BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

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

BY

TANATSWA KELVIN GWESU

B1850065

A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT FOR THE REQUIREMENTS OF THE BACHELOR OF BUSINESS STUDIES HONOURS DEGREE IN BANKING AND FINANCE

JUNE 2022

Approval Form

Title of the dissertation : An assessment of private equity as an alternative financing option for private companies in Zimbabwe

To be completed by the student :

I certify that this dissertation is in conformity with the preparation guidelines as presented in the Faculty and instruction for typing Dissertations.

(Signature of Student) (Date)

1. To be completed by the supervisor :

I certify , to the best of my knowledge that the required procedures have been followed and the preparation criteria have been met for this dissertation.

(Signature of the Chairman) (Date)

Release Form

This dissertation is dedicated to my family and friends.My heart felt gratitude goes to my loving mother and my father for their unwavering support and love throughout my studies. Finally , all glory be unto God for without whom this dissertation might not have been written and to whom I am greatly indebted.

Dedications

My deepest gratitude goes to my parents R and M. Gwesu as well as my sister Tatenda for being the perfect role models. Your constant support, encouragement and inspiration throughout this entire degree programme kept me going.

Acknowledgements
Firstly, I would like to appreciate Mr Njanike for his patience, thoughtful advice, ideas and encouragement throughout the entire research project. I would also like to acknowledge my colleagues; Tapiwa Munyayi, Marshall Chapfika , Shadreck Chimbo for their support during this project. It would not have been possible to complete this project without the time and assistance offered by the respondents in completing the research questionnaires and allocating their precious time for interviews.

Abstract

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

Table contents

List of Tables

List of Figures

CHAPTER 1
INTRODUCTION

1.1 Introduction

The private equity is fast becoming an attractive alternative investment asset class, its growing in leaps and volume the reason for such growth mainly comes from plugging the funding gap in the market and at the same time offering superior returns and portfolio diversification. This chapter sequentially include back ground of the study , statement problem , research objectives , research questions significance of the study .Other issues contained in the chapter include scope of the study , Assumptions made in carrying out the study and limitations encountered in conducting the research are also outlined.

1.2 Background of study

As result of the Global Financial Crisis (GFC) of 2008 the financial sector in United States of America reported huge losses, necessitating increase in capital for resuscitation, yet the private equity industry had about US$400 billion in excess of available funds. The demand for capital by the financial sector could not be accessed from public market hence the financial services sector turned to private equity as source of capital.

More so a study in 2010 showed that prior Global Financial Crisis across the world credit was available and relatively cheap but Since the GFC risk has been repriced and banking funding was significantly restricted and credit conditions were tightened on both price and quantity this restricted the financing options available to private companies around the world , (Wendell ,2010).The improved and tightened bank regulations under Basel III affected capital required by banks and the CAR (capital adequacy rate) increased by 7%, this resulted in reductions in loans issued , increase in cost of capital (rates & fees) as well as credit distribution. This resulted increased shortage or absence of capital in Europe and America , Wendell (2010) also revealed that perfectly good companies no longer have access to bank market at all , there is no door to knock . According to Emerging Markets Private Equity Association (2012) reported that banks have retreated from emerging markets thus necessitating of non banking intermediation to fill a growing finance gap. In addition private companies that have lost market to bank have utilized private equity funds to fill the gap between internal financing and traditional market sources. (Public equity and bank loans).

In Chile commercial banks and other lending organizations partially offered entrepreneurs with short term capital needs but were reluctant to provided long term equity funding owing to the failure rate of startup ventures and high transaction costs. This presented a funding gap ,however in response to this gap the Chilean government intervened with institutional frameworks and fiscal regimes promoting private equity and that has led to innovative taxation structure that enabled foreign investment rewards for long term capital commitments .

Private equity has indeed gained attention as an alternative source of capital for private companies. **Dickson (2010)** stated that demand for capital in developing economies is high for both large , established and young innovative companies. Private equity may serve a useful role in filling the gap between self financing and capital markets activity , for African continent's dynamic and growing private enterprises. Furthermore Dickson (2010) noted that even large companies in Africa have a great challenge in raising capital at competitive rates through conventional channels such as borrowing from bank and issuing public securities. Such companies are constrained in their competitiveness and growth when capital is unavailable and unfordable.

The key to the effectiveness of the private equity model is addressing funding needs of African companies and creating profit for investors but also engenders economic and social benefits for customers this results in indirect effects on stability and vibrancy of local and regional economies. At the same time private equity channels allows significant flow of international capital into Africa ,(Alemayehou and Kimball , 2014).

The persistent economic challenges in Zimbabwe have diminished investor confidence. However the situation has presented opportunities for private equity and venture capital funds with high risk appetite. (Mpofu and Sibanda ,2015).Furthermore , Mpofu and Sibanda (2015) indicated that the inability of the existing companies in the country to replace capital lost due to limited financial resources in the banking sector compounded high interest rates , short term funding also promotes the existence of private equity and venture capital fund as it provided an alternative funding for private companies. This has prompted the research to assess the use of private equity by Zimbabwean private companies as an alternative funding options.

1.3 Problem statement

Zimbabwe has witnessed the mushrooming of new venture or companies which has augmented the demand for capital to finance their operation. However these newly formed ventures have failed to access long term capital form traditional sources such a banks and listed markets due to their high risk profile and lack of collateral .The study seek to assess the use of private equity by Zimbabwean private companies as financing options to plug the capital gap.

1.4 Research objectives

The main objective of this study is to investigate the degree to which private equity addresses the financing gap in Zimbabwe

Sub objectives

i. To find the insights towards the use of private equity by private company owners
ii. To explore the awareness of private equity among private companies
iii. To uncover the prevailing challenges of private equity growth in Zimbabwe
iv. To assess the performance of private equity investments

1.5 Research Questions

i. To what extant has private equity addressed the funding or capital gap for companies in Zimbabwe ?
ii. How is private equity financing perceived by private companies ?
iii. To what extent are private companies aware of private equity as a financing option?
iv. How are existing private equity investments performing in Zimbabwe

1.6 Significance of the study

The study aims to benefit private business community to gain extensive insight on the upsides of using private equity as a financing option in contrast to other financing options .The study would be useful to provide awareness and well as mitigating the bias around private equity as an alternative financing source. The study uncovers the performance of private equity climate in Zimbabwe which likely assist potential investors to make informed decision in terms of choosing the country as safe investment destination.

Ultimately, It also brings personal gains in the form of expertise in the finance subject and this is the start of a lifetime's special interest. It enhances several generalizable skills such as scientific writing, statistics, running projects, computer literacy, and evaluation of published papers. All of these skills might be fundamental in consultant roles, which may arise in future

1.7 Scope of the study

The study centered its focus at the use of private equity as an alternative financing option by private companies in Zimbabwe between 2010 and 2020 .The research focused on private companies that are not listed on the Zimbabwe Stock Exchange that span across different sectors of our economy.

1.8 Assumptions of the study

The study assumed that :

- In Zimbabwe private companies are not fully aware of private equity as a financing option for their business
- The adoption of multicurrency system resulted in financial stability of the country and this likely attracted private investment

1.9 Limitations

The limitations of the study are noted as follows:

- Unavailability of data was a great challenge in collection of data , the research used questionnaires and interviews to collect data
- The researcher spends considerable amount of time explaining the concept to majority of targeted respondents due to limited knowledge on the private equity concept
- The covid 19 crisis resulted in some inconsistencies in data analytics.

1.10 Definition of terms

Private equity – is capital provided outside public markets

GFC – Global Financial Crisis

Emerging economies

CHAPTER 2
LITERATURE REVIEW

2.1 Introduction

This chapter tackles literature review based on the objectives of the study. An outline of the theories behind private equity, private equity investment performance in developed and developing markets are also discussed. Lastly constraints to private equity growth are also examined.

2.2 Theoretical Framework

The financing behaviors and choices of firms largely rests upon various factors. These factor include the firm size , ownership structure and type of management. It is important to note that much of the theory developed has centered on listed firms and large firms. However , some of the financing theories can be adopted for use among unlisted and small firms based .The main thrust of this research was to clarify financing behaviors of private firms based on the following theoretical frameworks asymmetry of information hypothesis , pecking hypothesis and agency theory.

