due to the founders' lack of understanding of the nuances of private equity investments. This often results in founders developing cold feet as the deal nears closing, as, by the time the deal is nearing close, the founders will have better clarity on the intricacies of the investment terms and decide it's not for them.

Public awareness of the private equity investment model can be built earlier and prior to resuming transaction processes through enterprise education programmes. For instance, to address this challenge, the Nairobi Securities Exchange (NSE) has implemented a program focused on educating family-owned businesses and SMEs. This program helps these businesses understand different forms of enterprise capital, including private equity, and equips them with the skills to engage with private equity investors. However, more work from other players is needed in this area- no one player can carry the burden of educating the public singlehandedly.

Family-owned businesses and relationship-building

In most East African countries, the primary source of high-quality deals is family-owned businesses. However, these enterprises are complex and require a relationship-building approach rather than a transactional one. Investors must identify and engage with the key decision-maker within the family, who holds the final say in business decisions. Understanding the internal dynamics of family-owned businesses is crucial for successful deal origination.

Value creation and communication

To successfully secure deals, investors need to clearly articulate their value creation strategies and effectively communicate these to potential investees. In the East African market, there is often a lack of understanding about the non-monetary value that private equity funds can bring to a business beyond capital infusion. This lack of clarity can lead to trust issues post-investment, with founders questioning the actual value contribution of the investor in the business' growth trajectory, making exits problematic. Investors must emphasise the strategic and operational benefits they provide, beyond just capital infusion, to build trust and ensure smooth exits.

Importance of commercial due diligence

Private equity funds must prioritise commercial due diligence alongside legal, due diligence and other standard assessments. Commercial due diligence helps uncover real issues within businesses, enabling investors to develop relevant and effective value-creation strategies to enhance value added to businesses post-investment. However, this type of due diligence is often overlooked, leading to challenges in post-investment value creation.

One of the complexities surrounding commercial due diligence is determining who bears the cost. Quality commercial due diligence is essential but expensive. There are differing opinions on whether investors or donor-funded interventions should cover these costs. Typically, donor-funded programs do not pay for commercial due diligence. The argument for private equity funds covering the cost is challenging in a market where resources are limited.

B. Viability of The Fly-In Fly-Out Model for Deal Origination

The most commonly used strategy for finding deals in East Africa's frontier markets is the fly-in fly-out model.

The fly-in, fly-out model works well for investors looking for global opportunities. It allows them to explore multiple markets without committing to the costs associated with setting up and maintaining local offices.

The fly-in, fly-out model approach offers several benefits, including reduced overhead costs and greater flexibility. Investors can seek deals globally without the financial burden of maintaining a permanent presence in every market of interest. However, the lack of a permanent presence in a market can hinder the ability to build strong relationships with key stakeholders and develop a comprehensive understanding of local market conditions. This can lead to missed opportunities and a slower deal origination process. The fly-in fly-out model presents significant challenges, particularly in terms of establishing deep, trust-based relationships with local businesses and understanding the nuanced market dynamics.

Addressing information asymmetry, however, serves as an alternative solution to permanent presence in frontier markets.

Rather than setting up local offices, the shortcomings of the fly-in fly-out model and related information asymmetry can be addressed through the use of local intermediaries, which may be a more effective strategy for enhancing deal origination in East Africa. This involves leveraging local intermediaries who possess in-depth market knowledge and can provide critical insights into potential investment opportunities. Local intermediaries can bridge the gap between investors and the local market by providing essential information and facilitating introductions to key stakeholders.

Intermediaries can offer valuable on-the-ground insights that help investors make informed decisions without the need for a permanent presence. This approach can improve the quality and quantity of investment opportunities by providing investors with the local insights necessary to navigate the complexities of the market. By focusing on reliable information and strategic partnerships, investors can optimise their deal origination efforts without incurring the overhead costs associated with a permanent presence.

C. Delivering Quality Pipeline: The Role of Market Intermediaries

Market intermediaries – primarily business advisors- are vital in identifying and preparing investable businesses for private equity funds. By focusing on deep, foundational improvements, maintaining honest communication, and enhancing due diligence processes, intermediaries ensure that quality investment opportunities are brought to market. This comprehensive approach supports the growth and sustainability of private equity investments in East Africa.

Investability vs. Investment Readiness

A crucial distinction in private equity investing is between investability and investment readiness. Investment readiness involves making a business look attractive to potential investors through adequate packaging and presentation. However, true investability requires robust business fundamentals. Market intermediaries must go beyond superficial improvements and support businesses at a granular level. This involves embedding teams within companies to address critical gaps in finance, operations, and other vital areas. Ensuring these foundational aspects are solid is essential for businesses to be genuinely investable.

Honesty in Investor-Investee Relationships

Honesty is essential for fostering effective investor-investee relationships. Businesses must present an accurate and transparent picture of their operations, while investors should clearly communicate their capabilities and limitations. Quick, honest feedback from investors is preferable to prolonged uncertainty, allowing businesses to redirect their efforts and resources more efficiently. This approach benefits both parties by saving time and fostering a more productive investment process.

Adaptability in Solutions and Transactions

Market intermediaries need to be adaptable, prioritising solutions and transactions that meet the specific needs of each business and investment scenario. This requires a deep understanding of the unique challenges and opportunities in the market and the flexibility to tailor approaches accordingly. By focusing on adaptable solutions, intermediaries can better support businesses in becoming genuinely investable.

D. Market Intermediaries and Pre-Investment Due Diligence

While the role of intermediaries may evolve as markets develop, they are currently indispensable in the less formalised East African private capital markets. They bridge the gap between investors and investees, facilitating robust due diligence and ensuring that only genuinely investable businesses reach investors. As markets mature, the reliance on intermediaries might decrease, but their current role is critical in fostering a thriving private equity ecosystem.

Intermediaries as the first line of defence in due diligence

Intermediaries serve as the first line of defence in the due diligence process. They conduct on-the-ground assessments to verify that businesses are as they claim to be, ensuring that the reality matches the presentation. This groundwork is essential for investors, especially those without a local presence. By verifying the existence and operations of a business, intermediaries help mitigate risks and make the investment process more efficient. For instance, in Uganda, notable market intermediaries playing this role are the EU-funded Deal Flow Facility (DFF) and the USAID Feed the Future Uganda Strategic Investments Activity (SIA), underscoring the underlying technical and practical complexities of intermediating on behalf of businesses and private capital investors, but also the need for expanded market interventions.

Enhancing the due diligence process challenges in deal origination

In East African markets, due diligence often faces challenges such as incomplete financial records, limited data, and insufficient market intelligence. Desktop research alone is typically insufficient. Navigating the changing regulatory environments adds another layer of complexity. Additionally, understanding cultural differences is crucial. For instance, some East African cultures may avoid direct refusals due to a culture of politeness, leading to misunderstandings during deal negotiations. In this context, Market intermediaries provide valuable local insights, filling information gaps and offering a deeper understanding of the market landscape. They help investors navigate complex regulatory environments, ensuring compliance and avoiding potential legal pitfalls. Furthermore, intermediaries play a crucial role in building trust between investors and investees, particularly for investors who are not based locally. This trust is vital for successful investments and risk management.

PART 8

Returns, Returns, Returns: Preparing for and Effecting an Exit in East Africa

Conference Panel Session Contributors:

Edgar Mukasa, KPMG Uganda; Edward Burbidge, I&M Burbidge Capital; Kendall Evans, Bowmans; Marieke Geurts, Amethis; and Richard Mugera, Ascent Capital.

