

DEAL FLOW FACILITY CENTER IN UGANDA

Pre-Study and Market Assessment

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Research and Market Development, Capital Markets Authority Uganda

1.0 Introduction

Access to finance is recognized as one of the major constraints for businesses to grow in Uganda. The lack of capital clearly restricts the ability for companies to grow and achieve their full potential. This in turn leads to, among other things, lower employment, lower government tax revenue, lower exports and lower economic growth.

Therefore, ways should be found to address the lack of funding to the private sector as well as its underlying causes. This proposal looks at establishing a Deal Flow Facility Center to provide businesses with the right support mechanisms to be able to access capital through private equity, venture capital, the securities exchange or bank financing in some circumstances.

Furthermore, the document describes the Kenyan IBUKA, the London Stock Exchange's ELITE and Ghana's Capital SME programs, how Uganda can learn from their experiences and create a program that will enable companies to achieve their full potential and enable them access capital.

The Ministry of Industry, Trade and Cooperatives in Kenya is also planning to launch a new program in July 2019, providing financial assistance to business support providers in order to help companies get investment ready. As part of this, Kenyan business support providers have created the Association of Startup and SMEs Enablers of Kenya with which the Ministry can engage with. Unfortunately, the program has not yet been started yet, so it is difficult to learn lessons from their experiences. Nevertheless, this proposal is borrowing some ideas from their model.

2.0 Potential Sources of Capital for Private Businesses

The most common financing methods used by entrepreneurs in Uganda are self-financing, reinvestment of retained earnings, supplier credits and bank loans, in that order.¹ Raising capital through self-financing and reinvestment of retained earnings severely limits the amount of capital available for private businesses, this paper will concentrate on alternative financing sources such as private equity, venture capital, capital markets, and to some extent bank financing.

2.1 Bank financing

Banks are the 4th most common way for companies in Uganda to finance themselves, however, their ability to provide patient capital to growing businesses remains limited,

¹ Uganda Entrepreneurial Ecosystem Initiative: Phase I, Aspen Network of Development Entrepreneurs

because:

- i. Most bank liabilities are short-term, making it difficult and risky for banks to lend long-term.
- ii. Banks have the ability to earn high interest rates by investing in risk-free government securities without the need for lengthy lending procedures, making private sector lending less unattractive.
- iii. The credit risk of most Ugandan companies is high and the ability to check their credit worthiness is flawed due to challenges with the Credit Reference Bureau as well as the lack of accurate financial reporting, operational procedures and governance structures.
- iv. The lack of eligible collateral such as land owned by companies.
- v. Potentially lengthy legal procedures to claim collateral for non-performing loans.

These reasons cause banks to charge high interest rates, largely offer short to medium term debt, have high collateral requirements and have complicated application procedures².

Creating a Deal Flow Facility Center would not address causes (i),(ii), (iv) and (v), nor the Credit Reference Bureau. The BoU and the Uganda Bankers Association are looking at solutions to address these challenges.

However, having a Deal Flow Facility Center would help companies to put appropriate operational and financial reporting procedures in place, which would reduce the riskiness of lending to companies, enabling more companies to access bank financing at better terms.

The other challenges with bank financing would not be addressed by this proposal, leading this proposal to concentrate on private equity and capital markets, but leave the option open for companies to access bank financing.

2.2 Private Equity³

There is no lack of private equity interest in Uganda with nearly all private equity funds present in East Africa, having a mandate to invest in Uganda. PE funds raised an estimated USD 2.7 billion earmarked for East Africa between 2007 and 2016. An estimated USD 1.4 billion of this has been invested, implying that at least USD 1.3 billion in funds are still waiting to be invested in East Africa. Furthermore, the number of funds

² Uganda Entrepreneurial Ecosystem Initiative: Phase I, Aspen Network of Development Entrepreneurs