2.2.1 Asymmetric of information hypothesis

Asymmetric information means a situation in which one party in transaction has more superior information compared to another. **Afrasiabishan ,Ahmadini and Hesami (2012)** stated that this hypothesis is premised on the idea that the flow and availability of information between the managers and external investors is uneven. In comparison with external investors , managers have more information about the rate of internal cashflows investment opportunities and about the future landscape and real value of the company. Unlike for external investor have less information about the firm this often leads to the undervaluation of shares. Therefore , information disclosure must be a critical factor .the information asymmetry between the external investors and managers of companies pose a great danger since one part may take advantage of the other lack of knowledge. For instance one can assume that the information asymmetry that exist between traditional financiers such as banks and small firms makes it impossible for small companies to receive financing from banks. This eventually leads to the problems of moral hazard and adverse selection The information asymmetry can potentially exist between the small companies and potential private investor such that it affects proper company valuation to take place to enable private equity financing

2.2.2 Pecking order Theory of Financing choice

As an affect to information asymmetry hypothesis the pecking order theory of financing choice was formulated. The pecking order theory is based on the assumption that companies do not have great capital structure , This theory was first propagated by Donaldson in 1961 but there have been modifications of the hypothesis by other scholars such Myers and Majluf in 1984.The pecking order theory states that companies have particular inclination order of capital used to finance their businesses .Due to information asymmetries between the companies and potential investors the company prefers retained earnings to debt ,short term debt over long term debt and debt over equity **(Chen and Chen ,2011)**

According to Chen and Chen (2011) argued that if company issue no new security but use its retained earnings to support the investment opportunities, the information asymmetric can be resolved . This means issuing equity is more expensive as asymmetric information between insiders and outsiders increase .Where information asymmetry is large companies should issue debt to avoid selling underpriced securities. The capital structure decreasing events such a new stock offering leads to a company’s stock price decline. An announcement of increasing capital structure events is received by the market as good news. However due to the need to keep ownership small companies prefer debt over external equity.

2.2.3 Agency theory

This theory assumes that there exist asymmetry information between the agent (private company) and the principal (private equity firm).This theory states that both principal and agents are assumed to be rational economic maximizing individual. This is based on the assumption that both general partners of private equity companies and the investee private company desire to get the maximum from the partnership. Therefore when private companies receive private equity financing the separation of ownership and control will result in decisions by the agents which are not always in the principal’s best interest and there will arise costs of bringing the agent behavior into line. When monitoring and controlling the behavior of the agent and in demonstrating compliance with wishes of the principal. The agency theory demonstrates that both parties to private equity financing deal desire maximum output.

2.3.0 origins and development of private equity

Private equity origins can be drawn back to industrial revolution when J Pierpont Morgan purchased Carnegie steel Co for $ 480 million in 1901.Even to date this transaction is often regarded as the first major buyout. Moreso in 1946 American Research and Development Corporation (ARDC) kindled formal and professional management of private equity investments within USA .The ARDC was an investment company whose mission was to provide private financing for new and small companies. **(Hungarian Private Equity and Venture Capital Association , 2012)**

Due to Limited source of capital available to business , most entrepreneurs restrained from securing bank financing due to high risk and lack of collateral. This gap between self financing and traditional capital had to be filled ,hence private equity financing emerged to provide capital to companies with potential to grow to become billion dollar companies. **(Hungarian Private Equity and Venture Capital Association , 2012)**

Despite such developments , Africa depicts a different picture the history of private equity in Africa dates to the late 1980s with the emergence of funds based and focused on South Africa. Over the years it has spread across Africa with notable investments in west Africa -Nigeria and Ghana , East Africa – Kenya Mauritius and even Zimbabwe.

2.4.0 Private Equity Market structure

Prowse(1998) stated that private equity growth and development demonstrates how organisational innovation coupled with enabling support frameworks such as regulatory and tax structures can lead to active interest in specific markets. The primary purpose of private equity was to fund risky startups and providing management support for startups. The significant growth of private equity has become an important mechanism for channeling capital through national and international markets and funding companies at different stages of development.

An organized private equity market has three key players namely (1) investors , (2) intermediaries and (3) issuers of private equity.

The arrow in Figure 2.1 indicates the activity and the flow of that activity between key players. Investors or partners to a private equity fund comprise of pension funds , investment banks , insurers , wealthy individuals and other investment companies. According to **Gillian and Wright (2014)** Institutional investors opt to invest via a private equity model is the anticipation of greater risk adjusted returns in comparison with other investment as well as the implied benefits that diversification into private equity brings into their overall portfolio. The simplest structure of the private equity is demonstrated in the figure below :

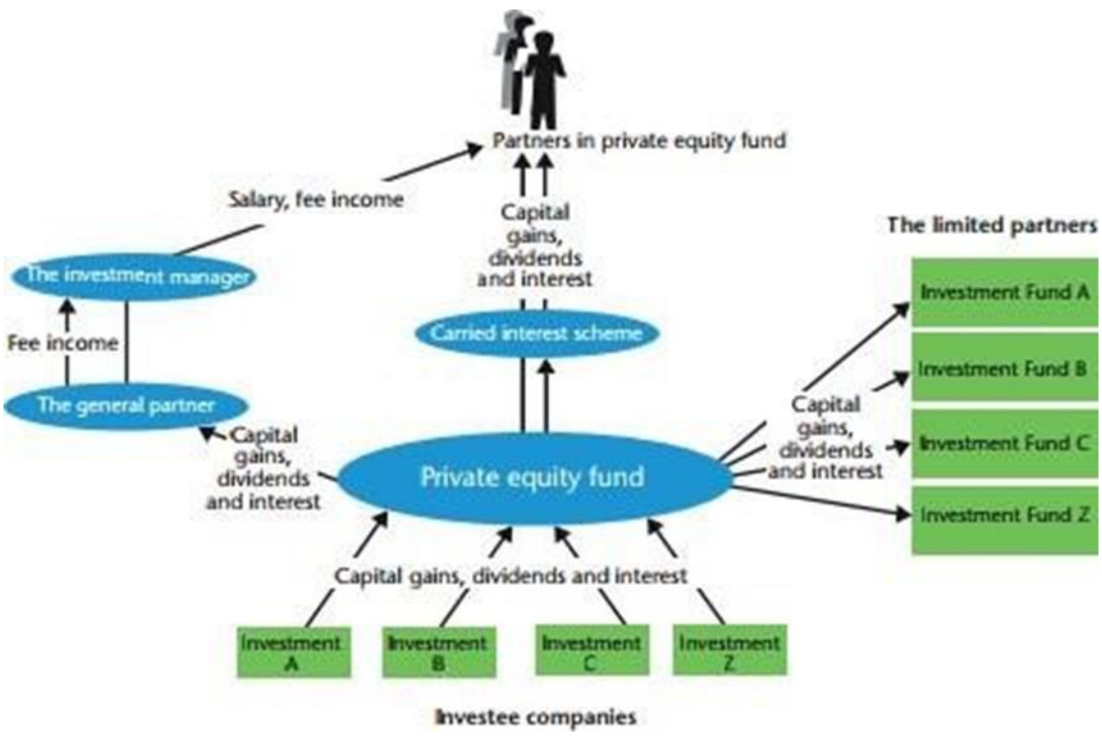


Figure 2.1 Typical Private Equity Structure

Source : Gillian and Wright (2014)

Limited partners are investors to a private equity fund they commit capital to private equity funds which have general partners to manage. The general partner (GP) role is to scout and identify potential investment opportunities .Given that GP has identified investment opportunity the partners call for the required fund from limited partners and they are compensated by limited partners through management fees and share of profits from investments, **(Gillian and Wright ,2014).**

2.4.1 Private equity investment stages

Different lifecycles of company gives private equity firms diversified assets classes. The purpose for which finance is required is mainly determined by the stage of development. According to **British Private equity and Venture capital Association (2010)** The following investment stages were outlined :

2.4.2 Seed stage

Financing or funding at this stage enables business concept to be developed this often includes execution of a business model , prototypes or additional research which is required before getting a product to the market or commencing manufacturing at large scale .The requirement at this stage are to small are meant to make economical viable as investment.

2.4.3 Start up stage

Startup stage involves financing the development of a company's products and funding their initial marketing that is the market penetration. Though these are small companies ,private equity firms specialize in the startup stage , subject to the company seeking investment meeting the firms other investment preferences.

2.4.4 Early stage

This stage is associated with funding a firm that have already gone through product development but not yet generating profit. Studies have revealed the significant interest by private equity firms for this type of investment.

2.4.5 Expansion stage

At this stage financing is to support the growth and expansion of an established company funding and investment at this stage is referred to as development or growth capital. The critical use of investment capital include product development , marketing ,to increase production capacity and to provide additional working capital.

2.4.6 Management Buy out (MBO)

MBO are to enable current operating management and investors to acquire significant shareholding in the business they manage. They range from acquisition of fairly small business to million dollar, The amount for this stage tend to be larger and involves acquisition of the entire business.

2.4.7 Management buy in (MBI)

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

2.4.8 Buy In Management Buy-out stage (BIMBO)

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

2.4.9 Institutional Buy out Stage

To enable private equity firms to acquire a company, which the incumbent or incoming management will be given or acquire a stake in the business. This is relatively new term and is an increasingly used method of buy out

2.4.10 Special Situation stage

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

2.4.11 Refinancing bank debt stage

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

2.5.0 The performance of private equity investments

Its relatively difficult to track the performance of private equity funds, as private equity firm have no obligation to publish the returns from their investment. The investment model of private equity funds is such that investments are made in privately held, owner operated companies looking to grow and are not listed on the public market and this result in limited information to the public .In most instances information regarding investment performance is limited to few groups of people chief among them the investors in the funds ,academic institutes and firms themselves. The comparison between performance of different firms becomes a difficult task so does the establishment of market benchmarks.**(Cendrowski, Martin ,Petro and Wadecki , 2012)**.