While exiting private equity investments in East Africa present challenges; the landscape is evolving. By understanding and navigating the available exit routes—Initial Public Offerings (IPOs), strategic sales, secondary buyouts, and management or founder buyouts—private equity funds can effectively plan and execute their exit strategies in East Africa, contributing to the overall growth and maturation of the regional market.

A. Preparing an Exit From the Fund Perspective

Overall, early planning, clear communication, and flexible exit strategies are essential to successfully exiting a private equity investment in East Africa. Addressing these aspects enables funds to navigate the region's unique challenges better and achieve successful outcomes for all stakeholders involved.

The choice of exit strategy must align with the business's size and stage, and as such, exit strategies must be tailored based on business size and stage.

For smaller businesses with lower valuations, the exit strategy might involve strategic sales, secondary buyouts, or buyouts by founders or management. In contrast, larger businesses, such as conglomerates valued at $120 million or more, may consider IPOs or strategic sales to larger entities. In the SME sector, where investments typically range from $1 to $16 million, exits tend to be smaller in scale.

Ensuring alignment with founders is crucial for a smooth exit process.

Open communication and setting clear expectations with the founder regarding the exit timeline and process can prevent conflicts at the point of exiting an investment and facilitate a more cooperative approach when the time to exit arrives. It is essential to prepare founders for the reality of the exit, emphasising that the goal of the private capital investor is to grow the business to a point where a new partner can take it to the next level rather than viewing the exit as an abrupt end to the relationship. The exit then is not viewed as a divorce but rather as a planned transition where the private equity investor helps the business grow to a certain level before handing it over to a new strategic partner who can take it further. It is crucial to communicate with the founder from the outset about the inevitability of an exit and the mutual goal of scaling the business to a profitable exit point. This proactive communication helps ensure that shareholders do not become apprehensive at the point of exit and that all parties are aligned toward the exit strategy.

Early exit planning from the initial investment stage is crucial, including understanding potential routes to exit and incorporating flexible exit options in transaction documents.

Compared to practices a decade ago, there has been significant improvement in detailing exit opportunities in transaction documents, along with a clearer methodology for executing these exits. The lack of successful exits in the past was not solely due to market liquidity issues or a limited number of buyers but also due to how deals were structured and the transparency with founders regarding the requirements for executing exits.

A well-defined exit strategy- as crafted from the onset of an investment at the point of drafting transaction documents- enables investors to navigate unforeseen challenges more effectively. Historically, transaction documents often had only one exit route or complex structures with minimum hurdle prices, creating unnecessary exit roadblocks. In current practice, It is essential to include multiple exit options in transaction documents, even though this can be a challenging discussion with founders. Including a variety of exit options and outlining a clear methodology for a set period is critical for a successful exit strategy.Further, transaction documentation should be more comprehensive in outlining the envisaged exit strategy, detailing the initiation process, steps involved, timelines, and contingency plans if primary exit strategies do not materialise.

Regarding the viability of unique exit alternatives, put options can be an essential tool in exit strategies, particularly in funds without a self-liquidating mechanism.

However, they are not typically the first choice for investors. Exercising a put option can sometimes misalign the interests of shareholders and the private equity fund, as the family or original owners may feel that the business is growing beyond their ability to buy back the shares. As such, put options are generally used as a defensive mechanism if no buyer is available or if the business underperforms. In some cases, co-investing with a strategic partner offers a clearer path to exit, allowing for a performance-linked return that aligns with the business's growth trajectory.

B. The Role of Fund Transaction Advisors During Exits

Transaction advisors play a pivotal role in the exit process for private equity funds, providing expertise in valuation, negotiation, and deal structuring.

One of the primary functions of transaction advisors is to navigate the complexities of the exit process and ensure alignment of all parties involved in an exit transaction.

This includes facilitating alignment between the various stakeholders, which is critical for a smooth transaction. In scenarios where the founder is also partially or fully exiting their interests in a company alongside the private equity fund, alignment is typically more straightforward as both parties share a common goal of achieving the best possible value. However, when the founder remains in the company while the private equity fund exits, alignment can become challenging. The founder may have less incentive to be involved in due diligence, information flow, and negotiations related to effecting the exit. Yet, their involvement is crucial for providing credibility and ensuring the incoming investor believes in the business strategy.

Advisors can help address these challenges by fostering alignment through strategic structures and incentives. For instance, aligning the founder's interests with the successful completion of the transaction can ensure that they remain engaged throughout the process of effecting the exit. The advisor's role is to identify these alignment areas and work towards achieving them.

Another critical value that transaction advisors bring in exit transaction processes is introducing competitive tension in the sale process.

By selectively identifying potential buyers or investors of the asset being exited, advisors can create a competitive bidding environment that enhances the value realised from the exit. However, this process needs to be carefully managed. Advisors should avoid exposing sensitive financial information and business strategies to unqualified or unserious bidders who could derail the transaction. Advisors must balance attracting enough interest to generate competitive offers while ensuring that only credible and financially capable bidders participate. This selective process helps maintain the integrity of the sale and protects the business's proprietary information.

Transaction advisors provide critical insights into a business's valuation during exit processes, helping to set realistic and achievable price expectations.

Their expertise ensures that all parties have a clear understanding of the value being created and distributed, which is essential for alignment and satisfaction among stakeholders. Advisors also play a role in structuring the transaction, ensuring that the deal terms are favourable and that potential roadblocks are anticipated and mitigated.

The success of an exit transaction often hinges on the chemistry between the founders, exiting investors, and incoming investors or buyers.

Good relationship management facilitated by the advisor can ease tensions, especially during the protracted exit processes that are common in East Africa. Advisors act as intermediaries, managing expectations and facilitating communication to keep all parties aligned and focused on completing the transaction efficiently.

C. Timing and Key Drivers for Tax Structuring in Private Equity Exits

Early planning for tax structuring

The tax framework in any jurisdiction provides the legal guidelines for executing an exit from a tax perspective. These regulations stipulate the necessary steps, the taxes that need to be paid, and the conditions under which taxes should be paid.

Starting tax planning before finalizing the transaction and paperwork- at the point of investment- is critical for ensuring compliance and optimizing tax outcomes.

Tax structuring should begin when negotiating the terms of the investment. Clarity and certainty in tax structuring from the beginning are essential, as they eliminate the need for reactive measures after the transaction has been completed. Early planning ensures that all potential tax implications are considered and addressed in the transaction documents and to further avoid surprises related to unforeseen tax liabilities, which could arise if the tax implications were not carefully considered during the initial structuring of the investment. Early tax planning involves a thorough understanding of the tax laws, identifying advantageous provisions, and recognising potential disadvantages.

Addressing potential tax liabilities and clarity

To avoid issues that might arise from unforeseen tax liabilities, it is vital to include clear clauses in the investment agreements that address potential tax repercussions. These clauses should outline each party's responsibilities regarding any taxes that might arise and provide mechanisms for resolving disputes. Having a well-defined tax strategy and clear documentation from the outset provides all parties with the certainty needed to proceed confidently.

In conclusion, tax structuring is an integral part of exit planning from a private equity investment. It should start early, be based on a thorough understanding of the applicable tax laws, and align with the overall investment and exit strategy. Proper tax planning not only ensures compliance but also optimises the financial outcomes of the exit for all stakeholders involved.

