THE ROLE OF PRIVATE EQUITY IN NATIONAL ECONOMIC DEVELOPMENT

THE CASE OF ZIMBABWE

BY

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JULY, 2012
DECLARATION

I Mercy Mukwembi do hereby declare that this dissertation is the result of my own investigation and research, except to the extent indicated in the Acknowledgements, References and by comments included in the body of the report, and that it has not been submitted in part or in full for any other degree to any other university.

__________________________            Date_________
Student signature

__________________________            Name: A.M Chidakwa            Date:_________
Supervisor’s Signature
DEDICATION

This piece of work is dedicated to my late mother Theresa Sesedzai Mukwembi (nee Mushandu) who taught me to follow the desires of my heart.
ACKNOWLEDGEMENTS

My special acknowledgement goes to my supervisor, Mr A.M. Chidhakwa, Graduate School of Management (GSM), University of Zimbabwe, for his guidance and inspiration throughout my project work, which has helped me in completing this study.

I once again wish to thank the management for various companies and associations for participating in the Survey and also for providing the much needed information to make this dissertation a success. Special thanks also go to Mr Lovemore Chidemo for his assistance throughout this project.

Last but not least I would also like extend my thanks to my husband Harrison and my sons Harrison (Jnr) Anesuishe and Hilliard Atikudzaishe who have always supported me during my academic journey. I also extend my heartfelt thanks to my parents who have taught me to treasure the desires of my heart.
ABSTRACT

This study sought to investigate the role played by Private Equity in promoting economic development in Zimbabwe over the past decade. The study also sought to investigate factors that were constraining the growth of the Private Equity sector in Zimbabwe. The study was based on the background of the search by government to accelerate economic growth and the achievement of the country’s Millennium Development Goals (MDGs). While a lot has been said about economic development, little has been said by the government on how to address the issue of financing such development and growth. Further while several studies have been carried out in developed economies on the role of private Equity in economic development, the same has not been done in the Zimbabwean context. The study adopted a quantitative research design approach. The population of this study consisted of Private Equity firms based in Harare. Questionnaires were sent to Private Equity firms with request for information that included sales growth, profit growth and employment growth of portfolio firms. Further information was requested from firms regarding fund sizes, new investments, new products introduced etc.

The Private Equity sector is still quite small compared to global Private Equity deal flow, a situation which has constrained the sector’s overall contribution to economic growth in Zimbabwe. New investments amounting to US$67 million since 2009 were significant although coming off a low base. Most of the funds under management had foreign origin proving that the Private Equity sector in Zimbabwe is a significant conduit for Foreign Direct Investment in Zimbabwe.

While the results showed that Private Equity contributed significantly to growth in the Zimbabwean economy several factors were identified that continued to drag the sector in Zimbabwe. Most of the respondents cited high political risk in the country which made it difficult to raise funding offshore for local investments. It also emerged that the lack of
depth of the local financial market was hampering the growth of the sector particularly difficulties in exiting from portfolio holdings.

Notwithstanding the challenges that the sector is facing in Zimbabwe, there is a lot to recommend in Private equity to finance economic growth in Zimbabwe. Further research is also recommended, in particular into the factors affecting the growth of Private Equity in Zimbabwe and how best the government could promote the growth of this sector.
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# ABBREVIATIONS AND ACRONYMS

<table>
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<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>&quot;GNU&quot;</td>
<td>Government of National Unit.</td>
</tr>
<tr>
<td>&quot;US&quot;</td>
<td>United States.</td>
</tr>
<tr>
<td>&quot;VC&quot;</td>
<td>Venture Capital.</td>
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<td>&quot;NTBF&quot;</td>
<td>New Technology Based Firms</td>
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<td>&quot;FDI&quot;</td>
<td>Foreign Direct Investment.</td>
</tr>
<tr>
<td>&quot;SME&quot;</td>
<td>Small to Medium Enterprises.</td>
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<tr>
<td>&quot;PE&quot;</td>
<td>Private Equity.</td>
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<tr>
<td>&quot;MBO&quot;</td>
<td>Management Buyout.</td>
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<tr>
<td>&quot;IPO&quot;</td>
<td>Initial Public Offering.</td>
</tr>
<tr>
<td>&quot;LBO&quot;</td>
<td>Leveraged Buyout.</td>
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<tr>
<td>&quot;EMPEA&quot;</td>
<td>Emerging Markets Private Equity Association.</td>
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<tr>
<td>&quot;FFDI&quot;</td>
<td>Financial Foreign Direct Investment.</td>
</tr>
<tr>
<td>&quot;EVCA&quot;</td>
<td>European Venture Capital Association.</td>
</tr>
<tr>
<td>&quot;EU&quot;</td>
<td>European Union.</td>
</tr>
<tr>
<td>&quot;CASE&quot;</td>
<td>Central Africa Stock Exchange.</td>
</tr>
<tr>
<td>&quot;R &amp; D&quot;</td>
<td>Research and Development.</td>
</tr>
<tr>
<td>&quot;ZSE&quot;</td>
<td>Zimbabwe Stock Exchange.</td>
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CHAPTER 1
INTRODUCTION