However , in an effort to address the availability of information relating to the performance of private equity investments in the USA applied Freedom of Information Act (FOIA).This made certain performance data more easily available. Specifically FOIA has mandated certain public agencies to disclose private equity performance data on their websites. While there is an ongoing effort to make the information regarding the performance of private equity available and accessible. According to **Appelbaum and Batt (2016)** stated that data available to researcher is improving but no comprehensive , unbiased and widely available data that exist to evaluate performance of private equity.

2.5.1 Measuring private equity investment performance.

The private equity market has long relied on the internal rate of return (IRR) as its primary performance measure but the metric has been discredited by academic , and management consulting firms , they cited limitations pf using IRR it makes investment look much more better they actual are. **(Appelbaum and Batt ,2016)**.A survey by **Da Rin and Phalippou (2014)** on Limited partners showed that partners indeed relied on investment historical performance. The study also reviewed that an average of 16 to 26 days was spent on due diligence for each fund they invest in and more than 90% of the Limited Partners calculated their own measure of General Partners past performance and benchmark the past performance against General Partners.

This survey also reported that typical private equity firms raises new funds to invest while its previous investments mature. Limited partners rely on Net Asset Value to assess performance of

General Partners. This is relevant for buyout funds since performance of already resolved funds appears to contain little predictive power. According to **Brown ,Gredil and Kaplan (2016)** posits that GPs make investments in companies that are privately held and market prices are not observable for most of the fund's unrealized assets. This is challenging for GPs to obtain a valuation for each portfolio company at the end of each reporting period. GP usually observe cotemporaneous and lagged company characteristics for their portfolio companies and public market characteristics (performance of other funds of similar vintage and investment strategy looking at companies ,industries and markets).However to private equity GPs or most finance economist measure fund performance using a metric knowns as the Public Market Equivalent (PME).A performance metric formulated by Steven Kaplan and Antoinette Schoar in 2005 , this measure compares returns from investing in private equity with returns from comparable and timed , investments in the stock market as measured by the S & P 500 and other stock market indexes. It provides Limited partners with reliable information about two critical things that is how much money they get back at the end other 10 year investment in private equity fund relative to their initial investment and how that compares with the return they would have earned if they had invested in some other asset instead , **(Appelbaum and Batt ,2016)**

2.5.2 Performance of private equity in emerging markets

African private equity deals multiples are estimated at roughly eight times based on performance over the past nine years. Although Russia ,Brazil , China and India boast a better performance , with an average of ten times **, (Riscura ,2013).**The **Emerging Markets Private Equity Association (2015)** noted that private equity investment in India have since changed since the golden era the average deal level surpassed a gross IRR of 40% prior to 2007.

Furthermore **Riscura (2013)** stated that such numbers must always be treated with caution because much information related to private funds is not disclosed. This suggest that the true multiple are low. Nonetheless with multiples probably close to those for Brazil and India , Sub Sharan assets can be viewed as a good investment opportunity for venture capital companies especially when compared with the IRRs observed on mature markets **(Riscura , 2013).**The figure below represents a summary of the private equity returns in emerging markets :

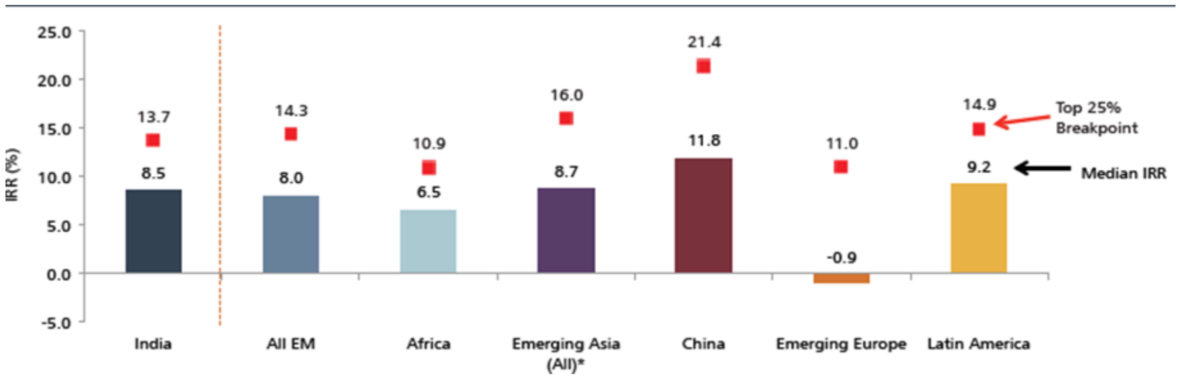


Figure 2.4 Emerging Markets Private Equity Investment Returns

Source: The Emerging Markets Private Equity Association(2015)

2.5.3 Performance of private Equity in Africa.

According to **African private equity and Venture Capital Association (2019)** provided performance statistic for an index of African private equity investment which was made up of fifty funds , the fund had a total capitalization of over US$12 billion. It showed asset classes as tabulated below :

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

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

Source: The African Private Equity and Venture Capital Association (2019:6)

The index statistics showed exclusion of other investments in economic sectors such as real estate , forestry or infrastructure ..The investment level data includes investments made in Africa by Africa – based funds as noted above , as well as other venture capital and private equity funds in the Cambridge Associates global private investments database. Individual investments were headquartered or had their primary domicile in 33 different African countries or abroad. A tabulated summary of the private equity African index performance and statistics for other equity indices are below:

Table 2.3 comparative analysis of private equity Indexes

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

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

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

2.6.0 Constraints to private equity growth : Emerging and Frontier markets

The emerging an d frontier markets are increasingly attracting private equity investments .While these markets have been the focus of many of the investors due to the superior returns these markets have their own setbacks .the major constraints of private equity growing in emerging and frontier markets include legislation , regulation , qualified personnel and financial system. The section below discusses the constrains of private equity growth.

2.6.1 Financial markets

Compared to financial markets of other emerging countries **Severino & Barraton (2013)** posit that African banking system operate largely on a short term basis with more than 80% of deposits being short term or deposit with a maturity of less than one year. The presence of high intermediation constraints (loan/deposit ratios are 30 percent lower , on average than in banks in other developing countries) and have high interest rate spreads and margins.Non banking segments of Africa's financial system indicated even a lower degree of maturity than banking ,for example 24 out of 53 African countries have stock markets and only a few of these are liquid, the inefficient allocation of financing as much as its level that serves as constraint economic development of Africa. Young private business benefit from a higher development of the financial system as it reduces negative effect of information asymmetry,**(International Finance corporation ,2010)**Absent of credit reference bureaus have led to information asymmetry between the firm and commercial banks particularly in African countries. The important that government of emerging economies to facilitate conducive and enabling environments that foster the growth and developments of financial systems , **(Beena,2012) and (Ignaci and Sinha ,2011)**.

2.6.2 Knowledge

When making a private equity investment information is key for arriving at a better decision after careful consideration of all accessible and available information. **Meerkart and Liechtenstein (2010)** stated that knowledge of market , companies , government , culture and environment is critical when making private equity investment. Private equity investors heavily depend upon quantitative analysis but information in many developing countries is nonexistent, incorrect or old. There this place a huge block on the potential of private equity investor. Absent of good information makes it impossible to value company and their growth prospects, **(Meerkart and Liechtenstein, 2010)**.

2.6.3 Regulation and legislation

According to **Severino and Barraton (2013)** it is incredibly hard for African countries to identify the properly legal regime under private equity investment deal flow. They noted with concern that financial firms may be faced with regulatory barriers making it difficult to develop vehicles with Limited financial means and modest means. The regulatory framework in African Frontier markets pose as an obstacle because policy makers and regulators take time to understand and familiarize with private equity. **Allen and Overy (2015)** said that existence of multiple jurisdictions on private equity operation which encompass access to local capital such as domestic pension funds , exchange controls , local content requirements and ownership restrictions are still a problem. However developed frameworks in Nigeria and South Africa could drive regional regulatory harmonization but the progress is low. The indigenization Act in Zimbabwe was on good example of legislation that resulted in constrained growth of private equity investors.

2.6.4 Qualified Personnel

Private equity is a specialized investment field that requires specific managerial and industry skills to succeed .**Severino and Barraton (2013)** suggested that the scarcity of high skilled and experienced local staff makes the hiring of quality management impossible for investee companies. The majority of private equity deals are not made for hasty profit but for strategic focus of wiring value out of company and good qualified management is key for this to occur. Furthermore the demographics in emerging countries pose a great challenge to private equity investors arguing that absent of experienced and qualified professionals in the field. This inhibit growth of private equity**. (Smolarski ,Wilner and Yang ,2011)**

2.6.5 Taxation

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

2.6.6 Weak exit markets

A study by **Severino and Barraton (2019)** highlighted that scarcity of listed markets in African was due to weak exit markets of private equity. In addition, they postulated that exits African markets are weak and more complicated than in emerging markets, this presents lack of opportunity for private equity exits that is the ability of funds and their investors to realize the returns on their investment at the end of the fund's maturity.