PART 9

Terraforming Regulatory Landscapes for Private Equity: A Case Study of Uganda

Conference Panel Session Contributors:

Doris Odit Acheng, Investment Policy Analyst; and Dr. Henry Honoria, ALP Advocates

---

The Conference featured a closed-door standalone advocacy session titled Stocktaking of Progress and Gap Analysis: Strengthening Uganda's Policy, Legal, and Regulatory Framework to Boost Private Capital Investments and Improve Access to Alternative Finance for Promising Enterprises and Projects. The meeting aimed to track the progress made by the Government of Uganda, the private capital industry, and development actors in increasing alternative capital to businesses. The stocktaking meeting highlighted significant strides in strengthening Uganda's policy, legal, and regulatory framework for private equity investments. EAVCA's collaborative efforts with the Government of Uganda, regulatory bodies, and development actors have laid a solid foundation for further progress. By addressing remaining gaps and focusing on attracting both local and foreign investment, Uganda is well-positioned to boost private capital investments and enhance access to alternative finance, driving economic growth and development in the East African country.

A. Catalyst: A Vehicle for Championing Policy Reforms

Catalyst

[noun | /katəlɪst/]

a substance that enables a chemical reaction to proceed at an unusually fast rate.

In 2021, EAVCA established the Uganda Chapter – through a three-year grant subsidy from the Netherlands Enterprise Agency (RVO) to better serve the interests of its members who are in Uganda as a means of expanding SME financing, including advocating with policymakers on the ground for a more favourable policy, legal and regulatory environment for the private capital industry.

On entry of the Uganda Chapter of EAVCA into the market, there was a general understanding that market interventions alone- such as addressing information asymmetries and aligning the local investment ecosystem- were not enough to catalyze the growth of the private capital industry in Uganda. For maximum scale in catalyzing industry growth and, subsequently, enterprise access to private capital, there was a need to put in place the right policy, legal and regulatory environment under the assumption that investment dollars will follow attractive markets, with the policy framework one of the fundamental indicators of market attractiveness.

Leveraging on its mandate of "voice" granted to it through its membership- private capital providers investing in East Africa- on the set up of a Uganda Chapter in 2021, EAVCA immediately started engagements with Government of Uganda Ministries, Departments and Agencies (MDAs) to advocate for a more favourable investment landscape for private equity funds. Further to the Chapter's task was mapping, identifying and forming solid partnerships and collaborations with others in Uganda who were pursuing the same policy objective of a favourable enabling environment for private capital- including development aid agencies. The rationale for these collaborations was, at the time, to contribute towards the private sector-led economic growth story of Uganda- with private capital as one of the enablers for this growth in its role as an alternative form of financing for enterprise growth.

B. Serendipity: Setting the Stage for Policy Reforms

Serendipity

[noun | /ser-*uh*n-dip**-i-tee/]**

The effect by which one accidentally stumbles upon something extraordinary, especially while looking for something entirely unrelated.

The establishment of EAVCA's Uganda Chapter in 2021 –marked a significant milestone in Uganda's private capital markets, coinciding with notable market and policy developments that set the stage for a series of impactful policy, legal and regulatory developments to incentivise private equity investments. These developments are two-fold: significant market and policy developments.

Notable **market developments** were as follows:

a) **The Deal Flow Facility:** In 2021, the European Union (EU), in partnership with the Uganda Capital Markets Authority (CMA), under the CMA's market-developed function- launched the Deal Flow Facility under the Financial Sector Deepening Uganda (FSD-U) to address deal origination challenges in Uganda as relates to sourcing a viable pipeline of deals. This initiative aimed to build the competencies of promising businesses and match them with private capital investors over five years.

b) **The USAID Feed the Future Uganda Strategic Investments Activity (SIA)**: Concurrently, still in 2021, the United States Agency for International Development (USAID) launched a program to support investment readiness, facilitating de-risking transaction advisory services for businesses seeking private capital and subsequently matching these investment-ready businesses to primarily private capital providers. This was under a programme dubbed the USAID/ Uganda Strategic Investment Activity (SIA), which is also looking to de-risk investment by enhancing investor readiness.

c) **The presence of locally domiciled funds**: Concurrently, at the time of the entry of the Uganda Chapter of EAVCA into the market, the Pearl Capital

Partners managed Yield Uganda Fund- the first locally domiciled and single country focus fund in Uganda had been in the market for five years. Inua Capital was also in the process of setting up and structuring the second locally domiciled fund in Uganda. The presence of these locally domiciled funds not only provided relevant proof of concept for demonstrating the potential of a homegrown private equity industry in catalyzing enterprise growth and access to alternative forms of financing, but also enabled to make the case that there were market actors who were suffering and living and breathing the adverse impacts of the double taxation burden of funds domiciled in the country. In other words, suffering the double taxation challenge, these locally domiciled funds provided an "aggrieved party"- necessary for making a case for the need for policy remedies and relief.

d) **Precedence in previous substantive notable investments in Uganda by the private capital industry**. While aggrieved parties in the previously mentioned double taxation burden faced by local funds were not foreign domiciled funds, by volume, foreign funds have over the years accounted for the bulk of investments, providing a relevant case on the size and scale of the industry as well as the degree of integration into Uganda's economy- needed to make a case for policy reforms on behalf of the industry. The Uganda Chapter also developed robust historical data to map the deal flow development of the industry since 2005, enabling empirical analysis of the industry's aggregate and longitudinal contribution to Uganda's economy.

Notable **policy developments** were as follows:

a) **The Third National Development Plan 2020/21-2024/25**. Uganda's Third National Development Plan (NDP III) – the third iteration of a series of national plans operationalising Uganda's Vision 2040 – states that one of its priorities is mobilizing "alternative financing sources to finance private sector investment". On other aspects, the plan also states as a priority expanding Uganda's foreign direct investment (FDI) stock to the tune of 4.5 per cent of the Country's Gross Domestic Product (GDP)- noting that foreign domiciled funds account for a portion of FDI stock in the country. This inclusion of private capital in national development plans was instrumental in aligning the agenda of the private capital industry with that of the Government of Uganda, as stated in development plans, as it pertains to policy agendas for incentivizing investment by both locally and foreign-domiciled funds.

b) **Leadership by the CMA in market development efforts**: Prior to the 2021 set-up of EAVCA's Uganda Chapter, the CMA, under its market development function, had already been advocating for a favourable policy, legal and regulatory environment for local fund domiciliation as a path to building a local private capital market in Uganda. The Uganda Chapter of EAVCA arrived on the market in 2021 when the CMA was drafting and validating regulations to operationalise the CMA Act (2016) and subsequently proceeded to engage the private capital ecosystem in Uganda on these regulatory frameworks to pressure test the efficacy of proposals

for the industry as part of the public consultations processes. Further, in 2021, CMA had just launched its Strategic Development Plan 2021/22 – 2024/2025, which stated as one of its results areas "Contributing to the increased uptake of market-based financing by Ugandan Business enterprises from 1.5% (2018/19 measure) to 3% of GDP in 2024/25, through alternative financing avenues, like private equity, among others.

c) **A policy diagnostic and roadmap for a favourable policy framework for locally domiciled funds as commissioned by the International Fund for Agricultural Development (IFAD).** Concurrently, still in 2021, at the time, the International Fund for Agricultural Development (IFAD) had also concluded and disseminated a policy diagnostic, drawing up a policy roadmap for enhancing the policy, legal and regulatory for locally domiciled funds in Uganda, particularly focusing on addressing the challenge of double taxation of fund vehicles that are locally domiciled, which at the time suffered an effective tax rate of 65%. These recommendations broadly included amendments to the CMA Act (2016) to allow for the structuring of local funds under partnership vehicles, which automatically enshrine the principle of tax neutrality, as well as amendments of relevant Partnership laws to make provisions for the LLP vehicle more amenable for private equity fund structures. Other recommendations were made on amendments to the relevant domestic tax laws to enshrine the principle of tax neutrality for funds structured as corporate vehicles under the then provisions in the CMA Act (2016), which only allowed for the licensing of corporate structure funds. These recommendations from IFAD's policy diagnostic of the regulatory framework provided the roadmap for EAVCA's and partners' policy agenda as relates to locally domiciled funds.