³ The term private equity is used broadly and also includes venture capital and other forms of private investments

with presence in the region doubled from 36 recorded in 2014 to 72 in 2016.⁴

This shows the high interest of private equity in East Africa. However, only 4% of the USD 600 million in PE investment in 2015 and 2016 was invested in Uganda, while 80% was invested in Kenya.⁵

The main reasons for the low PE activity in Uganda are:

- i. There is a lack of understanding of the local context, as there are only 19 funds⁶ across the whole PE spectrum, including very early stage, impact and small-scale investors, that have a physical presence in Uganda.
- ii. The informality of most Ugandan businesses with insufficient operational and financial reporting procedure and governance structures as PE deals often collapse during the due diligence phase.
- iii. The fear of business owners to lose control over the business and give information to outsiders.
- iv. The lack of high-quality transaction advisors.

Creating a Deal Flow Facility Center would address the above reasons as:

- i. PE firms would be able to engage the deal flow facility to help them understand the Uganda market and connect them with potential investments. Furthermore, it envisions to create an ecosystem in which information flow both to and from investors and companies will be facilitated, reducing many of the information asymmetries hampering the market currently.
- ii. It would engage companies in how to better structure their businesses in order to enhance their operations and become more investable.
- iii. Business support providers would engage companies on the costs and benefits of different capital raising options and help them structure deals in ways that are suitable to their needs. Furthermore, it would create awareness on the benefits of having outside investors and create mutual trust between companies and PE firms.
- iv. PE firms would be able to access high-quality transaction advisors through the

⁴ Private Equity Sector Survey of East Africa for the period of 2015 and 2016, KPMG and EAVCA

⁵ Private Equity Sector Survey of East Africa for the period of 2015 and 2016, KPMG and EAVCA

⁶ Aga Khan Foundation, AgDevco, Ascent Capital, Business Partners International, Engineers Without Borders Ventures, FINCA, Grameen Foundation, GroFin, ICCO Investments, InvestQ Capital, Mango Fund, Mercy Corps Social Venture Fund, OikoCredit, Pearl Capital, Root Capital, Venture South, XSML, Yunus Social Business Fund, Lungo Capital

deal flow facility, which will ensure the quality of their services and help business service providers bridge their capacity gaps.

2.3 The Capital Markets

The capital markets allow companies to raise large amounts of capital through the issuance of shares or bonds. However, few companies have raised capital through the capital markets and listed their securities. The only listing on the Uganda Securities Exchange (USE) since UMEME's IPO in 2012 was Cipla in 2018 so the total number of listed companies comes to just 17. In addition, there are currently only two bonds listed on the exchange, with 12 bonds having been redeemed since establishment of the USE. This shows that the securities exchange has not been an adequate provider of capital to companies so far.

Nevertheless, the IPOs and corporate bond issuances that have taken place, were largely successful, showing that it is possible to raise capital on the exchange. However, there are multiple reasons why so few companies have done so:

- (i) The lack of readiness of most Ugandan companies in terms of their operational and financial reporting procedures as well as corporate governance structures.
- (ii) The lack of knowledge about capital markets and the requirements to list.
- (iii) The high cost associated with listings on the exchange.
- (iv) The uncertainty of how much the company will be able to raise.
- (v) The reluctance to share company information and their financials, including the potential for higher tax payment requirements.
- (vi) The fear of losing control over the company, especially among family owned businesses.

The proposed business support providers under the Deal Flow Facility Center would directly address these challenges as they would:

- (i) Work with the companies to get them ready to list on the exchange and put in place the necessary operational, governance and reporting procedures. Furthermore, they would look at their business growth strategies and help them implement the recommendations.
- (ii) Take them step-by-step through the listing requirements and explain how the capital market works and how they can access capital.
- (iii) Subsidize some of the costs associated with listing on the exchange, while

- maintaining the buy-in from the company.
- (iv) Develop company valuation reports which estimate the value of a company as well as engage investors on their valuation estimates to get an indication of the amount the company could raise.
 - (v) On a company by company basis, evaluate the benefits and drawbacks of the different ways to raise capital and only advise for listing on the exchange if it is the best option for the company.
 - (vi) Create awareness on the benefits of listing on the exchange and reduce some of the mistrust companies have at the moment.