1.1 BACKGROUND

The economic decline in Zimbabwe for the past decade has been discussed in several fora and is well documented (Davies (2004), Jenkins, Carolyn, Knight, John (2002)). Suffice to say the economy witnessed unprecedented economic decline with inflation reaching 231 million percent in July 2008 (Reserve Bank of Zimbabwe, 2009). The political situation during the same period has also been well publicised and this contributed to the country’s economic challenges. However, the political and economic landscape somewhat improved following the formation of the Government of National Unity (GNU) in February 2009.

Some estimates put the required funding to turn around the economy at a staggering US$10 billion (Bloch, 2010). Several conferences have been held by various stakeholders in order to attract resources to kick-start the industrial sector and Zimbabwe's economic transformation. The level of investment needed to restore the economy to its mid-1990s levels on a sustainable growth trajectory is stupendous. Donor agencies previously promised to pour in money to aid in resuscitating the economy but aid flows have not been encouraging, for example for the first quarter of 2012 the country was projecting Official Development Assistance of US$500 million but only US$184.9 was realized (Fiscal Policy Review, July 2012). Alternative sources of funding have therefore to be found while at the same time deepening local financial markets for sustainable economic growth. One alternative that has not been given enough attention is Private Equity and this research is an attempt to establish the merits of Private Equity as a possible source of investable funds in Zimbabwe.
Private equity investing may broadly be defined as "investing in securities through a negotiated process". The majority of private equity investments are in unquoted companies. Private equity investment is typically a transformational, value-added, active investment strategy. Private equity investing is often divided into the two broad categories; namely Venture Capital and Buyout Investing. Each has its own subcategories and dynamics and whilst this is simplistic, it provides a useful basis for portfolio construction. Described as the "business of building businesses", venture capital is investing in companies that have undeveloped or developing products or revenue. Venture capital has a particular emphasis on entrepreneurial undertakings and less mature businesses. A buyout fund typically targets the acquisition of a significant portion or majority control of businesses which normally entails a change of ownership. Buyout funds ordinarily invest in more mature companies with established business plans to finance expansions, consolidations, turnarounds and sales, or spinouts of divisions or subsidiaries. In this study, private equity (PE) is the universe of all venture capital (VC) and buyout investing, whether such investments are made through funds, funds of funds or secondary investments. Hence the terms PE and VC are used interchangeably in this study.

Several studies have attempted to highlight the importance of Private Equity financing and its link to economic growth. For example Koh and Koh (2002) assert that venture capital plays an important role in innovation and economic growth. They attributed the resurgence of the United States as a technology leader is intimately linked to the success of Silicon Valley, which was financed by Private Equity. Meyer (2005) using an econometric analysis of 20 European countries for the period between 1994 and 2004 supported the hypothesis that private equity investments promote economic growth.

Peneder (2002) argued that ample anecdotal evidence illustrates the importance of venture capital in enabling firms to carry out ambitious business plans and to sustain and grow during particularly critical phases of their development. Thus, venture capital has earned permanent mention in international scoreboards and strategy
papers on innovation and enterprise policies (Bertoni, Colombo and Grill, 2005). It is contended in the financial literature that this financing mode offers a fundamental contribution to the success of high-tech entrepreneurial ventures (Sahlman, 1990; Gompers and Lerner, 2001; Kaplan and Strömberg, 2001; Denis, 2004).

1.2 PROBLEM STATEMENT

Zimbabwe is a country emerging from a decade of economic decline and in need of capital to drive the turnaround program. Estimates for the turnaround programme are US$10 billion. This amount is expected to come from multilateral donor and lending institutions as well as inward foreign direct investment. The country needs a sustainable funding framework to make the economy work and to put it on the desired growth trajectory. Most of the growth will, however, have to come from the private sector.