d) **A policy diagnostic and roadmap for a favourable policy framework for catalysing access to finance as commissioned by USAID.** In 2022, the year after the Chapter's establishment, USAID Feed the Future Uganda Strategic Investments Activity (SIA) independently commissioned a Business, Climate, Legal and Institutional Reform assessment of the legal, regulatory and institutional constraints impeding the Formalisation and growth of Ugandan enterprises operating in target sectors. Through the 2022 assessment, several priority issues hampering investment flows into Uganda were identified for further analysis- one of these being the lack of an extensive network of Double Taxation Treaties (DTTs) – key to protecting foreign investors into Uganda from double taxation and creating an environment of tax certainty, and Bilateral Investment Treaties (BITs) – to protect foreign investors in Uganda from unfair treatment on their investment in the host country, while providing avenues for legal recourse should such unfair treatment occur. These formed the basis for later deeper policy analysis, with the recommendations from the policy diagnostic providing the roadmap for industry policy agenda as relates to foreign domiciled funds looking to deploy capital to Uganda, providing recommendations on enhancing protections for these.

C. Convergence: Working Together Towards Policy Reforms

Convergence

[noun | /kən-ˈvər-jən(t)s/]

The merging of different ideas, or groups, and the process by which they stop being different and become more similar in pursuing a similar goal.

On entry into the Ugandan market in 2021, the Uganda Chapter of EAVCA partnered with the CMA, the EU, and IFAD to champion an enabling environment for locally domiciled private equity funds. Later collaborations with USAID Feed the Future Uganda Strategic Investments Activity (SIA) focused on creating a favourable environment for foreign-domiciled funds through DTTs and BITs. Further, EAVCA leveraged its extensive member network of Uganda-based legal and tax experts to produce robust technical policy recommendations- aligned with international best practices -which formed the basis for the collective and coordinated messaging for needed legal and regulatory reforms for a more vibrant private capital investment ecosystem in Uganda.

Further, leveraging its mandate of "voice", the Uganda Chapter of EAVCA complemented the mandate of another special purpose vehicle – working separately but in strong coordination and alignment- for lobbying for similar objectives, being the Presidential CEO Forum (PCF) to make a case for a favourable policy legal and regulatory framework- with engagements focused primarily on making this case to the country's Finance Ministry- the Ministry of Finance and Economic Development (MoFPED), demonstrating potential economic returns to the country under favourable conditions of expanded private capital investments as catalysed by a favourable policy legal and regulatory framework.

Strong coordination, collaboration and alignment of all the above, all working on achieving the same goal of making Uganda a favourable destination for private capital investing - towards increasing access to finance among SMEs- worked to mainstream private equity issues in regulatory processes, leading to favourable amendments to tax laws in the 2024 tax bills as provisions in the Income Tax and Stamp Duty Amendment Bills 2024. This was later on assented into law in July 2024. This development is groundbreaking and represents the power of collaborative efforts in terraforming regulatory landscapes towards a more favourable regulatory landscape for private capital investing with learnings for other East African markets.

The proposals contained in these 2024 tax bills and subsequent tax frameworks as relevant only to domiciled funds licensed by Uganda's CMA are as follows:

1. **Proposal to exempt income of private equity and venture capital funds regulated by the CMA from taxation at the fund level**. The private capital industry supports the amendments as they align with international best practices on the taxation of private equity funds at the fund level. A private equity fund typically functions as a pooling vehicle, with underlying asset buyers, namely investors - and not the pooling vehicle- liable for tax on income and gains arising from an investment in an asset. As such, for tax purposes, best practice jurisdictions grant private equity funds tax-neutral status, as failing to do so results in double taxation on the same income, as the fund in which an investor has interests is separately tax liable on income. After receiving a distribution from the fund of the same income, the investor is also separately tax liable. Hence, Tax neutrality shields a private equity fund from liability for taxes on income and gains. Prior to the proposals in the 2024 tax bills, In Uganda, prior to the reforms in question, locally domiciled funds registered and incorporated in the Country- under corporate vehicles- did not enjoy a tax-neutral status. Like any other company, a pooled fund had to pay a 30% corporate tax on income at fund level despite also incurring the same 30% at portfolio company level. Investors in the pooled vehicle were also subject to tax as per their jurisdictions and status, which alongside withholding taxes, led to 65% effective tax rate for an investment.

2. **Proposal to eliminate stamp duty charged on transfer of private company shares to a private equity or venture capital fund**. Prior to the amendments to the tax framework as relates to locally domiciled funds, a 1.5% Stamp Duty Tax on the transfer of private company shares from founders to private equity fund is paid at a percentage of the value of the share purchase transaction. This is because it is assumed that the investors (LPs and GPs) have underlying ownership of portfolio companies held in a Fund. Prior to the 2024 amendments to the tax code, Uganda's stamp duty remained the least competitive regionally in East Africa, thus impacting the attractiveness of Ugandan enterprises for investment. For instance, Kenya's stamp duty stands at 1%. At the same time, Rwanda and the Democratic Republic of Congo, both at the time of writing this report, had a zero-rated stamp duty prior to the 2024 amendments to Uganda's tax code, making them more competitive destinations for private equity and venture capital investments. It must be noted that relevant stamp duties still apply to foreign-domiciled funds investing in Uganda as at the time of writing this report.

3. **Capital gains tax reductions.** Capital gains are the main means through which private equity investors generate returns on investment. Prior to the 2024 amendments to the tax code, Uganda's CGT rate was 30%, compared to DRC's 20%, Kenya's 15% and Rwanda's 5%. In an environment where Ugandan opportunities are competing with other countries for capital, this remains a disincentive to investment. An ideal would be to exempt locally domiciled funds from capital gains tax to incentivise further fund domiciliation and further investment in Uganda, which is addressed in the 2024 tax amendments. Further, as relates to foreign domiciled funds, it is important to note that Uganda has one of the highest capital gains tax in East Africa, making it less competitive for investment than peers as capital gains on exit is the main means through which funds earn from an investment. Relevant capital gains taxes still apply to foreign-domiciled funds.

D. Odyssey: The Journey Ahead for Further Policy Reforms

Odyssey

[noun | /ɒd.ɪ.si/]

a long, exciting journey [ahead] on which a lot of things [shall and need to] happen.

I. Gap Analysis: LLP Structuring Options for Local Funds

A private equity fund typically functions as a pooling vehicle, with underlying asset buyers, namely investors - and not the pooling vehicle- liable for tax on income and gains arising from an investment in an asset. As such, for tax purposes, best practice jurisdictions grant private equity funds tax-neutral status, as failing to do so results in double taxation on the same income, as the fund in which an investor has interests is separately tax liable on income. After receiving a distribution from the fund of the same income, the investor is also separately tax liable. Hence, Tax neutrality shields a private equity fund from liability for taxes on income and gains. In Uganda, prior to the tax amendments of 2024, funds incorporated in the country- under corporate vehicles- did not enjoy a tax-neutral status. Like any other company, a fund had to pay a 30% corporate tax on income- which represents. Other taxes due are 30% capital gains tax on income earned on disposal of assets on exit.

This is the pursuit of two routes.

The first route is relief from double taxation at the fund level for funds structured under a corporate vehicle- through an amendment to Uganda's tax code- for funds structured as corporate vehicles. This amendment would recognise funds structured under corporate as tax transparent vehicles -dissimilar from a typical company and acting as a capital conduit through the tax code. This has borne fruit through 2024 Tax Bills- later on assented into law- in which locally domiciled funds are granted exempt status from taxation at Fund Levels.