3.0 Kenya - IBUKA program

In December 2018, the Nairobi Stock Exchange launched the Ibuka program to address the listing drought by helping companies overcome the barriers to list.

During the launch, the lack of understanding of the market, anxiety around regulations and the cost of compliance were highlighted as key factors that discourage Kenyan companies to list. These are similar reasons to why Ugandan companies are reluctant to list. Uganda should therefore closely study the Kenyan Ibuka program and learn from its successes and failures while adopting the program in a way to succeed in Uganda.

In Kenya the program's aim is for companies to benefit from publicity and a one-stop shop access platform to consultancy and advisory services which the NSE coordinates. This should create a holistic approach to get the companies in the program ready to access long-term capital from either private equity or the capital market.

19 companies have applied to participate in the program so far. After a lengthy vetting process 1 company has been accepted, 6 companies are in the final vetting stages, while the other 12 companies are still at an early vetting stage.

While the NSE's ultimate aim is to list more companies on the exchange, there is a wider goal of allowing companies to access patient capital more easily to grow and fulfill their potential. Therefore, the program is not just geared towards listing on the exchange, but also to allow the companies to raise capital through private equity or other means.

With this in mind, the program has been split into two parts, the Incubator Board and the Accelerator Board. The Incubator Board looks at the businesses' operations and aims to improve their prospects, while the Accelerator Board helps the company raise capital through its preferred method.

3.1 Incubator Board

The Incubator program looks to improve the company's operations, create growth strategies and create a sustainable business. With this, the first phase is meant to improve the company to become more attractive to investors by achieving their full potential as well as to ensure the company has adequate operational and governance structures in place.

Therefore, the Incubator Board engages the companies on the following areas through specialized consultants and advisors:

- Finance, including financial reporting
- Technology
- Operational procedures
- Governance structures
- Environmental impact
- Risk management
- The legal and regulatory environment as well as compliance
- Capacity building
- Outsourcing of non-core functions
- Commercial and growth strategies

Following successful Incubation, the company may transfer to the Accelerator Board in order to prepare the company for raising capital.

However, should the company decide to leave the program after this phase, the company would still have benefited substantially from the improvements made to the company during the Incubator phase. Furthermore, the economy would benefit from a better managed and growing company.

3.2 Accelerator Board

Companies can either enter the Accelerator Board directly, if the NSE's vetting process confirms that the company is ready, or after having successfully graduated from the Incubator Board.

This phase aims to help the companies raise debt, quasi-equity or equity looking through either private equity or capital market. Therefore, to figure out the best capital raising

option for a company, a capital raising options analysis is undertaken and a report generated. This report lays out the benefits and drawbacks of using different capital raising options specific to the company. With this the company can make an informed decision of what capital raising option would be optimal for them.

Once the preferred method of capital raising is established, a transaction implementation plan is created which lays out the steps needed to raise the capital.

An equity valuation report is done for the company to learn how much capital it should be able to raise and at what cost. This report can later also be used to engage investors and negotiate with them on the cost of capital.

Then depending on which capital raising option the company prefers, the Accelerator program helps the company through that process and as necessary takes them through the production of other specialized reports such as an offer pricing report or an offer memorandum.

Furthermore, the company will be exposed to local and international investors either through direct introductions or through road shows to publicize the company and attract investors.

As under the Incubator phase, the Acceleration phase is undertaken with the help of specialized consultants, lawyers and transaction advisors which are hired directly by the company, but whose work is coordinated by the NSE.