While there may be growth opportunities as a result of the recent political and economic changes, particularly the multicurrency regime, financing to take advantage of such opportunities is scarce. Private Equity might offer a viable alternative for Zimbabwe. While Private Equity and its role in other countries is well documented, not much has been done in Zimbabwe to benefit from this source of finance.

The purpose of this research is to investigate the potential role that Private Equity can play in supporting Zimbabwe’s economic growth. The study will also explore the factors that have hindered Private Equity from fully contributing to Zimbabwe’s economic development.
1.3 **RESEARCH OBJECTIVES**

The objectives of the present study were to:

- Explore the role of Private Equity in Zimbabwe’s economic development.
- Establish the role played by Private Equity in the economic development of Zimbabwe in the past.
- Explore factors that are limiting the role of Private Equity funds in Zimbabwe.
- Proffer recommendations for the active participation of Private Equity sector in Zimbabwe.

1.4 **RESEARCH PROPOSITION**

- There is a positive relationship between Private Equity participation and economic development.
- Private Equity presents a viable alternative to financing growth industries and ultimately economic growth in Zimbabwe.

1.5 **RESEARCH QUESTIONS**

The researcher was guided by the following research questions:

- What is the role of Private Equity in promoting economic development?
- What role did Private Equity Funds play in Zimbabwe’s economic growth in the past?
- What are the factors constraining the development of a vibrant Private Equity Funds market?
- How can the Private Equity sector be promoted in order for it to play a role in Zimbabwe’s development?
1.6 JUSTIFICATION OF RESEARCH

The study sought to highlight the ways in which access to finance is linked to economic growth. It also sought to identify the role that private equity financing plays in Zimbabwe. The research also investigated current constraints to the development and strengthening of the private equity industry in Zimbabwe. It sought to satisfy the interest of many stakeholders who include government through the Ministries of Finance, Industry and Commerce as well as Economic Development and Investment Promotion that responsible for generating innovative ways to boost investment and economic development. Other beneficiaries of the study output include the financial institutions, investors, entrepreneurs, Private Equity Funds, academic researchers and industry.

1.7 ASSUMPTIONS

The following assumptions were made in pursuit of this study:

- All research informants knew something about private equity and how it functioned, including the different models of private equity,
- Various of stakeholders would co-operate and lend their support to the researcher and provide the required information
- The study would be objective in data collection and interpretation

1.8 RESEARCH SCOPE

The study focused on the role of private equity as a form of financing, especially for Small to Medium Enterprises (SME), in Zimbabwe and how this form of financing could drive the economic turnaround programme. The Ministry of Small and Medium Enterprises Development (MSMED) in The National Policy and Strategy Framework for Small and Medium Enterprise Development, 2008 – 2012, defines an SME as a business entity involved in a legal business activity with the objective of generating income and ultimately a profit through provision of goods and services. A small enterprise must be independent of a large business organisation i.e. branch or
subsidiary. The number of permanent employees should not exceed 100 for services industries and 200 for mining, quarrying, manufacturing, gas and water and construction. The study also investigated the current status of this sector, including factors that were then inhibiting its growth and what may possibly be done to facilitate its rapid growth. Research data was obtained from a sample of twenty five professionals working in the Private Equity industry drawn from Harare. The study was expected to be representative and unbiased by including all Private Equity firms and other asset managers with private equity businesses in Zimbabwe. Only participants from Harare were chosen because Harare is the capital city and the hub of most economic activities in the country and hence all the major Private Equity players have offices in Harare.

1.9 LIMITATIONS

The research study was subject to the following limitations:

Financial constraints – The researcher was required to travel and interview entrepreneurs and professionals scattered all over the city. The researcher was also expected to contact research participants using the telephone which was also very expensive. Notwithstanding this, the study had a relatively large sample of 25 that enabled the researcher to proceed with the analysis.

Disclosure - Some of the participants in the research could not disclose all information required or they provided inaccurate information and data which could affect the findings of this research. To address this limitation for all data gathered the researcher assured participants of the confidentiality of the information and also avoided asking information of a personal nature.
1.10 DEFINITION OF KEY TERMS

**Private Equity (PE)** – This refers to the holding of stock in unlisted companies – companies that are not quoted on a stock exchange (EVCA Handbook). It includes forms of venture capital and Management Buyout (MBO) financing (EVCA Handbook).