The second route is relief from double taxation through enhancing the legal and regulatory framework for structuring funds as partnership vehicles- particularly Limited Liability Partnerships (LLPs), which is a structuring option that offers funds automatic tax transparent status.

The more permanent solution of structuring funds under a partnership vehicle- which by design automatically makes funds tax transparent – is also being pursued as a second route. The latter as a partnership is not per se an independent legal person but an extension of the partners therein. This is the more sustainable and natural remedy to eliminating double taxation at the fund level. In 2022, EAVCA, in partnership with the CMA, the EU and IFAD, commissioned a technical legal analysis of the legal framework to facilitate the structuring of funds under partnership vehicles. This was concluded in 2023. The Dutch Embassy in Kampala provided additional support for this commissioned legal analysis.

The next plausible step to achieve the outcome- particularly in enhancing the utility of national laws for structuring funds under partnership vehicles- is Partnership Regulations to operationalise the Partnership Act (2010), which in itself would address the issue of double taxation permanently. This will complement other reforms in Uganda related to facilitating the structuring of funds under partnership vehicles, including the envisaged review of the CMA Act (2016) to allow for the licensing of funds structured as partnerships and unit trusts, in addition to the corporate vehicles permissible under law.

In addition to reforms relevant to corporate structured vehicles through amendments to the tax code in 2024, pursuing this second route towards enhancing the utility of frameworks for structuring under LLPs- the preferred structure granting funds- as conduits for capital pooled by multiple investors- tax neutral status- would further cement Uganda's position as an emerging favourable onshore fund domiciliation jurisdiction in East Africa and Africa.

II. Gap Analysis: Double Taxation Treaties for Foreign Funds

The 2024 amendment to the tax framework for private equity in Uganda represents a groundbreaking win for the private equity industry, but only for locally domiciled funds, necessitating future advocacy efforts to make Uganda more attractive to foreign funds through instruments such as Double Taxation Treaties (DTTs) essential for the industry's economic impact. Further, as locally domiciled funds adopt multi-country investment strategies, DTTs will be helpful in facilitating the deployment of capital beyond Uganda. In Uganda, the Income Tax Act Cap 340 ("ITA") provides the legal framework for taxation of entities and persons. Section 88(2) of the ITA prescribes that the terms set out under DTTs will supersede those of domestic laws. Hence, where these do not align with the provisions present in domestic fiscal law, the DTT provisions will be accorded as prevailing. Hence, where domestic tax laws do not provide protection coverage for foreign-domiciled funds investing in Uganda, DTTs will achieve this, and this must be vigorously pursued.

Issue No.	Common Issues	Common Remedies	Legal Provisions/ References
1	Defining eligible persons under treaty coverage to include partnerships	Expand the definition of eligible persons to include tax-transparent partnership vehicles, especially LLPs, under the definitions section of treaties as aligned with Article 3 of the UN model, which defines a "person" as a "body of persons." This will provide treaty benefits to private equity investors who structure their investment vehicles as partnerships.	Article 3 of the UN Model
2	Establishing time thresholds for tax exemption for short-term business activities	Align time thresholds for exemption with the 6 months set out in the UN model or with the 4 months prescribed in some existing treaties. This approach balances investor interests and the government's revenue mobilisation objectives.	Article 7 of the UN Model
3	Providing clarity on the permanent establishment status of insurance agents and brokerage services	Remove conditionalities associated with qualifying insurance agents and brokerage services as permanent establishments to include them in accordance with revisions to Article 5(5,6) of the OECD Model Convention on Prevention of Treaty Abuse. Careful examination is, however, required to ensure these anti-treaty abuse provisions don't hamper the growth of the insurance industry.	Article 5(5,6) of the OECD Model Convention
4	Providing greater tax relief (reduced rates) at Source Country on withholding tax on dividend payments to foreign investors with controlling stakes	Grant non-tax resident direct shareholders of an asset in Uganda a discounted withholding tax rate of 5%. In comparison, those with non-controlling interests may be subject to higher rates capped at 15% under the UN model.	UN Model on Withholding Tax
5	Providing full tax relief (zero rates) at Source Country on withholding tax on interest payments to non-resident banks and non-bank financial institutions	Implement zero-rated or substantively reduced withholding tax on interest payments to government, central banks, commercial banks, and other non-bank financial institutions to facilitate greater capital inflow for enterprise financing.	Best practice from other treaties
6	Allocating taxing rights for capital gains tax on disposal of shares held in a company to Uganda	Ensure consistency by allocating taxing rights on capital gains from the disposal of shares to the Source Country (Uganda) while providing zero-rated or reduced capital gains tax to encourage foreign investment.	UN Model on Capital Gains Tax
7	Providing greater clarity on the treatment of capital gains tax on disposal of shares through offshore indirect transfer of ownership	Align treaty provisions with Article 13(4) of the UN Model to ensure gains from offshore indirect transfers are subject to taxation if the parent company asset disposed of offshore derives 50% or more of its Net Asset Value from immovable property in Uganda.	Article 13(4) of the UN Model
8	Clarifying time thresholds for withholding tax exemption on fees for technical and professional services	Adopt a time threshold of 4 months (one calendar quarter plus one month) for services to qualify as tax-exempt, as successfully implemented in treaties with Mauritius and the Netherlands.	Treaties with Mauritius and the Netherlands

Issue No.	Common Issues	Common Remedies	Legal Provisions/ References
9	Provisioning for anti-treaty abuse with special considerations for private equity funds	Incorporate explicit, updated anti-abuse and anti-treaty shopping provisions while considering exceptions for private equity funds to address challenges with the "stock exchange test," "active trade or active business test," and the "derivatives benefit test" under the LOB rule as these- designed with multi-nationals, and not private equity in mind- would exclude private equity funds from accessing benefits treaty. The Principle Purpose Test (PPT) – which is subjective, should also be carefully applied to avoid disincentives for private equity investments.	BEPS Actions 6 and 7, LOB Rule, PPT

III. Gap Analysis: Bilateral Investment Treaties for Foreign Funds

As complementary tools to DTTs, BITs will be vital to attracting FDI to Uganda as BITs provide investors with defined treatment standards, creating a framework of rights. The purpose of these standards is to ensure equal footing with both domestic and international investors, protecting them from discriminatory or arbitrary actions by host country authorities and mitigating various forms of political risk. Typically, these rights are supported by the option of a dispute resolution mechanism, enabling aggrieved investors to resolve disputes with the host government on the grounds of unfair treatment of their investment interests through arbitration. BITs encourage foreign investment by ensuring equitable treatment, protected returns, money transfers, and expropriation safeguards. Where there is a standing treaty between two countries, and foreign investors in a host country believe that the government has breached the guarantees and protections enshrined in treaties, the investor has the right to seek out awards on claims through an arbitral tribunal- hence creating legal certainty for investors on protection of their interests.