2.7.0 Empirical evidence

Much of the research done on the financing behaviors and capital structure of firms has vastly covered listed companies especially in the developed and mature markets. The section below discusses case examples of unlisted companies in different geographical areas.

2.7.1 The case of Canada

In study conducted in Canada (2006) they noted that risk capital sources were from both the formal market which included venture companies managing third party capital , private equity and initial public Offering (IPO) on public markets and the informal market which comprises business angel investment and investments from friend and family. Using the key qualitative descriptive design structured interviews were conducted of key private companies .The study revealed that formal risk capital was considered particularly important for those SMEs with high growth potential seeking substantial amounts of capital expansion in return for share of the business. A small portion of SMEs sought formal risk capital in the form of private equity and venture capital. Hence concluded that s private equity and venture capital financing was mostly used by those firms were in their growth and expansion stages **(Government of Canada, 2006).** The study showed that external sources of financing were used informal equity financing was preferred over the formal sources of private equity. The perception of private equity among private small companies were considered low as informal external sources of risk capital were preferred.

2.7.2 The case of Tanzania

Building from the Canadian study , **Olomi and Mori (2015)** using a qualitative exploratory methodology among 20 SMEs , 3 private equity and 5 private investors they revealed that use of private equity finance by small to medium enterprises in Tanzania had not yield much fruit. **Olomi and Mori (2015)** stated that financing motives and behaviors of SMEs are often different from those of large companies .SMEs are averse to external equity finance because of their desire for control. Hence they concluded that private equity has not been fully successful and failure was exclusively explained by financing behaviors of SMEs

2.7.3 Studies on Developing countries

One of the key components to companies growth is external finance , A study by **Aulusi (2015)** reviewed the investment climate of seventy one developing countries .The aim of the study was to identify the main sources of external finance for firms. They find that more than 40% of large companies , around 35% of medium companies and only over 20% of small companies use some type of external finance for new investment. They conclude that size of company significantly contributes to the choice of financing. The study recorded that 30% of large companies get new investment from external sources of finance whilst small companies only recorded 15% from external sources.

CHAPTER 3
RESEARCH METHODOLOGY

3.1 Introduction

This chapter gives insight on how the research was conducted, this chapter include research design , research population , research sample , data collection instruments and lastly data presentation and analysis. Justification of the selected approaches in conducting research were outlined .

3.2 Research design

In order to answer the question of the research qualitative descriptive research design was adopted. A descriptive research design endeavors to answer questions of who, what and where associated with a particular research problem. Descriptive research design gives a complete description and analysis of the research subject, without limiting the scope and responses of participants of the study. The research aimed to uncover issues in research questions and objectives concerning private equity with holistic approach that included investment manager and investee companies. According to **Collin and Hussey (2009)** they stated that qualitative descriptive design is best suited for small samples that its outcome cannot be quantified and measured .This rationale made this research design appropriate for the research. However, the imitations of descriptive design is that small sample make it incredibly hard to concluded the results as the reflections of the whole population. The researcher used data triangulation and data saturation techniques to address the limitation aforementioned.

3.3 Research Population

The population of the study was respondents (individuals or groups of people) from venture capital or private equity companies , asset management firms and private companies not listed on the Zimbabwe Stock Exchange that span across various sectors they included Information , communication and Technology , mining , financial services , agriculture manufacturing and processing. The informal nature of private equity investments made it difficult for identification of private equity companies , However the researcher manage to identify seven companies that were involved in private equity in vestment in Zimbabwe , that is Masaara , Spear capital , Matamba Anonaka Technology Holdings , Nurture Invest , AfricInvest , Takura capital Ventures and Brain works. For the purposes of this study ,the researcher identified 16 asset management companies registered from Securities Exchange Commission of Zimbabwe and other commercial banks that offer asset management services were considered as part of the population. The asset management companies for this study were Zimnat Asset management , Smart Wealth Management , Atria Asset Management , ABC Asset Management , Equivest Asset Management ,Fedelity Life Asset Management , First Mutual Wealth Management , Imara Asset Management Invesci Asset Management , Old Mutual , Platinum Investment Managers and Purpose Asset Management all of these companies were not registered on the stock exchange market.

3.4 Research Sample

The researcher employed purposive sampling to identify part of the respondents of the research who are investment specialist in private equity , Purposive was adopted for the first group of respondents that is investment managers and private equity specialist. Due to lack of unlisted of unlisted database made it great challenge in identification of private equity companies .The research used stratified purposeful sampling procedure where private companies in specific targeted sectors were identified .Mining , financial services , agriculture and information communications and technology were the identified strata from the targeted population. The reason for the identified strata was that private equity companies demonstrated interest in these sectors.

The researcher adopted the sample size outlined below :

Table 3.3 Sample size requirements and Strata used

RESPONDENTS	Strata	Number sampled
Asset Management Companies & Private Equity Firms	• Investment Managers • Private Equity Specialists	30 15

Private/Unlisted Companies	• Mining • Agriculture • Banking and Financial Services • Information, Communication & Technology • Other	5 10 10 10 5
	Total sample size	**85**

3.5 Data collection Methods and Research Instruments

Primary and secondary sources were used to collect data for this study. Interviews and questionnaires were used as primary data collection methods and secondary data was collected through websites , journal and other published papers on private equity. However , given the nature of private equity and the unavailability of private company financial information the researcher relied upon primary data as collected through interviews and questionnaires.

3.5.1 Primary Data

Primary data was collected by means of questionnaires , designed for two separate groups of respondents that is investment managers and private equity specialists .A standard manner was used to design questionnaires to assist the researcher to meet the objectives and in answering the research questions of the study. The basis of design for questionnaires were thematic areas which respondents were asked about their opinions , perceptions and experiences regarding private equity. Each of the questionnaires includes a mixture of opened and closed questions. Closed questions allowed the respondents' view to questions considered to have a limited set of responses and also maintain focus on the research. To further level information of the research the respondents were allowed to justify their responses to open ended questions , allowed the research to solicit opinions of the respondents where a range of possible responses could not be ascertained. The researcher employed questionnaires to facilitate extensive coverage at minimum financial expense and effort. This justified their use because of convenience concerning time constraints in carrying out the research. Given the nature of the respondents for the study , investment managers and Chief Executive Officer may not ordinarily be available for interview because of tight schedules .Hence questionnaires proved to convenient as they can be electronically administrated through emails and respondents are able to respond regardless of geographical location. There were some limitation to the selected data collection instrument as it was characterized with high probability of non response and unwillingness to respond from some of the respondents these limitation stemmed from lack of appreciation of the research and high levels of company information regarded as private. T he researcher overcome these limitations by consistent follow ups supported by interviews and explaining the intentions of the research , this strategy boosted the response rate. The research also used face to face interviews to complement questionnaires. Face to Face interviews were carried out with a number of asset managers and experts both in private equity market. This involved asking questions on real life situations on the ground regarding private equity and this also allowed the research to obtain clarity on grey areas not fully uncovered in the questionnaires response.

3.5.2 Secondary Data

Secondary data was collected for the purpose of this study ,the data sources included websites , journal and other published papers on private equity. To augment the research findings , the researcher therefore regarded its befitting to combine both primary and secondary data sources.

3.6 Data Validity and Reliability Tests

Golafshani (2003) stated that reliability and validity are conceptualized as trustworthiness rigor and quality in qualitative research paradigm . The researcher employed pre testing of questionnaires to facilitate validity and reliability. Factors affecting reliability like clarity and length of questionnaires were considered hence the researcher made efforts as simplify all questions. For validity, pre testing helped to ensure the thoroughness and completeness of the questionnaire and follow up interviews scheduled. Data collection triangulation method were used to ensure data reliability and validity for this study.

3.7 Data Presentation and Analysis

Due to qualitative research design of the research, the research used qualitative presentation and data analysis tools. High level and low levels analysis were used to analyze responses from questionnaires and interviews. The basic level analysis illustrates descriptive accounts of data that is descriptive statistics, Figures, Percentages were used to describe response on relevant issue that emerged from the research and tables, charts and graphs to enhance clarity of the research findings.

3.8 Ethical considerations

The researcher was fully aware of the research ethics that had to be maintained throughout the research especially in dealing with the respondents. In this regard all the information that the researcher received from the respondents remained confidential and was used only for the purpose of this study. The researcher notified the respondents of the purpose of this study on the introduction part of the questionnaire. The data collected was not being tampered with than the purpose of analyzing and interpreting data.

3.9 Summary

The issues discussed in this chapter included research designed used in the study the rationale for choosing the design. The research population and sample were also deliberated in this chapter. In addition , the chapter also deliberated research population , sample , methods of data collection employed in the research as well as data validity and reliability. The data presentations and analysis were outlined. The next chapter focuses on critical analysis , presentation and discussion of the research findings before drawing conclusions from the research.