**Management Buyout (MBO)** – The buyout of a firm by current management with assistance of a Private Equity firm (EVCA Special Paper, 2008).

**Venture Capital (VC)** - The term given to early-stage investments. Venture capital is a sub-category of private equity that usually refers to investments made in less mature companies (EVCA Handbook). There is often confusion surrounding this term. The term venture capital is loosely used as a proxy for private equity. In this study the terms Venture Capital and Private Equity are used interchangeably as Venture Capital is the most prevalent form of Private Equity in Africa and of major interest to developing the continent (AVCA, 2008)

**Seed capital** - the provision of very early stage finance to a company with a business venture or idea that has not yet been established (EVCA Handbook).

**Initial public offering (IPO)** - An IPO is the official term for 'going public'. It occurs when a privately held company - owned, for example, by its founders plus perhaps its private equity investors - lists a proportion of its shares on a stock exchange. IPOs are an exit route for private equity firms. Companies that do an IPO are often relatively small and new and are seeking equity capital to expand their businesses

**Early-stage finance** - This is the realm of the venture capital - as opposed to the private equity - firm. A venture capitalist will normally invest in a company when it is in an early stage of development. This means that the company has only recently been established, or is still in the process of being established - it needs capital to
develop and to become profitable. Early-stage finance is risky because it's often unclear how the market will respond to a new company's concept. However, if the venture is successful, the venture capitalist's return is correspondingly high.

**Debt financing** - This is raising money for working capital or capital expenditure through some form of loan. This could be by arranging a bank loan or by selling bonds, bills or notes (forms of debt) to individuals or institutional investors. In return for lending the money, the individuals or institutions become creditors and receive a promise to repay principal plus interest on the debt.

**Business angels** - individuals who provide seed or start-up finance to entrepreneurs in return for equity (EVCA Handbook). Angels usually contribute a lot more than pure cash - they often have industry knowledge and contacts that they can pass on to entrepreneurs. Angels sometimes have non-executive directorships in the companies they invest in.
1.11 OUTLINE OF THE DISSERTATION

The rest of this dissertation is arranged as follows:

**Chapter 2** reviews the available literature on Private Equity in particular taking into consideration the different theoretical aspects and findings of previous studies. The aim of the literature review is to unpack theoretical and empirical underpinnings of the study.

**Chapter 3** covers the methodology applied during the study. Justification of the methods and instruments used are also discussed.

**Chapter 4** presents the results of the study and an analysis of the same is done. The study findings are also discussed in this chapter.

**Chapter 5** concludes the study with recommendations. Areas of further research are also suggested in this chapter.
CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter discusses literature on private equity and economic development. The chapter looks at the impact of private equity in general, and particularly venture capital, at the micro and macro levels. The chapter looks at the role of private equity in employment growth, innovation and aggregate economic growth. Finally the chapter reviews existing body of knowledge about the role of Private Equity in financial markets development. The rest of this section is arranged as follows:

2.2 ANALYSIS OF PRIVATE EQUITY

According to Ribeiro (2007) Private Equity/Venture Capital (PE/VC) firms are financial intermediaries that perform investment in equity or quasi-equity instruments of unlisted companies and projects. It has been used around the world to finance privatisations of government-owned firms, infrastructure development, buyouts, and specially the creation and expansion of high-growth small and medium-sized enterprises (SMEs) Ribeiro (2007). Typically, investments in early stage companies (i.e. seed capital, start-up and expansion stages) are considered as the venture capital (VC) segment of the PE/VC industry (Berger and Udell, 1998).

There are various types of private equity financing. According to Meyer (2008), there are broadly two categories of Private Equity investments, namely Venture Capital and Buyouts. Traditional finance has little to offer start-ups (volumes are too small, risks are too high) and is sometimes unable to maximize the value of troubled or complacent firms. This is where private equity in the form of venture capital and buyout investments may jump into the breach. Below is a succinct discussion of the various types of private equity finance.
Venture capital is the most widely known form of private equity finance. This facility is extended to start-up projects that tend to be constrained by little managerial experience and financial resources (Meyer, 2008). Venture capitalists supply funds and professional advice. Hence, they are often needed to turn an idea into a business. The early days of a firm are perilous. Less than one out of ten start-ups survives their first few years (Berger and Udell, 1998). Such a risk profile turns away many investors. Moreover, most start-ups have few tangible assets that could serve as collateral (Berger and Udell, 1998). The most valuable assets of innovative start-ups are the ideas in the mind of the entrepreneurs and their intention to work hard in order to turn them into a profitable business. Neither can be used to secure a loan (Meyer, 2008). The risk profile and the lack of tangible collateral of typical startups call for external finance in the form of equity stakes. Although many start-ups fail, some will survive and a few will even become fabulously successful. A holder of equity shares in the downside as well as the upside. A debt-holder would only receive a fixed amount of interest no matter how successful the firms were to become and nothing or very little if the firms go bust.