3.3 Fee Structure

The NSE charges fees for the application, visibility and for the advisor panels. On top of that all the consultants, lawyers and transaction advisors are hired directly by the companies which agree on the terms and conditions of the engagement as well as the fees directly with the consultants, although the NSE will help to coordinate this.

The fees that the NSE is charging for their services and to be part of the program are reasonable, around USD 2,300 for the Incubator program and USD 3,300 for the Accelerator for a year depending on the size of the company and the length of the program. However, the consultant and transaction advisory fees need to be negotiated directly with the providers which are likely to be costly.

There are no reduced fees or help provided to the companies to cover these fees. The cost might be a deterrent for some companies to enter the program. However, this does not seem to be a large problem in Kenya as more than 20 companies have applied to be part of the Ibuka program, of which 6 have been accepted as of April 2019.

In Africa, the cost of listing is often cited as a reason why companies do not list on the

exchange⁷, partly because of a lack of ability to pay, but also because of a lack of willingness as the awareness of the benefits of advisers and consultants is significantly lower in Uganda than in Kenya. Therefore, it should be explored whether financial assistance should be provided to cover part of these costs.

Nevertheless, the companies should have a vested interest in their success during the program to ensure their full commitment. Therefore, business support services should not be offered to companies in Uganda for free or even at highly reduced rates. At the beginning, the cost born by the companies likely needs to be lower and then the companies can start to bear more of the costs as the awareness of the benefits increase.

3.4 The Vetting Process

Before a company is accepted into the Kenyan Ibuka program, it undergoes a rigorous vetting process which includes the review of company documentation, interviews and a market analysis. The vetting process establishes at what stage of development the company is and whether the company should be admitted to the program and if so to which phase.

Furthermore, the vetting process is used to establish the gaps in the company that need to be addressed and based on this the NSE develops a plan for the company, including what consultancy and advisory help is needed.

To be able to create the necessary awareness and investment ecosystem in Uganda, it is likely necessary to allow all companies access to the Deal Flow Facility Center. However, a similar vetting process could be adopted in Uganda, to assess whether a company should be eligible for financial assistance, rather than just inclusion as in the Ibuka program. Every company in Uganda should be allowed access to the Deal Flow Facility Center, but if they do not meet the eligibility criteria for the financial assistance, they would have to bear the full cost of the services.

3.5 Lessons for Uganda

Since Kenya is facing similar difficulties as Uganda in providing access to market-based financing and as the Ibuka program is well thought through, Uganda should closely look at the Ibuka program and see which features should be adopted for a similar program in Uganda.

Few companies are ready to tap market-based financing either due to operational problems, lack of awareness or unwillingness. Although all these problems exist in Kenya, they are significantly less prominent than in Uganda. Uganda needs to grow

⁷ <https://allafrica.com/stories/201812240498.html> & Aderibigbe Temitope et al, 2015, Opportunities and Problems of Investment in the African Stock Exchange: A Selection of NSE, GSE &RSE

awareness of the benefits of the capital markets much earlier on in the development of the company and build trust over time. Therefore, the program in Uganda should help companies with all aspects to grow and raise capital and should continue to provide business support once the company has raised capital to ensure they succeed in their next growth phase and potentially become a listing candidate in the future.

Furthermore, as the awareness of the benefits of business support services is much higher in Kenya than in Uganda, it is unlikely that Ugandan companies will be willing (or able) to carry the full cost of the business support services. Therefore, Uganda should consider ways of providing financial assistance. Nevertheless, companies need to take the program seriously and have their incentives aligned with the program. Therefore, Ugandan companies should carry a substantial part of the cost of the program - to what extent should be established by a market study to ensure the right balance between incentive alignment and participation.

4.0 London Stock Exchange - ELITE program

The ELITE program is an accelerator program run by the London Stock Exchange (LSE) to help companies across the world access financing. The program is run by the LSE to facilitate listings and corporate bond issuances on the LSE as well as cross-listings with other exchanges, in also helping companies to raise capital through other means, such as private equity.