CHAPTER IV
DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The study sought to assess the extent to which private equity financing is an alternative source of financing among private companies in Zimbabwe. Utilizing qualitative descriptive design the study aimed at answering the following questions what are the awareness levels of private equity , how is private equity perceived by private companies and what constraints to private equity growth in Zimbabwe. Interpretation and analysis of the research findings was done guided by the existing literature on private equity.

4.2 Analysis of response rate

The researcher distributed a total of 85 questionnaires among respondents. The table below shows the distribution of questionnaires and the response rate of the respondents of the study.

Table 4.1 Questionnaire Response rate

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

Due to devastating effects of Covid 19 the majority of the questionnaires were distributed electronically via email to ease follow up on respondents. The researcher ensure high response rate through periodic follow ups and to ease monitoring the return functionality was employed. Five interviews were secured of ten intended interviews this was due to busy and tight schedule of respondents. The response rate was 50% which is considerably fair for the research. The interview response rate is shown in the table below.

Table 4.2 Interview Response Rate

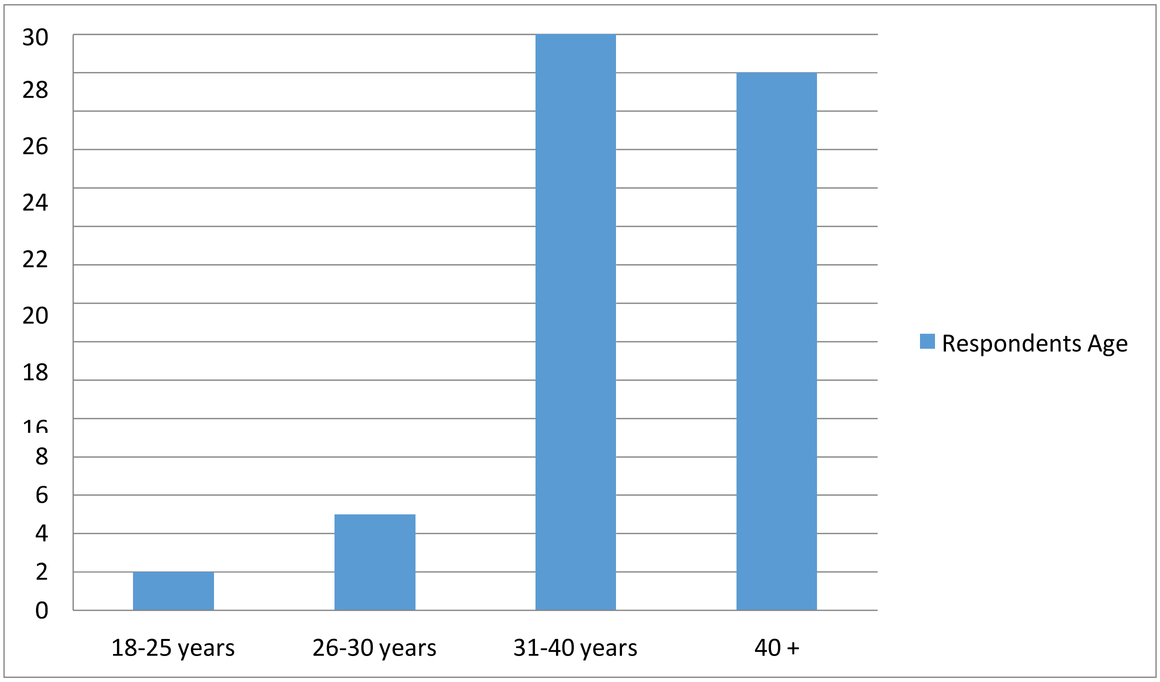
SAMPLE ELEMENT	PLANNED INTERVIEWS	SUCCESSFUL INTERVIEWS	RESPONSE RATE %
Asset Managers	**10**	**6**	**60%**
Private Equity Specialists/Investors	**8**	**5**	**63%**
Private Companies	**10**	**7**	**70%**
TOTAL	**28**	**18**	**64%**

4.3 Demographic Information

Demographics trends from the respondents were analyzed to extract useful insights that of interest to research questions. More so demographics analysis laid a foundation which research questions were expanded.

4.3.1 Age of the Respondents

Figure 4.1: Respondents Age distribution

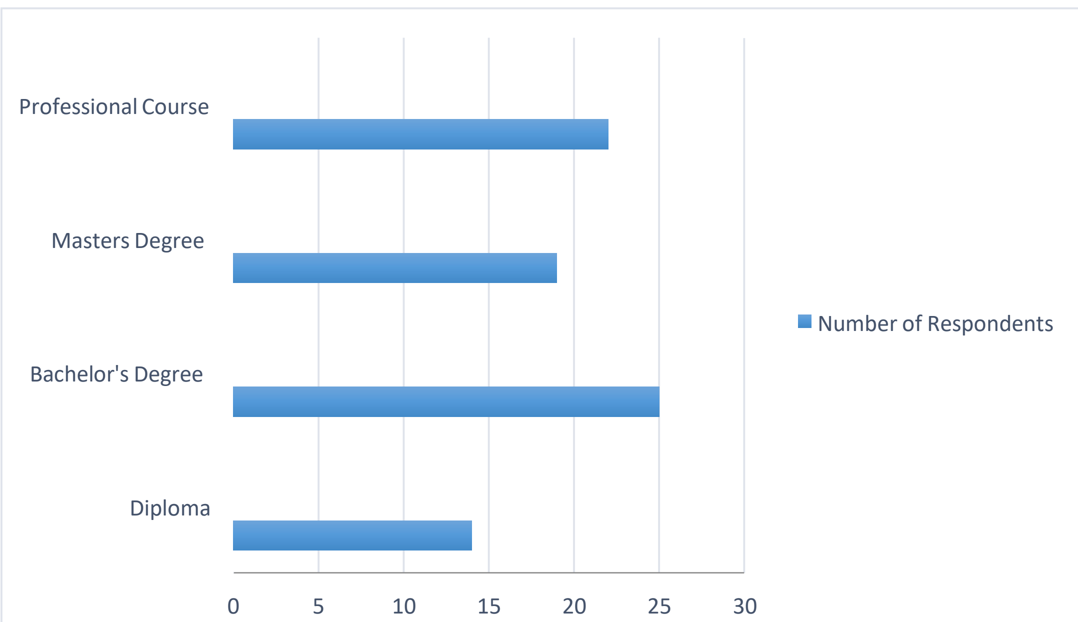


The total respondents' age distribution is summarized in the graph above. The distribution reflects that majority of the respondents fall between 31- 40 years. The majority range of 31-40 years was comprise of private equity specialist and asset managers while plus 40 years age range was made up of chief executive officers , chief financial officers , managing directors and accountants of private companies.

4.3.2 Respondents' Educational Qualifications

Most of the respondents had attained some form of tertiary level qualification as demonstrated below. Some of the respondents had attained two or more academic , qualifications and in certain instances coupled by some professional qualification Such as Risk managers or CFA (chartered Financial Analyst).The educational qualifications of each of the respondents are summarized in the graph below :

Figure 4.2 Educational level of Respondents



4.3.3 Work Experience of respondents

The majority of respondents' work experience fall between 6 – 10 years. From the Figure 4.3 the majority of respondents work experience is positively skewed showing a vast work experience. The graph below illustrates the work experience of respondents.

Figure 4.3 Respondents work Experience

4.4 Data presentation and analysis

The following sections presented the findings of the research. In line with the objectives of the research a thematic presentation was made. The existing literature discussed in chapter two were linked to the analyzed findings of the research.