Buyouts are also an important element of private equity financing. In the buyout, private-equity investors regard themselves as transformers and improvers of companies (Maxwell, 2007). They use modern management techniques and advanced financial instruments to increase the value of their stakes and they do not shy away from breaking old habits (Meyer, 2008). Maxwell (2007) notes that most of the buyouts in private equity transactions are leveraged. Leveraged buyout (LBO) or buyout refers to a strategy of making equity investments as part of a transaction in which a company, business unit or business assets is acquired from the current shareholders typically with the use of financial leverage. The companies involved in these transactions are typically mature and generate operating cash flows (Cendrowski, 2008).
2.3 THE FUNCTIONS OF PRIVATE EQUITY

Peneder (2002) argues that there is a small but growing body of literature analysing the economic impact of venture capital. These studies range from macro-economic panel estimations (Romain and van Pottelsberghe, 2004), to estimations mainly based on sectoral data (Kortum and Lerner, 2000; Tykvová, 2000) and to micro-econometric analyses (e.g., Hellmann and Puri, 2000, 2002; Botazzi and Da Rin, 2002; Engel, 2003). These studies have generally shown that Venture Capital impacts positively on the firm accessing it. The positive impact ranges from increased sales, higher growth rates and new product development. Peneder (2002) warns against reaching general conclusions from such studies because of the heterogeneous data sources, consequent choice of methods and control variables, and varying contexts of different national venture capital markets (p3). He reports that the careful examination of these studies reveals at least three different transmission mechanisms by which venture capital may exert an influence on overall economic performance of the firm receiving it. These mechanisms are financing, selection and value adding functions.

The specific ‘financing’ function applies when venture capital markets generate new business cases that have not had access to (adequate) financing through traditional sources of capital. Venture capital is an important alternative for companies that have difficulties accessing more traditional financing sources (Sapienza, Manigart & Vermeir, 1996, p.103-104). Venture capital represents an important financial injection for early-stage companies that do not have evidence for persistent profitability yet (Kleberg, 1998). Venture Capital is needed to trigger, maintain and to speed up the small enterprise’s growth. Second, the specific ‘selection function’ involves the allocation of financial resources to the most profitable uses when uncertainty and problems of asymmetric information are particularly high (Peneder, 2002). Finally, venture capital firms often claim to fulfill a genuine ‘value adding function’, since they not only contribute capital but also managerial experience, access to informal networks and professional business models.
Peneder (2002) empirical findings with a sample of Austrian SMEs confirm the financing function of venture capital, showing that most recipients had little access to satisfactory alternative financing sources. Furthermore, the study revealed that firms with venture capital financing grew significantly faster than other firms. After controlling for positive selection effects, the analysis identified an additional causal impact (value added function), which amounts to a faster annual growth of at least 70 per cent as a robust lower boundary across a wide range of alternative specifications of the micro econometric model used. Firms with Venture Capital financing also performed significantly better in terms of their innovation output. Venture backed companies were found to pursue more radical and ambitious product or process innovations than other companies (Hellmann and Puri, 2000, p.236).

2.4 PRIVATE EQUITY AND GROWTH

The role of private equity financing in promoting economic growth is discussed from two different perspectives namely microeconomic level, and macroeconomic level. The microeconomic analysis is covered in Section 2.4.1 and covers issues like sales growth, new product growth and the transmission mechanism of private equity. Section 2.4.2 explores the macroeconomic level while section 2.4.3 concludes the discussion. The macroeconomic analysis looks at issues like employment growth, long run employment and financial markets development.