ELITE helps companies to scale up, re-structure their businesses for growth and be more competitive in the global marketplace through:

- A deep organizational review.
- Implementation of changes to focus on the company's goals.
- Access to other business leaders, entrepreneurs, academics, advisers, investors and stakeholders.
- Support to access a range of funding options⁸.

ELITE has a global network of 1,050 companies in 40 different countries, across 35 different industries and with aggregated company revenues of USD 67bn, while it also has a significant presence across Africa with 70 companies, employing over 20,000 people in total⁹. ELITE companies globally have raised a total of USD 1.7bn in capital through 95 transactions.

⁸ <https://www.lseg.com/elite>

⁹ <https://www.elite-network.com/>

The Nairobi Securities Exchange (NSE) signed a memorandum with ELITE in April 2018 and the Kenyan National Oil Company has voiced interest in listing on both the NSE and the LSE¹⁰.

A total of 108 African companies are listed on the LSE, although not necessarily through the ELITE program, with a market capitalization of more than USD 200bn, having raised USD 16bn over the last 10 years.

4.1 Lessons for Uganda

The ELITE program is largely designed for large and established companies and with the aim to encourage more listings on the LSE through cross-listings on other exchanges. Most Ugandan companies are too small to consider listing on the LSE and are likely to need different support from the companies that ELITE is targeting. Therefore, the ELITE program would unlikely be effective in Uganda and the Ugandan program should not be modelled upon the ELITE program.

5.0 Ghana - Capital SME program

Ghana's Capital SME program is housed and funded by the British High Commission in Accra and was developed due to the need to get companies investment ready and help them raise capital.

Phase I of their program created a Deal Flow Facility for SME's to list on the Ghana Alternative Market (GAX) and increase access to capital through the securities exchange, thereby also increasing capital market activity. The program focused on providing SMEs with access to information on how capital markets work, how the GAX works and stories about SMEs in Ghana who have already listed. Furthermore, Capital SME organized business clinics, training sessions and provided the necessary advisory support to list on the GAX.¹¹

However, only 5 SMEs listed on the GAX as the program discovered that the listing on the GAX is not always the best option for the SMEs, which is why their strategy was changed during Phase II, which was launched in 2018.

Phase II concentrates on helping companies raise capital, but rather than just concentrating on the GAX, it also focused on other investment avenues, such as private or venture capital or high net worth individuals. The program is aimed at investment-ready SMEs that have already successfully completed one of DfiD's incubator programs.

¹⁰ Press release by the LSE on 17th April 2018

¹¹ <http://www.capitalsme.com.gh>

This also ensures that Capital SME already has some knowledge about the companies to ensure their buy-in into the program and that they are attractive investments for investors.

As part of the program, Capital SME educates the companies on the different financing options available to them and trains them on how to prepare businesses pitches, information memorandums and in soft skills to be able to effectively present this information to potential investors.

Furthermore, Capital SME has hired KPMG to carry out due diligence on all the companies in the program. Capital SME realized the due diligence phase is the largest bottleneck to finalize the investment once the investor has shown interest in a company. Therefore, Capital SME aims to remove this bottleneck and only present SMEs to the investors once they are completely ready to be invested in without a lengthy due diligence process. As at end April 2019, this is where Phase II of the program was at with KPMG collecting the information from the companies in order to be able to carry out the due diligence.

Once the due diligence is completed, KPMG will group the SMEs together to enable investors to invest in a bouquet of companies at the same time as the size of the individual companies is likely too small for most of the more established investors. However, it remains the investors' choice to invest in individual companies or in the whole bouquet.

Once the due diligence, the banqueting and the training of the SMEs is finished, investors will be approached. There is currently no register of investors, so Capital SME is largely going to rely on the investors that KPMG has worked with as well as other investors that they already know.