Issue No.	Common Issues	Common Remedies	Legal Provisions/ References
1	Most Favoured Nation (MFN) provision for equal treatment of foreign investors	Review and update treaties to exclude coverage of bilateral and multilateral double taxation agreements from MFN protections. This adjustment will ensure that investors receive equal treatment on investment, enhancing clarity and curbing the importation of preferential terms from regional economic agreements such as the EAC protocol.	MFN Clauses, EAC Protocol
2	National Treatment (NT) provision for equal treatment of foreign and domestic investors	Incorporate carve-outs and exceptions explicitly recognising the government's right to provide preferential treatment to its citizens in strategic sectors. These sectors should be explicitly outlined in treaties to eliminate ambiguity and align with the government's strategic objectives in supporting critical sectors through targeted preferential treatment for domestic investors.	NT Clauses in existing treaties

Issue No.	Common Issues	Common Remedies	Legal Provisions/ References
3	Fair and Equitable Treatment (FET) and Expropriation provisions	Clearly define "unfair treatment" in FET provisions to provide foreign investors with clarity on what constitutes a breach of guarantees and to safeguard the government's regulatory authority. This adjustment will mitigate the risk of arbitral claims while ensuring investors understand when to trigger investor-state dispute settlement (ISDS).	FET Clauses in existing treaties
4	Unrestricted cross-border fund transfers	Explicitly enshrine the government's right to regulate cross-border capital flows during balance of payment difficulties in future treaties. This approach will allow unrestricted repatriation of funds under normal conditions while recognising the government's authority during economic challenges.	Provisions on fund transfers in existing treaties
5	Public policy exceptions	Outline explicitly in the treaty the particular circumstances and exemptions that permit government deviation from treaty terms. This provision will provide foreign investors with explicit assurances that the government will not abuse public policy exceptions to deny investors their rights.	Public policy exception clauses in existing treaties
6	Diverse avenues of legal recourse for foreign investors	Explore diverse ISDS mechanisms in future treaties, including amicable resolution, local judicial remedies, and international arbitration. Best practice treaties should not limit international arbitration to ICSID alone, ensuring a balanced approach to resolving investor-state disputes.	ISDS provisions in existing treaties, ICSID Convention
7	Curtailment of treaty shopping and round-tripping	Define an investor to restrict treaty shopping and round-tripping by requiring substantive business operations in their home country or stipulating that investments must be made in accordance with host country laws. Exceptions should be explicitly made for private equity investments, considering their model of intermediating investments through special purpose vehicles typically domiciled in an international financial centre.	Anti-treaty shopping provisions

IV. Gap Analysis: Priority Sectors-Productive Use of Energy

Issue No.	Common Issues	Common Remedies	Legal Provisions/ References
1	High Initial Costs	Provide financial incentives such as subsidies, low-interest loans, and grants to reduce the initial costs of PUE technologies. Develop dedicated financing programs targeting small and medium enterprises (SMEs) to facilitate their access to PUE technologies. Collaborate with financial institutions to create favourable financing conditions for PUE investments.	Subsidies, Low-interest loans, Grants, and Financing programs for SMEs

Issue No.	Common Issues	Common Remedies	Legal Provisions/ References
2	Policy Gaps	Update and strengthen existing policies to support the integration of PUE technologies across different sectors. Introduce specific measures to address policy gaps and promote the adoption of PUE technologies. Ensure that policies are inclusive and consider the unique needs of different sectors, such as agriculture, manufacturing, and services.	Updated policies, Sector-specific measures
3	Limited Access to Financing	Develop and promote financing mechanisms that provide affordable and accessible credit to businesses and individuals. Collaborate with international donors and financial institutions to offer grants, low-interest loans, and results-based financing. Encourage private sector investment through incentives and support mechanisms that reduce financial risks.	Affordable financing mechanisms, Grants, Low-interest loans, Results-based financing
4	Inadequate Infrastructure	Invest in infrastructure development to support the deployment and operation of PUE technologies. Ensure that necessary infrastructure, such as reliable power supply, transportation networks, and communication systems, is in place to facilitate the use of PUE technologies. Promote public-private partnerships to develop and maintain infrastructure projects that support sustainable energy use.	Infrastructure development, Public-private partnerships
5	Lack of Awareness and Technical Capacity	Implement capacity-building initiatives to train local technicians, entrepreneurs, and end-users on the installation, maintenance, and use of PUE technologies. Provide technical support and advisory services to businesses and individuals adopting PUE technologies. Launch awareness campaigns to educate the public and stakeholders about the benefits of PUE technologies and their role in sustainable development. Advocate for the integration of PUE technologies into national and regional development plans to ensure long-term commitment and support.	Capacity-building initiatives, Technical support, Awareness campaigns, Development plans
6	Fragmented Policies	Enhance policy coherence and integration by ensuring alignment among various policies such as the Climate Change Policy, Energy Policy, and Agriculture Sector Strategic Plan. Develop a unified approach that coordinates efforts across multiple sectors, facilitating a holistic strategy towards green economy initiatives.	Climate Change Policy, Energy Policy, Agriculture Sector Strategic Plan
7	Insufficient Legal Framework	Strengthen legal and regulatory frameworks by developing and enforcing regulations under the Climate Change Act to include carbon capture, markets, and clean fuels. Amend existing environment and sector-specific laws to facilitate the adoption of renewable energy technologies and green infrastructure.	Climate Change Act, Environment and sector-specific laws

Issue No.	Common Issues	Common Remedies	Legal Provisions/ References
8	Limited Financial Incentives	Promote tax incentives for PUE technologies by implementing tax exemptions for a broader range of PUE components, including solar panels, lithium-ion batteries, and clean cooking technologies. Extend VAT exemptions to individual components of PUE systems like solar pumps and clean cooking appliances. Introduce performance-based tax exemptions to reduce upfront costs for businesses investing in PUE technologies.	Tax exemptions, VAT exemptions
9	Lack of Awareness and Capacity	Conduct capacity-building programs to enhance stakeholders' understanding and ability to implement green economy initiatives. Raise awareness about the benefits and importance of renewable energy and energy efficiency in achieving sustainable development goals. Implement training programs and public awareness campaigns to educate stakeholders and the general public.	Capacity-building programs, Training programs, Public awareness campaigns
10	Expand Financing Mechanisms	Increase funding through government initiatives such as the Energy Access Scale-up Project and micro-irrigation schemes. Leverage donor grants and results-based financing programs to support the market expansion of PUE technologies. Encourage third-party financing by developing de-risking methods and allowing PUE assets to be used as collateral. Promote collaboration with financial institutions to provide affordable loans and financial products tailored to renewable energy investments.	Energy Access Scale-up Projects, Micro-irrigation schemes, Donor grants, and Results-based financing projects.
11	Fragmented Policies	Enhance policy coherence and integration by ensuring alignment among various policies such as the Climate Change Policy, Energy Policy, and Agriculture Sector Strategic Plan. Develop a unified approach that coordinates efforts across multiple sectors, facilitating a holistic strategy towards green economy initiatives.	Climate Change Policy, Energy Policy, Agriculture Sector Strategic Plan

PART 10

The Nexus of Development Aid and Private Capital: A Case Study of Uganda

Conference Speaking Contributors:

Daniele Nyirandutiye, USAID/ Uganda Mission Director; William John Nyakatura, Strategic Investments Activity, Chief of Party, Crisitna Banuta, Programme Manager Access to Finance, Climate Finance, Agribusiness and Land, European Delegation to Uganda

---

Achieving development goals in East Africa, such as improved health, education, prosperity, and empowerment, requires more than government and donor efforts alone. The private sector's involvement is crucial for sustainable change that is aligned with the Sustainable Development Goals (SDGs). Development aid agencies have played a pivotal role in facilitating commercial investments to promote development objectives across the region, recognising that sustainable economic development must be private sector-led. In East Africa, USAID and the EU have been instrumental in aligning development aid with private capital investments supporting policy and market interventions. They have implemented interventions to stimulate and unlock private capital in critical sectors such as agriculture, healthcare, environmental conservation, tourism, and energy. Strategic initiatives, policy support, and innovative tools like digital deal rooms and enterprise platforms are essential in bridging financing gaps and supporting SMEs. These efforts create an enabling environment for private sector growth. Through these interventions, development agencies significantly contribute to a thriving private capital ecosystem, effectively bridging the access-to-finance gap in the region's private sector.