2.4.1 PRIVATE EQUITY AND DEVELOPMENT AT MICROECONOMIC LEVEL

2.4.1.1 PRIVATE EQUITY AND SME FINANCING AND GROWTH

According to Peneder (2002) evidence from several previous studies illustrates the importance of venture capital in enabling firms to carry out ambitious business plans and to sustain and grow during particularly critical phases of their development. These studies include Bertoni, Colombo and Grill (2005), Sahlman, 1990. Based on this, venture capital has earned mention in international scoreboards and strategy papers on
innovation and enterprise policies. Venture capital (VC) financing is generally considered as a more suitable financing mode for New Technology Based Firms (NTBFs) than bank loans (Bertoni, Colombo and Grill, 2005). It is contended that this financing mode offers a fundamental contribution to the success of high-tech entrepreneurial ventures (Sahlman, 1990; Gompers and Lerner, 2001; Kaplan and Strömberg, 2001; Denis 2004).

A growing stream of empirical literature has analysed the effects of VC financing on the performances of portfolio companies. Most early studies relied on matched pair techniques to compare VC-backed firms with non VC-backed ones. Jain and Kini (1995) compare a sample composed of 136 US listed firms that obtained VC financing prior to the IPO with a control sample of non VC-backed IPO firms that were in the same sector and went through an IPO of similar size. They consider sales growth from the year before the IPO up to the year of listing and the three following years, respectively. Results showed that VC-backed firms substantially outperformed their non VC-backed counterparts. However, Bertoni, Colombo and Grill (2005) criticise the method used as it considered only firms that had succeeded and therefore there was a bias as those that had gone bankrupt were not considered in the sample (survivorship bias).

Manigart and Van Hyfte (1999) found that the rate of growth of total assets of a sample composed of 187 Belgian VC-backed firms was significantly greater than that of the control sample in each year starting in the year in which the firm obtained VC financing and over the following five years. Similar results were obtained as to the growth rate of sales of firms that at the time of the first round of VC financing were at least three years old, while there were no significant differences for firms that had been operating for less than three years. Lastly, the growth rate of employment is greater in the VC-backed sample only when one considers star performers, that is, the firms that belong to the percentiles with the greatest growth, and a sufficiently long period of time (at least three years after the investment) (Manigart and Van Hyfte, 1999). Alemany and Marti (2005) estimated fixed effects panel data models relating to the Spanish firms that obtained
VC. Their results indicated that other things being equal, both the presence of a VC investor in the equity capital of firms and the cumulated amount of VC financing they obtained up to a given year, result in greater firm size in the same year. The reported use of venture capital is consistent with the view that venture capitalists invest in companies with proven technology at the stage of financing full-scale marketing and production (Berger and Udell, 1998, p.623).

2.4.1.2 THE BENEFITS OF PRIVATE EQUITY

Venture capitalists do not just bring money to the table; they help groom start-ups into multinational institutions (AVCA, p.17). In addition, Private Equity works as a strong disciplining device (Koke and Salem, 2000). PE/VC recipients have a stamp of approval that reduces the risks perceived by their suppliers, customers, external finance providers and employees (Riberio, 2007).

Venture Capitalist financiers generally focus on specific industries (Gompers 1995; Amit, Brander and Zott, 1998; Bottazzi and Da Rin, 2002). Due to their sectoral specialization, they allegedly develop context-specific screening capabilities that make them able to judge quite accurately the commercial value of entrepreneurial projects and the entrepreneurial talent of the proponents (Chan, 1983; Amit et al., 1998). Additionally, Private Equity firms are no silent partners (Gorman and Sahlman, 1989; Barry et al., 1990 and actively monitor portfolio companies. Kaplan and Strömberg (2003) showed that VC firms control 41.4% of the seats of the board of directors of the US Venture Capital-backed companies that were considered in their study and controlled the majority of board seats in 25% of their investee companies. Furthermore, Venture Capital investors make use of specific financial instruments and contractual clauses that protect them from possible entrepreneurs’ opportunistic behavior and create high powered incentives for themselves (Sahlman, 1990; Gompers, 1995; Hellmann, 1998; Kaplan and Strömberg, 2003, 2004).
Private Equity investors allegedly perform a key coaching function to the benefit of portfolio firms (Barney et al., 1996; Sapienza et al., 1996; Kaplan and Strömberg, 2004). They provide advising services to portfolio companies in fields such as strategic planning, marketing, finance and accounting, and human resource management, in which these firms typically lack internal competencies. Moreover, portfolio companies take advantage of the network of social contacts of VC investors with potential customers, suppliers, alliance partners, and providers of specialized services like legal, accounting, head hunting, and public relation services (Lindsey, 2002; Colombo, Grilli & Piva, 2006; Hsu, 2006).