It is likely that the SMEs will be highly attractive to the investors as they will have undergone extensive training, are attractive business opportunities and because the due diligence will have already been completed and paid for Capital SME. With this, the investors and the companies only need to agree on the terms of the investment which should significantly speed up the investment process and reduce the costs for both the SMEs and the investors, as Capital SME paid for all the training and the due diligence.

With this the program is designed to address the main issues on the investor as well as the issuer side, helping companies in their last steps to get investment-ready, undertake the due diligence and match the companies to investors.

Currently the program covers 9 companies, but if successful, it is expected to be scaled up.

5.1 Lessons for Uganda

The Capital SME program is focused on SMEs, while Uganda's deal flow facility is intending to concentrate on medium to large companies, at least at the start. Nevertheless, there are many similarities between the challenges faced in Ghana and Uganda, making Capital SME a good program to learn from.

Phase I of the Capital SME program was not as successful as hoped for as it concentrated on listing companies on the GAX, rather than focus on all possible financing options. Just concentrating on getting companies to list in Uganda would likely run into similar problems, therefore Uganda's deal flow facility should ensure all financing options are covered and presented to the companies for them to choose the most suitable option.

Capital SME has a good prior knowledge of the companies in its program as they have already undergone an incubator program, mostly one of DfiD's incubator programs. This ensures their buy-in into the program even though they are not making any financial contributions. This is unlikely to be the case for the deal flow facility in Uganda which is intended to operate at a larger scale. Therefore, the deal flow facility needs to ensure the full buy-in of the companies by requiring them to make a financial contribution to the services provided.

Furthermore, requiring SMEs to have already undergone an incubator program, restricts the number of companies that could benefit from the program. As the deal flow facility is planned at a larger scale and provide solutions to all companies, incubator services should also be provided, helping companies to get to a stage where they are investment ready.

Putting the SMEs together into a bouquet for investors is an innovative way to attract more investments into SMEs and be able to attract larger investors that would usually not be interested in SMEs. However, as Uganda is for now concentrating on medium to large companies, this is not as applicable. However, once the deal flow facility gets opened up to small companies, such an investment model should be considered.

Capital SME is relying on the list of investors that have previously worked with KPMG which is likely to be only a subset of investors. Furthermore, in the future, it will give an advantage to KPMG when attracting investors, as KPMG will be able to better match investors to companies. This could have a negative impact on competition in the transaction advisory market, if the program is scaled up. As Uganda is envisioning to create an investment ecosystem which creates competition between the different providers, using one or even a few preferred partners should be avoided. Instead there should be a competitive process when choosing the service providers for the different companies on a one-by-one bases. With the Deal Flow Facility Center being a central

body, helping companies procure businesses support services, the deal flow facility should also have good negotiation power and be able to reduce the costs of providing these services, while at the same time providing more business for the business support providers.

6.0 Proposal for a Deal Flow Facility Center in Uganda

6.1 Rationale

There is a common theme why companies have not been able to raise sufficient capital to grow and achieve their full potential, which has hampered private sector employment and economic growth.

These common themes are:

- Informality of businesses, with a lack of sufficient operational and financial reporting procedures as well as weak governance structures.
- Lack of awareness of the benefits amongst companies of private equity and capital markets.
- Investors' lack of understanding of the Ugandan context and companies.
- Lack of trust between investors and companies.

Therefore, it is important to create a mechanism to help companies and investors overcome such barriers and allow them to grow to their full potential. Creating a deal flow facility would do exactly that as it would:

- Help entrepreneurs develop their businesses, formalize their operations and pursue growth strategies.
- Increase awareness among companies on the capital raising options and the benefits of having a formalized company.
- Help investors understand the Ugandan market and its companies.
- Create an interaction platform between companies and investors with trusted partners in the middle to facilitate the investment process and reduce mistrust between the parties.

6.2 Overview of the Deal Flow Facility Center

The deal flow facility will be a coordinating body that companies can use to receive the whole spectrum of business support services.