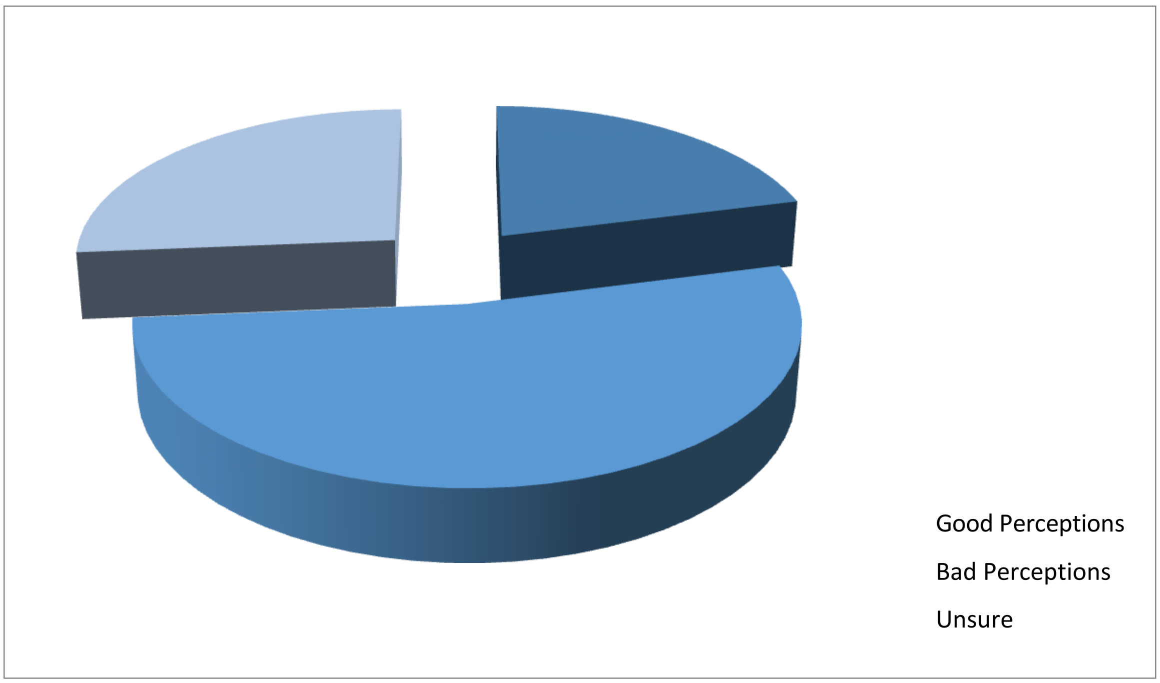
4.4.1 Awareness of Private Equity

The findings of the research indicated limited or knowledge gap on private equity among private companies. Thus showing that private companies had low awareness levels of private equity. An in depth analysis of the findings however revealed that small private companies with annual turn over less than $50,000,000.00 ZWL and with restricted branch network coverage hand no knowledge of private equity. For private companies that indicated to have limited knowledge on private equity their annual turnover was high and branch network wide .This made the researcher to believe that large companies had more knowledge on alternative sources of funding business in comparison to the small and medium enterprises.

Asset managers and private equity specialist revealed a low level of awareness. For assets managers they indicated that private equity is regarded as a class of asset of the elite that why very few assets managers were aware of it , in addition they revealed that regulatory measures often resulted in bias towards traditional assets such as public equities. In the same vein , private equity specialist echoed the same sentiments as assets managers that awareness levels of private equity among prospective investee companies was rather low and somewhat disappointing. Further elaborating on the awareness of private equity , private equity specialists reported that the low awareness levels made their work challenging particularly when they are scouting for potential investment.

4.4.2 Perceptions towards private equity

The figure below gives an overview of the bias or perceptions towards private equity among



business owners in Zimbabwe.

After having determined the awareness levels of private equity by private companies in Zimbabwe, The study also further established the bias towards private equity among business owners. The findings on perceptions toward private equity showed that 7.5% of the respondents in large private companies particularly in agriculture sector perceived private equity as good and acceptable financing tool for business operations. Findings of few good perceptions on private equity are not surprising as studies by **Olomi and Mori (2015)** as they showed that private equity financing is perceived different by companies of different size and in different sectors of the economy especially those not in technology sector had bad perceptions towards private equity finance. In addition they said that private equity is perceived as a looting tool by capitalist by Italian companies ,Hence the research findings relates to other studies.

The long term nature of private equity financing have led to 7.5% of private companies that have benefited from private equity to perceived it as a good tool of financing .In the agriculture sector two private companies of 34 , which is five percent representation reported that equity financing has been instrumental in resuscitating operations of their companies. The companies elaborated that that having in been in financially distress positions , limited their access to credit lines or funding form conventional or tradition sources e.g banks .Furthermore they revealed that the credit facilities they accessed were mainly to fund working capita rather than long term capital expenditure facilities that the companies desired. One of the companies in the agriculture sector demonstrated strongly how well it perceived private equity , the companies revealed that as a result of growth capital injection from international private equity firms they managed to expand and stretched their presence across the African continent.

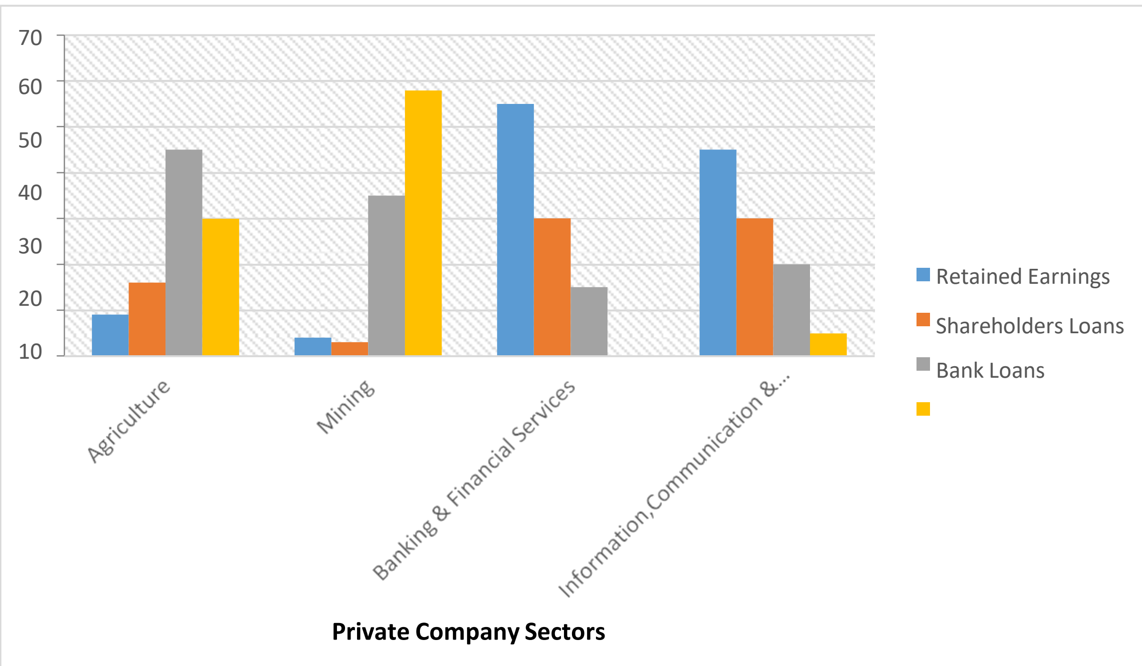
The researcher saw it fit to document perceptions of private equity from the perspective of investors experiences in Zimbabwe. The responses of asset managers and private equity specialist to perceptions of investee companies were documented , it showed that 80% of the private equity investment managers reported that private equity had not been perceived well by potential investee companies. They indicated that key players were not fully aware of what private equity is and its benefits. Asset managers were also in support as they cited that private equity financing is regarded as a financing tool for the elite and was out of reach too most companies. Furthermore private equity specialist said more companies were in much need of financing , but the major challenges of private equity are issues of ownership dilution and controls as most are unwilling to give up control.

The private equity specialist perceptions towards private equity among existing investee companies , about 65% of private equity specialists indicated that their investment have not been fully realized ,it was encouraging that most pf the existing investee companies had accepted and benefited from private equity financing hence formed the basis of their good perceptions towards private equity financing was most financing done , were targeted to financially distressed companies. Such financially distressed investee companies had managed to turn around the fortunes of their financial positions for the better hence this led to good perceptions towards private equity financing.

4.4.3 Source of funds available to private companies

The sources of funds available for majority of the companies irrespective of their sector were document , the internal financing tools were in form of retained earnings and shareholder loans and to a certain extent external sources such as traditional bank loans and leasing. Figure 4.5 below shows sectorial analysis of the sources of fund for private companies.

Figure 4.5 Sources of Funds for private Companies



The majority of private companies indicated retained earning and shareholder loans as the most common sources of funding , and 65% of these companies use reported earnings and shareholder loans as the major sources of funding. Fifty percent mentioned bank loans as the most common sources of funding to substitute their capital needs. On responding to the question whether firms were aware or had considered other alternative financing options, these were some of the responses, " *we only know of financial institutions such as banks and microfinance*". This finding corresponds well with **Smolarski et al (2011)** stated that few financing options are available for private companies are from banks especially in undeveloped financial systems. It also emerged that the sources of funding largely depend upon the company size, management and ownership structure.

Companies with annual revenue of less than $50,000,000.00ZWl reported that accessing supplement capital through bank loans was incredibly difficult. Nonetheless , 35% also indicated that since the Reserve Bank of Zimbabwe's financial inclusion drive improvements have been noted in accessing bank funding. Interestingly, 80% of total private companies across different sectors under study indicated their current sources of funding were insufficient to meet their needs.

Twenty five percent of private companies reported to have sought alternative financing options for both working capital and capital expenditure requirements. Lease financing was reported to have been a common alternative source of financing for among most mining companies and small number of agriculture companies. The finding of the study also uncovered that portion of companies that opted for alternative financing included companies with expansive network, large turnover and experienced management. About 20% of companies were from agro processing, financial services and agriculture reported to have benefited from private equity financing since adoption of the multiple currency system.

4.4.4 Private equity investment in Zimbabwe

Most private equity investment specialist reported a huge investment potential in private equity. Local and foreign private equity companies have been included in the majority of the private equity investment made across various sectors of the economy. One private equity specialist had this to say *" Although it's becoming nearly impossible to predict what the shape the economy will be in the next 4-6 years , presently we have noted spike trend in private equity investment since the adoption of the multiple currency system"*. This response is augmented by secondary data collected from various websites of active equity companies in Zimbabwe, it indicates that one private equity company dominated the majority of the investments. The table below illustrates private equity investment from key players since 2010 to 2017 :

Table 4.3 documented private equity investments in Zimbabwe.