A. USAID: Strategies for Enhancing Private Capital

The donor landscape in Uganda and across East Africa is broad and diverse. For over 60 years, the United States (US) government has collaborated with other donors and numerous public and private partners to help host countries achieve their development goals for health, education, prosperity, and empowerment of their people. While Uganda and other East African countries have made significant strides in sustainable economic development aligned with the Sustainable Development Goals (SDGs), these goals cannot be achieved by governments and donors alone. To facilitate sustainable development, development actors see an opportunity to collaborate in incentivising commercial investment.

Through strategic initiatives, policy support, and partnerships, the US government, primarily through USAID, plays a pivotal role in expanding private capital investing in East Africa. By making businesses investment-ready, enhancing the attractiveness of investment opportunities, supporting an enabling environment, and fostering partnerships, USAID helps bridge financing gaps and supports sustainable economic development aligned with the SDGs.

I. USAID's Four-Pronged Approach to Facilitating Investment

- *Approach 1. Making Businesses Investment Ready*

USAID facilitates domestic and foreign commercial investments to promote development objectives through various initiatives. One notable intervention is the USAID Feed the Future Strategic Investments Activity (SIA), which aims to catalyse private sector development by making businesses investment-ready. SIA provides business development assistance through a network of technical advisors, helping SMEs articulate their value propositions, establish robust management and accounting systems, and document their impact and profitability to attract financing effectively. SIA's business pipeline is drawn from various sources, including walk-ins, upcountry conferences, roadshows, and a digital connection with the Uganda Investment Authority's National SME portal. Through a network of partners, SIA addresses deficiencies in financial management and governance, facilitating the path to deal closure. Businesses that meet SIA's criteria engage with their investment team for statutory documentation, financial vetting, and physical due diligence.

- *Approach 2. Making Investment Opportunities More Attractive*

USAID supports investment by making opportunities more attractive through tools like first-loss guarantees for SMEs that offer significant potential but lack collateral. By partnering with local, regional, and international financial institutions and businesses, USAID mobilises private investment. For example,

USAID's partnership with financial institutions- primarily commercial banks- in Uganda, like Centenary Bank and DFCU Bank, provides financing to farmers and SMEs. In Uganda, where SMEs constitute 90% of the private sector and contribute 70% of GDP, these interventions are crucial. USAID's facility with DFCU Bank, which offered average loans of $27,000, demonstrated the effectiveness of additional business development support in maintaining a low default rate of less than 7%.

- *Approach 3. Supporting an Enabling Environment*

USAID works with the Ugandan government and counterparts like the Uganda Investment Authority and the Ministry of Finance, Planning, and Economic Development (MoFPED) to create a conducive environment for capital flow. This involves policy analysis and reforms in tax and investment protection policies, facilitating a more favourable investment climate.

- *Approach 4. Fostering Partnerships for Commercial Investments*

In a world that is interconnected, recent shocks such as the COVID-19 pandemic and a challenging macroeconomic context underscore the need for ecosystem collaboration with shared development objectives of catalysing private sector investment. Partnerships are at the heart of economic development, and USAID emphasises the importance of cultivating these across the private sector, government, and civil society. The United States government is committed to engaging with traditional and non-traditional partners to innovate and meet the needs of the private sector, building an inclusive ecosystem that provides opportunities for SMEs to thrive and access necessary financing, contributing to a stronger, healthier, and more prosperous Uganda.

II. Case Studies: USAID's Interventions for Catalysing Investment Through Business Development Services Support to the Private Sector

- *Case Study 1: Company A*

Company A sought to expand into manufacturing rapid diagnostic tests for HIV and malaria, as well as vaccine production. The need for expanded vaccine manufacturing capabilities became apparent after COVID-19. USAID Feed the Future Uganda Strategic Investments Activity (SIA) provided commercial support, due diligence, and other business development support services to Company A, enabling the company to secure $6.75 million from a local development bank. This funding is crucial for enhancing local healthcare manufacturing capacity and addressing critical public health needs.

- *Case Study 2: Company B*

Company B has developed a unique business model centred on converting petrol-powered commercial motorbikes, commonly known as boda bodas, into electric bikes. Additionally, Company B manufactures lithium-ion batteries and has

established a network of 55 battery swap stations across Uganda, allowing commercial motorcycle riders to quickly exchange depleted batteries for charged ones. USAID Feed the Future Uganda Strategic Investments Activity (SIA) supported Company B in securing $3 million in financing from a financial institution specialising in affordable loans for two-wheelers and three-wheelers. This investment allowed the financial institution to receive an equity stake in Company B, creating a mutually beneficial transaction for both parties. This support has enabled Company B to expand its innovative solutions, promoting sustainable transportation and economic growth in Uganda.

III. Case Studies: USAID's Interventions in Leveraging Digital Tools to Promote Access to Finance

- *Case Study 1: Digital Investor Deal Room*

Connecting SMEs with investors can be daunting, especially for agribusinesses seeking to secure financing for growth. To address this challenge, USAID Feed the Future Uganda Strategic Investments Activity (SIA), on June 13th, 2024, launched a digital investor deal room aimed at bridging the gap between SMEs in agriculture and related sectors and potential investors. This initiative streamlines the deal origination process in East Africa and Uganda, enhancing data security and enabling businesses in remote locations to present their ideas to a global audience of investors. USAID Feed the Future Uganda Strategic Investments Activity (SIA) supports the digital deal room, working to identify, support, and connect enterprises to bridge the financing gap. The deal room facilitates efficient, tech-enabled deal-making, providing access to a diverse range of investors while ensuring data protection and privacy. It features a centralised document management process, ensuring investors have access to comprehensive information on deal opportunities of profiled businesses. The pilot phase includes 25 investment-ready businesses, and with this support, it is envisaged that investors can more efficiently deploy capital to these enterprises, fostering sustainable economic growth in Uganda.

- *Case Study 2: Uganda National SME Portal*

USAID has collaborated with the Uganda Investment Authority to develop the Uganda National SME Portal. On this digital platform, businesses can find information and services and register their profiles as they seek financing and investment. Investors can use the portal to identify businesses to invest in, making it a significant tool for fostering partnerships. Launched in 2022, the portal has been a game-changer, facilitating over 200,000 sales transactions, enabling more than 60% of the SMEs onboarded to use it as a trading e-commerce platform for agricultural products, and helping create 4,000 jobs.

B. EU: Leveraging Private Capital for Sustainable Development

Development actors believe that private capital can be leveraged to achieve SDGs. Mobilising private capital is critical to bridging the private sector financing gap, which is estimated at $2.5 trillion annually for developing countries. This financing gap underscores the immense scale of resources needed to address critical areas such as poverty alleviation, health, job creation, infrastructure, and climate change mitigation. The International Labor Organization (ILO) estimates that SMEs represent over 70% of global jobs and 50% of global output (GDP). Therefore, SMEs need to be at the heart of closing the labour gap in Africa by providing jobs. The entrepreneurial spirit is ever-present in Africa, particularly in Uganda and East Africa, where one out of five working Africans start their businesses at some point. Some do it out of necessity, but many are driven by the desire to grow their businesses, create jobs, and contribute to their communities.

However, SMEs often do not receive the right financial solutions to grow. They are typically too large to qualify for financing from microfinance institutions and too small for the financing tickets available from commercial banks and DFIs. This is commonly referred to as the "missing middle" challenge.