To do so the coordinating body will establish the gaps and needs of the companies through a vetting process. This vetting process would also establish whether the company is eligible for financial assistance to contract businesses support services. Then it should recommend a variety of business support services to the company based on their needs as well as their financial ability to pay for them.

The Deal Flow Facility Center would also be an easy access point to information and resources on the company development and market-based financing. There are currently many parties involved in conducting market research or facilitating market development. However, this information is badly disseminated and coordination is limited which significantly reduces their impact. A centralized information system would improve this.

Furthermore, the coordinating body should be able to interact with regulators on behalf of its members and could push for regulatory changes as it observes the challenges in the market.

6.3 Attracting Businesses Support Service Providers

The first step for the deal flow facility would be to attract business support providers to become members through directly contacting the well-known providers as well as conducting a small media campaign to attract the less-known providers and create awareness about the program.

Potential providers would undergo a vetting process and pay a subscription fee to become a member of the body. The business support provider should be vetted in order to ensure quality services as well as assure companies and investors of their quality as the lack of trust and low-quality service providers are often cited as a problem by market participants. In this regard, the deal flow facility should act as a self-regulatory body for business support providers. How rigorous this vetting process should be would be decided by a market study looking at the assurances investors and companies need while taking into consideration the costs of the vetting process.

A membership subscription fee should be payable in order to meet the costs of the coordinating body, including the coordination of the business support, providing an information center, do pre-assessments on the companies and assure the quality of the business providers. Although demand would likely be high for such a body as it would create more businesses opportunities for their service, their ability to pay subscription fees may be limited.

A survey would be undertaken to understand the needs and preferences of the business support providers as well as assess their ability and willingness to pay for a coordination body.

6.4 The Vetting Process for Companies

The vetting process would establish the needs of the company and assess their eligibility for financial assistance to receive subsidized business support services.

The vetting process should at a minimum include the review of the company's financial reports and interviews with management and the board. However, depending on the size of the company and the company's goals, the vetting process could amongst other things also include the review of operational manuals, site visits and interviews with market specialists, employees, customers and suppliers.

The needs established under the vetting process should be high-level and should be explored further once the company contracts its desired advisors. However, it is necessary in order for the coordinating body to establish the gaps and potential of the company and make recommendations of how to address them.

Part of the vetting costs should be covered by the subscription fees paid by the business support providers. The rest should be covered by the companies themselves or through financial assistance provided to them. The vetting process should further be used to establish whether the company is eligible for financial assistance and to what extent.

There should be no vetting process for investors, however the coordinating body should ensure that the investors act ethically and do not take advantage of the companies during the capital raising phase. Furthermore, investors should be able to be given the chance to register with the deal flow facility in order for services providers and companies to be aware of their investment models and be able to contact them for possible investment opportunities.

6.5 Coordination of Business Support Services for Companies

The deal flow facility coordinating body should coordinate the business support services received both by companies as well as investors.

Once the assessment on the company has been done and the coordinating body has given recommendations on the areas of improvement, the coordinating body should help the companies contract providers. This should be done through a competitive process, taking into consideration both the quality of the service as well as the cost. The service providers should be directly contracted and paid for by the companies. However, the deal flow facility would help the companies negotiate the fees and the terms of engagement with the business providers. The deal flow facility would have better negotiation power than the individual companies, as the deal flow facility is intended to become the point of contact for companies to access businesses support

services. This should reduce the cost of business support services for Ugandan companies.

Then the coordinating body should have regular check-ins to ensure that the different service providers provide a holistic approach and work together in order to address the challenges of the company as well as provide high-quality services.