PRIVATE EQUITY FIRM	PRIVATE EQUIY FIRM TYPE	INVESTEE COMPANY	CAPITAL INVESTED USD/MILLIONS	SECTOR
Takura Capital	Local	Agricom	22.5	Food Processing
Takura Capital	Local	Cailogistics	22.5	Business Services
Takura Capital	Local	Cairns Holdings	22.5	Food Processing
Takura Capital	Local	Introwise	22.5	Trade
Takura Capital	Local	Lobels Holdings	22.5	Food Processing
Takura Capital	Local	Medical Investments	22.5	Public Services
Takura Capital	Local	Montana Meats	22.5	Food Processing
Takura Capital	Local	Talwant Trading	22.5	Trade
Emerging Capital Partners Africa	Local	New Dawn Mining Corporation	44.9	Mining Extraction
Investec Asset	Foreign	FBC Bank	30.0	Financial Services
Equator Capital Partners	Foreign	FBC Holdings Limited	10.0	Financial Services
Progression Capital	Foreign	Microhub Financial Services	10.0	Microfinance
Spear Capital	Foreign	Metro Peech		

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

Zimbabwe

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

Source : common wealth Development Corporation

The table above shows potential for more active private equity environment as the known and documented deals has been on an upward trend, however some data relating to private equity investments could not be accessed such as the amount invested.

4.4.5 Private equity investment strategies in Zimbabwe

Private equity specialist reported invest potential was present and that there is still tasted water in Zimbabwe given the liquidity challenges that have hit our country**.** Private companies have limited access to credit due liquid challenges. Investment managers further elaborated that the macroeconomic challenges currently faced present a good opportunity for private equity challenges. One of the equity specialists had this to say *"Our focus is on venture capital investments with minimum 30.1% shareholding structure for negative control. We focus on highly cash generative businesses with unique value propositions or those that are well positioned in high growth sectors that are 3-6% growth above GDP growth"*.The investment strategies of the private equity companies active showed that diversified and specialized strategy were employed by private equity companies. The table below shows a summary of investment strategies used by private equity specialist;

Table 4.4 : Investment strategies for private companies in Zimbabwe.

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

About 80% of asset managers indicated that it is difficult to know about performance of private equity investments globally and Zimbabwe is no different. They stated that information concerning the performance of private equity in Zimbabwe is not ready accessed to the public , it is only share amongst interested parties such as the limited partners ,general partners and investee companies. This finding concurred with Cendrowski et al (2012) who noted that tracking performance of private equity incredibly hard as private equity companies have no obligation to reveal or publish returns they have cashed from their investment.

However , some 30% of asset managers highlighted that tracking the performance of private equity is due absence of private equity organization that governs activities of private equity companies in the country. A further 65% of asset managers also indicated lack of regulatory and legislation contributes significantly to making it impossible or hard to track performance of private equity. USA and United Kingdom are good examples of countries that have improved the availability of information pertaining to private equity investment.

4.4.7 Constraints to private equity growth in Zimbabwe.

Uncertainty and country risk were citied as main constraints to private equity growth by both the private equity specialist and asset managers. A significant number of asset managers constituting 90% revealed that heavy regulation and legislation as the major investment constraint in Zimbabwe. However in their response were in relation to experiences concerning portfolio limits on strategic allocation. They indicated that in their work , private equity is not regarded as asset class. There exist multiple restrictions and jurisdictions on private equity operations which encompass access to local capital such as domestic pension funds , exchange controls, local content requirements and ownership restrictions are still a problem **(Allen and Overy,2015)**.Hence , they were strictly prohibited from allocating portions of their portfolios to investment. **Allen and Overy (2015)** noted that in the African frontier markets local regulatory frameworks present an obstacle since policy makers and regulators take time to become familiar with private equity.

Weak market exit, regulation and legislation and low awareness level were cited harmoniously by private equity specialist as majors constraints to growth of private equity in Zimbabwe. The limited activity on the Zimbabwe Stock Exchange due to liquidity challenges show that there is a weak exit market. Though private equity managers indicated that the majority of their investments in Zimbabwe are yet to be realized weak exit market are challenges notable in emerging and frontier markets. These finding were in support with **Severino and Barraton (2013)** highlighted that scarcity of listed markets contributes to weak exit markets of private equity. This presents an apparent lack of an opportunity for private equity exits that is the ability of funds and their investors to realize the returns on their investment at the end of the fund's maturity. Hence , this is a constraint to growth of private equity as potential investors are reluctant to invest in markets were exiting may be challenge

4.5 Summary

The finding of the study indicated that private equity financing is active in Zimbabwe is limited. This demonstrates that to smaller extent private equity financing has addressed the funding gap ,The knowledge and awareness levels of private companies was very limited as the knowledge of private equity as financing option was confined to large private companies compared to smaller private companies. The majority of good perceptions towards private equity were documented from private companies who are investee companies of private equity funds. Analysis on the performance of private equity investment was difficult as respondents were reluctant to divulge information. Ultimately uncertainty , country risk and weak exit markets were cited as the key blocks to growth of private equity investment.

CHAPTER 5
SUMMARY ,CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

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

5.2 Summary of the study

The research sought to investigated the extent to which private equity addresses the demand for capital or funding gap in Zimbabwe. To achieved this the research questions included assessing the awareness levels and perceptions of private equity by existing and potential investee companies. The data collected for this research from questionnaires distributed to asset managers, private equity investments specialists and private companies. The informal nature of private equity market made it incredibly hard to identify private equity companies. In addition, absent of comprehensive database made the identification of sector specific private companies difficult. Data validity and reliability were improved by the use of data triangulation thus interviews and secondary data were also applied in the data collection. Some respondents deemed the information required to be highly sensitive and proprietary in nature and thus could not divulge key details. However , the findings of the research generally indicate that private equity is active in Zimbabwe but is dominated by a few key players

5.3 Conclusions

Based of the finding of the research the subsequent conclusions were drawn :

- The absent of private equity association makes information dissemination difficult given secondary data to a lesser extent private equity has addressed the demand of capital.
- The awareness levels of private equity ranged from low to limited among private companies depending on the size and sector of the company
- There were mixed perceptions towards private equity as financing option by private companies , with only a few perceived private equity as a good financing option
- Analyzing performance of equity investment was difficult as information related to performance and investment size was deemed confidential

- Weak exits markets , poor regulation and legislation and talented personnel were reported as the constraints to private equity growth in Zimbabwe.

5.4.0 Recommendations

In light of the conclusions made above , the study provides the following recommendations:

5.4.1 Formalization of private equity in Zimbabwe

As noted by other studies that structure and institutions should be put in place to provide an enabling environment and conducive environment for private equity growth. Zimbabwe must emulated formalization of private equity markets. For example , the private equity market in South Africa is formalized by the existence and operation of the South African Venture Capital Association. Such an association in Zimbabwe will foster gathering of and dissemination of information pertaining private equity .This will assist companies that what to consider private equity as financing option The objectives of such institution in The country would include the following :

- Promoting and maintaining professionalism of private equity in Zimbabwe
- Representing the private equity practitioner at national , regional and private equity level of financing
- Stimulate growth and expansion of private equity in Zimbabwe
- Setting guidelines and standards for measuring private equity in Zimbabwe.

5.4.2 Regulation and Legislation

Private equity industry can bring significant infrastructural , economic and social returns in there is a smart and flexible regulation. Robust regulations and legislations can assit African countries to achieve sustainable infrastructure and economic growth. For instances South Africa ,Egypt and Nigeria have been shining beacons that have made key amendments to their legislation in order to recognize private equity as an investment class. Zimbabwe need to emulate these leading private equity markets by enacting laws that strong support the use and recognition of private equity .Regulation stimulates private equity growth by fostering elements and standardization , which is key to lure participation of by potential investors.

5.4.3 Increased Awareness of private equity

There is need to increase awareness of private equity in the Zimbabwean financial markets , that is creating awareness for financial market participants to be aware of financing option or tools that can be utilized. Increased awareness can be made possible through efficient information dissemination. Expanding coverage of activities by private equity companies through modern equivalents such as newspaper , websites and online sources.

5.5 Suggestion For Further Research

The research was on an investigation of private equity as a financing option for private companies in Zimbabwe. Given that private equity financing has been instrumental in the development and growth of startup companies and has led to expansion and listing on public exchanges. This implies more research should be applied on private equity financing. It is important to investigate the impact of private equity financing to companies in Zimbabwe. What more important is to determine the extent to which private equity financing has impacted financially distressed companies as well as comparing this form of financing to alternative investment classes.

REFERENCE

Afrasiabishan, J., Ahmadinia, H. & Hesami, E., 2012. A Comprehensive Review on Capital Structure Theories. School of Doctoral Studies (European Union) Journal, pp. 35-45.