I. The EU's Approach to Catalysing SME Financing

The European Union, together with its partners, uses all the instruments in its toolbox to catalyse and direct financing towards the missing middle in the spectrum of commercial enterprises seeking financing. Primarily, the EU pools public and private funding in structured and blended finance vehicles that offer flexible, risk-tolerant capital solutions to SMEs. These initiatives are implemented both globally and through country-specific portfolios, ensuring that SMEs receive the support they need to thrive and drive sustainable development.

II. The EU's Global Initiatives for Bridging Financing Gaps

The EU's global initiatives for bridging the access to finance gap are part of the EU's broader global strategy known as the Global Gateway. The EU Global Gateway is a comprehensive strategy aimed at enhancing global connectivity and fostering sustainable development through strategic investments. By mobilising public and private capital, the Global Gateway seeks to bridge the financing gaps in critical sectors such as digital, climate and energy, transport, health, and education. This initiative emphasises the importance of creating resilient infrastructure, promoting sustainable growth, and improving socio-economic conditions across partner countries. The Global Gateway leverages financial instruments such as guarantees,

blended finance, and technical assistance to de-risk investments and attract private sector participation. By focusing on collaborative and inclusive partnerships, the Global Gateway underscores the EU's commitment to driving global progress and achieving the SDGs.

Notable initiatives for bridging access to finance gaps in this context include:

- *European Fund for Sustainable Development (EFSD)*

The EFSD provides financial guarantees, blended finance, and technical assistance to help de-risk and mobilise private capital. These guarantees are deployed through eligible DFIs, which can then invest in or guarantee banks and funds, enabling them to extend their reach. Three blended funds active in the agricultural sector that the EU is invested in include the Agribusiness Capital Fund (ABC Fund), the Huruma Fund, and the African Agriculture Trade and Investment Fund.

- *Blended Facilities Focused on the Agricultural Sector*

The EU has established several blended facilities focused on the agricultural and sustainable energy sectors:

a) EDFI AgriFI: An EU-funded agricultural financing initiative and blending facility aimed at unlocking capital, accelerating, and leveraging investments with a value chain approach in developing countries. AgriFI has invested in Uganda's Inua Capital, the first-ever gender-lens impact investment fund in Uganda and the second fund to domicile in Uganda.

b) ElectriFi: An EU-funded impact facility that finances early-stage, small-sized projects focused on electricity access generation from sustainable energy sources in emerging markets. ElectriFi has invested in a company whose business model is converting petrol-powered commercial motorbikes, as previously cited under the USAID case study.

c) Investing in Young Businesses in Africa Initiative: A Team Europe initiative targeting support for promising young businesses across Africa, this initiative addresses the entire ecosystem of organisations supporting young entrepreneurs, including business incubators and accelerators to impact investors. The initiative comprises financial instruments such as financial guarantees and blended finance that lower the risk of investing in young businesses. It also offers technical assistance in the form of business skills mentoring and networking.

Through these initiatives, the EU is actively working to bridge the financing gap in developing countries by providing essential financial tools and support mechanisms to foster sustainable development and economic growth.

III. The EU's Uganda Portfolio Relevant to Private Capital

The EU's Uganda portfolio for private sector development is broad and not comprehensively covered here. The below focuses on interventions relevant to private equity investing in Uganda.

❖ *The EU's Sustainable Business Platform for Uganda (SB4U)*

The EU's Sustainable Business Platform for Uganda (SB4U) is a key initiative aimed at improving investment flows and promoting a partnership of equals by bringing together the Ugandan and EU private sectors, as well as the public sectors of both Uganda and EU member states. This initiative aims to identify and address challenges in the enabling environment that hinder private sector growth, such as inadequate workforce skills and limited access to finance.

Through various initiatives, SB4U plays a pivotal role in catalysing private sector growth in Uganda by addressing key barriers and facilitating access to essential resources and partnerships. Key Components and Initiatives:

a) Business to Business (B2B) Events: SB4U organises events like the Uganda/EU Business Forum, which facilitate networking and collaboration between businesses from both regions. These events are crucial for fostering relationships and identifying mutual opportunities for growth and investment.

b) Digital Access to Finance Platform: A recently launched digital platform under SB4U provides businesses with a comprehensive list of potential financing programs and investors. This platform helps businesses navigate the landscape of available financial resources, making it easier to secure the necessary funding for growth and development.

❖ *The EU's The Deal Flow Facility (DFF)*

The Deal Flow Facility (DFF) targets businesses in need of financing exceeding EUR 500,000 and prepares them for private capital investment. By providing business development services and technical assistance, the DFF ensures these businesses become investor-ready, enhancing their attractiveness to private capital investors. The DFF plays a vital role in bridging the financing gap for larger-scale investments, fostering economic growth, and enhancing the investment landscape in East Africa.

Key Components and Initiatives:

a) Business Development Services and Technical Assistance: The DFF offers comprehensive support to businesses, helping them improve their operations, financial management, and overall readiness for investment. This support is crucial for businesses to meet the rigorous standards expected by private capital investors.

b) Digital Platform for Investor Linkages: Through a digital platform, the DFF facilitates connections between businesses in its portfolio and a curated list of investors interested in opportunities in the East African region. This platform streamlines the deal origination process, making it easier for businesses to find suitable investors and for investors to discover promising investment opportunities.

IV. Case Study: The Yield Uganda Investment Fund ("The Yield Fund"): The EU's Innovative Approaches to Building a Local Private Equity Industry Such as to Expand Access to Finance

The EU spearheaded the Creation of the Yield Fund nearly a decade ago. The Yield Fund was the first impact investment fund domiciled in Uganda. It focuses on agribusiness SMEs. In the EU's entire global development corporation portfolio, its interests in the Yield Fund are the only ongoing intervention that the EU has, which is done at the country level, which makes it innovative. The Yield Fund is managed by Pearl Capital Partners (PCP).

The EU channelled its capital into the fund through the International Fund for Agricultural Development (IFAD), which manages the EU's interests in the Yield Fund. IFAD also manages the business development facility on behalf of the EU, which is used to support the Yield Fund portfolio companies. The EU's capital investment also acted as a guarantee for other investors to invest in the fund as we were raising for the fund several years ago. These investors included the Uganda National Social Security Fund (NSSF), Finn Church Aid Investments (FCAi), and the Open Society Foundation (OSF). These investors took a bet on this innovative fund at a time when a single country and single sector focus fund was considered extremely risky and out of the conventional norm.

Since 2014, the Yield Fund has invested in 15 agribusinesses, and as of 2023, the fund was fully invested. The investments were driven by business cases and the potential impact they could have on the lives of supplying farmers, employees, companies, distribution channels, and the ecosystem. With investors such as the EU

and IFAD, monitoring the impact has been at the core of the monitoring journey of the Yield Fund. In June 2024, the Yield Fund announced a successful exit from one of its portfolio companies, which shows that it is possible to do good and generate impact while also generating returns.

The Yield Fund's journey as the first fund ever domiciled in Uganda also served as a case study in terms of regulatory and fiscal challenges when it comes to fund domiciliation in Uganda. With the Yield Fund, the industry was able to discover that Uganda's legal framework for the domiciliation of private equity funds was unfavourable primarily due to a lack of flexible fund structuring vehicles.

The EU has supported the industry alongside EAVCA in championing a favourable policy environment for local fund domiciliation in Uganda. In 2024, we start to see the results of these efforts as the asset class enjoys the first set of notable policy reforms to eliminate the challenge of double taxation at the fund level (COVERED IN PART 9 OF THIS REPORT).

APPENDIX:

EAVCA 2024 CONFERENCE SPONSORS & PARTNERS

SPONSORS

PLATINUM

GOLD

SILVER

BRONZE

NETWORKING SPONSOR

MEDIA PARTNER