A holistic view should be taken by the Deal Flow Facility Center coordinating body and should offer business support services when the company aims to improve its business as well as before, during and after capital raises. Therefore, the deal flow facility should ensure companies can receive support in the following areas:

- Financial advice
 - Accounting
 - Auditing and financial reporting
 - Taxation
- Legal services
 - The legal and regulatory environment
 - Compliance with the law and regulations
 - Review and drafting of contracts
 - Due diligence
- Operational management and procedures
 - Organizational structure
 - Talent management
 - IT
 - Environmental impact
 - Risk management
 - Inventory management
 - Operational systems and processes
 - Payment systems
- Corporate governance
- Capacity building
 - Soft skills, e.g. helping companies be able to effectively pitch their

- businesses to potential investors
 - Technical skills
- Commercial and growth strategies
 - Outsourcing of non-core functions
 - Entering new markets
- Transaction advisory services
 - Advise to establish the best financing options
 - Advise on listing requirements
 - Equity evaluations
 - Introductions to investors
 - Drafting of offering documents and prospectus

6.6 Business Support Services for Investors

While the focus of the Deal Flow Facility Center should be on companies, the needs of investors, especially private equity investors need to be addressed as well in order to create an effective ecosystem for companies to be able to raise capital.

Section 2.3 highlights the challenges faced by private equity, including the lack of understanding by many private equity firms of the Ugandan context and the lack of high-quality transaction advisors.

Therefore, the deal flow facility would offer support to investors in order to address these challenges, both through quality support services provided by advisors as well as through the information center which would disseminate information on the PE and the capital markets as well as other relevant market studies. This would make it easier for investors to understand the Ugandan market.

Furthermore, PE firms often state the difficulty to source deals as a challenge. Therefore, having both companies and investors use the Deal Flow Facility Center would facilitate the introduction of investors to companies. Using the deal flow facility as an introduction facilitator would also reduce the mistrust between companies and investors as the deal flow facility would act as a trusted intermediary which has an interest in the success of both parties.

Nevertheless, the coordinating body would not be responsible for the coordination of support services for investors unless the investor specifically pays the coordinating body to do so. However, no financial assistance would be offered to investors. Instead the

coordinating body would be the first point of contact to learn about the different service providers and be able to access information about the Ugandan investment market.

Therefore, the deal flow facility would offer the following services to investors:

- Sourcing of investments
 - Introductions to companies
 - Market analysis, including providing local context
 - Financial return analysis and company evaluations
 - Due diligence
- Legal advice
 - The legal and regulatory environment
 - Compliance with the law and regulations
 - Review and drafting of contracts and offering memorandums
 - Drafting of terms sheets
 - Taxation
- Post-investment monitoring

7.0 Umbrella Institution

The Deal Flow Facility Center should be based under an institution which ensures the most effective outreach to companies and can effectively coordinate the services with business support providers for companies as well as investors. Furthermore, the institution should be dynamic in order to move with the market and limited bureaucratic processes. This makes an institution in the private sector, such as the Private Sector Foundation, the Ugandan Manufacturing Association or the Ugandan Securities Exchange most likely.

However, a market study should be undertaken to establish the benefits and drawbacks of different potential umbrella institution, whether the institution would be interested and capable of housing the Deal Flow Facility Center as well as whether the deal flow facility would be a priority area for the institution.

As steam should not be lost on the deal flow facility, the CMA will develop the deal flow facility at the start and the hand-over the development and the running of the deal flow facility to the chosen institution once the institution is ready.

8.0 Recommendation

The Deal Flow Facility Center address many of the challenges in the capital markets as it would create an effective ecosystem to link investors and companies and facilitate the raising of capital. Therefore, the deal flow facility above should be set up.

Furthermore, the deal flow facility links in well with the National Private Sector Development Strategy 2016/17-2021/23, which has the following as part of its main objectives:

- Formalization of companies
- Mobilize long-term capital for companies
- Improve access to business development services
- Support different financing instruments (e.g. private equity and venture capital)

In order to set-up an effective Deal Flow Facility Center, a market study should be conducted to establish the preferences and needs of companies, investors, business support providers as well as other stakeholders to establish the best structure of the Deal Flow Facility Center.