Alemayehou, M. & Kimball, A., 2014. Lessons to Grow By Private Equity in Sub-Saharan Africa , s.l.: Africa in Focus .

Allen and Overy , 2015. Private equity in Africa Context, opportunities, and Risks, London: Global Counsel.

Appelbaum, E. & Batt, R., 2016. Are Lower Private Equity Returns the New Norm?,

Washington DC: Centre for Economic and Policy Research.

Aulusi, A. et al., 2015. Private Equity and Emerging Markets Agribusiness:Building Value Through Sustainability, s.l.: International Finance Corporation .

Beena, P., 2012. Financing Pattern of Indian Corporate Sector under Liberalisation: With Focus on Acquiring Firms, New Dehli : Institute for Studies in Industrial Development.

Berwin Leighton Paisner , 2015. Private Equity in Mining. [Online]Available at: http://blplaw.com[Accessed 26 September 2017].

Brown, G. W., Gredil, O. R. & Kaplan, S. N., 2016. Do Private Equity Funds Manipulate Reported Returns?. [Online]Available at: https://faculty.chicagobooth.edu [Accessed 12 September 2017].

Cendrowski, H., Martin, J., Petro, L. W. & Wadecki, A. W., 2012. Private Equit: History, Governance and Operations. Second ed. s.l.:John Wiley and Sons .

Chen, L.-J. & Chen, S.-Y., 2011. Capital Structure Determinants : An Empirical Study in Taiwan. African Journal of Business Management , 5(27), pp. 10974-10983.

Collin, J. & Hussey, R., 2009. Business Research A Practical Guide for Undergraduate and Postgraduate Students. 3rd ed. Hampshire: Palgrave Macmillan.

Cusmano, L., 2015. New Approaches to SME AND Entrepreneurship Financing: Broadening the Range of Instruments , s.l.: OECD .

Da Rin, M. & Phalippou, L., 2014. There is something special about large investors:.s.l.:University of Oxford Working Paper..

Denina, C., 2015. Could private equity fill the mining M&A vacuum?. [Online]Available at: http://preqin.com [Accessed 25 September 2017].

Gill, B. S., 2014. Cross-country evidence on capital structure variability, Brussels : Vrije Universiteit van Brussel.

Gillian, J. & Wright, M., 2014. Private Equity Demystified An Exlanatory Guide. London: ICAEW Corporate Finance Faculty.

Golafshani, N., 2003. Understanding Reliability and Validity in Qualitative Research. The Qualitative Report, 8(4), pp. 597-606.

Government of Canada, 2006. Small Business Financing Profiles , Ottawa: Government of Canada.

Ignaci, F. & Sinha, S., 2011. Constraints to Private investment in the poorest, London: Nathan Associates Limited.

International Finance Corporation, 2010a. Scaling-Up SME Access to Financial Services in the Developing World, Washington DC: International Finance Corporation.

Meerkart, H. & Liechtenstein, H., 2010. New Markets, New Rules, Will Emerging Markets Reshape Private Equity?, s.l.: The Boston Consultaning Group .

Olomi, D. & Mori, N., 2015. Lessons from Equity Financing Experience of Tanzanian SMEs.Dar es Salaam: International Growth Centre .

Prowse, S., 1998. The economics of the private equity market., Dallas: Federal Reserve Bank of Dallas.

Severino, J.-M. & Barraton, P., 2013. A New Economic Path for Sub-Saharan African Countries Through Private Impact Equity. s.l.:s.n.

Sibanda, M. & Mpofu, M., 2015. Private Equity Capital in a Less Developed Economy: Evidence , Issues and Perspectives. AUDCE Financial Institutions and Services, Volume 11, p. 17.

The African Development Bank , 2012. Private Equity Investment in Africa - In Support of Inclusive and Green Growth, London: IC Publications.

The African Private Equity and Venture Capital Association, 2016. African Private Equity and Venture Capital Index and Benchmark Statistics , Cambridge : Cambridge Associates .

The Emerging Markets Private Equity Association, 2015. Private Equity in India, s.l.: The Emerging Markets Private Equity Association.

The Hungarian Private Equity and Venture Capital Association, 2012. [Online]Available at: www.hvca.hu [Accessed 10 October 2017].

APPENDICES

APPENDIX APRIVATE COMPANIES QUESTIONNAIRE BACKGROUND INFORMATION

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

SECTION A: DEMOGRAPHICS

1.1 Sex

Male☐Female☐

1.2 Age

18-25 ☐ 26-30 ☐ 31-40 ☐ Above 40 ☐

1.3 Education

Diploma ☐ Bachelor‘s ☐ Master‘s ☐ Professional☐

Other, Kindly state

………………………………………………………………………………………………
………………………………………………………………………………………………

………………………………………………………………………………………………
………………………………………………………………………………………………

1.4 Job Title

Chief Executive Officer ☐ Chief Financial Officer ☐ Managing Director ☐Treasurer ☐ ☐

Other, kindly

specify…………………………………………………………………………………………
…………………………………………………………………………………………………

…………………………………………………………………………………………………

1.5 Experience

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

SECTION B: The Private Company

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

…………………………………………………………………………………………………
…………………………………………………………………………………………………

…………………………………………………………………………………………………

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

…………………………………………………………………………………………………
…………………………………………………………………………………………………

…………………………………………………………………………………………………

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

…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………

SECTION C: SOURCES OF FUNDING

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

…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………

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

…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………

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

…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………

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

…………………………………………………………………………………………………
…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

SECTION D: PRIVATE EQUITY

4.1 What do you understand by private equity financing?

…………………………………………………………………………………………………
…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

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

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

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

…………………………………………………………………………………………………
…………………………………………………………………………………………………

…………………………………………………………………………………………………

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

…………………………………………………………………………………………………
…………………………………………………………………………………………………

…………………………………………………………………………………………………
…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

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

…………………………………………………………………………………………………
…………………………………………………………………………………………………

…………………………………………………………………………………………………
…………………………………………………………………………………………………

…………………………………………………………………………………………………

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

…………………………………………………………………………………………………
…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

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

…………………………………………………………………………………………………
…………………………………………………………………………………………………

THANK YOU!!!!

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

BACKGROUND INFORMATION

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

SECTION A: DEMOGRAPHICAL INFORMATION

1. The Investment Manager/Private Equity Specialist

1.1 Sex

Male☐ Female☐

1.2 Age

18-25 ☐ 26-30 ☐ 31-40 ☐ Above 40 ☐

1.3 Education

Diploma ☐ Bachelor‘s ☐ Master‘s ☐ Other ☐

Other(Please specify)

………

………....

1.4 Work Experience

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

SECTION B: OTHER INFORMATION

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

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

2.1 Size of the PE firm.

2.1.1 Net Asset Value (NAV)

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

2.1.1 Annual Revenue

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

2.1.1 Size of total investments (Domestic and Foreign)

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

2.1.1 Total number of offices (Domestic and Foreign)

< 10 ☐11-25 ☐ 26-50 ☐ 51-75 ☐ > 75 ☐

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

……………………………………………………………………………………………………
…………………………………………………

2.3 Has your firm previously participated in any of the given asset classes below? (Please tick inside the applicable box)

Seed/early

stage ☐ Growth Capital ☐ Buyout ☐ Special Situations☐

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

…………………………………………………………………………………………………
…………………………………………………………………………………………………

…………………………………………………………………………………………………
…………………………………………………………………………………………………

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

Information,Communicati on & Technology ☐

Banking & Financial Services ☐ Mining ☐ Agriculture ☐ ☐

Light Industries ☐ FCMG Transport and Haulage

Manufacturing and Heavy Industry Food and Fisheries Tourism and Hospitality

Other sectors, kindly state.

…………………………………………………………………………………………………
…………………………………………………………………………………………………

…………………………………………………………………………………………………

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

< 5☐ 5-10 ☐10-15☐ 15-20☐ > 20☐

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

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

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

…………………………………………………………………………………………………
…………………………………………………………………………………………………

…………………………………………………………………………………………………

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

…………………………………………………………………………………………………
…………………………………………………………………………………………………

…………………………………………………………………………………………………

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

…………………………………………………………………………………………………
…………………………………………………………………………………………………

…………………………………………………………………………………………………

3. Investment climate for Private Equity firms.

3.1 Briefly assess the private equity investment climate in Zimbabwe?

…………………………………………………………………………………………………
…………………………………………………………………………………………………

……………………………………………………………………………………………………

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

……………………………………………………………………………………………………
……………………………………………………………………………………………………

……………………………………………………………………………………………………

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

……………………………………………………………………………………………………
……………………………………………………………………………………………………

……………………………………………………………………………………………………

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

……………………………………………………………………………………………………
……………………………………………………………………………………………………

……………………………………………………………………………………………………

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

……………………………………………………………………………………………………
……………………………………………………………………………………………………

……………………………………………………………………………………………………

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

……………………………………………………………………………………………………
……………………………………………………………………………………………………

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

…………………………………………………………………………………………………
…………………………………………………………………………………………………

…………………………………………………………………………………………………
…………………………………………………………………………………………………

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