Private Equity financing also signals the good quality of a recipient SME to third parties; therefore private equity-backed companies find it easier to get access to external resources and competencies that would be out of reach without the endorsement of the venture capitalist (Stuart, Hoang and Hybels, 1999). In accordance with the existence of a “certification effect”, Megginson and Weiss (1991) found that US private equity-backed IPOs exhibit smaller under pricing than non venture capital backed ones that are from similar sectors and comparable IPO size.

2.4.1.3 THE EFFECT OF PRIVATE EQUITY ON GROWTH

Venture capital (VC) financing spurs the growth of new technology-based firms (NTBFs) (Bertoni, Colombo and Grill's, 2005). First, VC investors allegedly have superior scouting capabilities, so they provide great hidden value firms with the financing they would otherwise be unable to obtain. Jain and Kini (1995) compared a sample composed of 136 US listed firms that obtained VC financing prior to the IPO with a control sample of non VC-backed IPO firms that were in the same sector and went through an IPO of similar size. They considered sales growth from the year before the IPO up to the year of listing and the three following years, respectively VC-backed firms substantially outperformed their non VC-backed counterparts. Manigart and Van Hyfte (1999) found that the rate of growth of total assets of a sample composed of 187 Belgian VC-backed firms was significantly greater than that of the control sample in each year starting in the year in which the firm obtained VC financing and over the
following five years. Similar results were obtained as to the growth rate of sales of firms that at the time of the first round of VC financing were at least three years old, while there were no significant differences for younger firms.

The results of Bertoni, Colombo and Grill’s (2005) studies support the view that VC financing has a beneficial effect on the growth of both employment and sales of SMEs, based on their findings using new technology based firms (NTBFs). They also indicate that the source of VC matters. VC financing obtained from financial intermediaries generates higher growth of portfolio firms than that obtained from non-financial corporations.

Mbesa, Gakure and Karanja (2012) conducted a study on the effects of venture capital financing to growth of SMEs in Africa. Their study is very interesting as it adds an African perspective to the debate on PE and growth. The study has demonstrated that use of venture capital can be profitable in Kenya even in an inauspicious political and economic climate. The study concluded that SME that use venture capital experience improved growth and thus more SMEs should be encouraged to use this form of finance if the country has to achieve its vision 2030. The results of the study which was carried out among 200 venture capital financed SME were as follows: average sales increased from KSh10,000,000 to KSh139,000,000 which is an improvement of 1290% and profits grew by an average of 69% among the sample. Lastly the number of workers employed by the venture capital backed firms increased by an average of 186%.

Terungwa (2011) examined the growth of venture financed SMEs in Nigeria and the results supported the conclusions in Mbesa et al (2012) above and other studies in developed countries. In this study sales grew by average of 300%, profit growing by an average 75% and number of workers increasing by about 233% after venture capital financing.
2.4.2 PRIVATE EQUITY AND DEVELOPMENT AT MACROECONOMIC LEVEL

While there has been extensive literature on the effect of Private Equity (PE) financing on the growth of the firm, less is available on the effects on the economy as a whole. Venture capital (VC) has always been regarded as an important factor underlying the economic growth both of certain regions within the United States, such as Silicon Valley, as well as of the country as a whole (Bottazzi and Rin, 2002). Despite the widespread interest in venture capital as a stimulus for economic growth, Samila and Sorenson (2009), however, noted that there is little empirical research to validate these claims (for an exception, see Hasan and Wang, 2006). Gilson (2003), notes that,

“Beyond representing an important engine of macroeconomic growth and job creation, these (VC) firms have been a major force in commercialising cutting edge science, whether through their impact on existing industries as with the radical changes in pharmaceuticals catalysed by venture-backed firms commercialisation of biotechnology, or by their role in developing entirely new industries as with the emergence of the internet and world.” (p.3)

Koh and Koh (2009), in their study of the PE industry in Singapore, claim that venture capital plays an important role in innovation and economic growth. They claimed that, the resurgence of the United States as a technology leader is intimately linked to the success of Silicon Valley and the Venture Capital model of financing. As Singapore enters the next phase of economic development, the creation of internal engines of growth is an urgent task. The Singapore government has done much to provide an environment for entrepreneurship to thrive. This the government does through providing an enabling legal framework with clear property rights which allows for ease of capital raising. Its success at replicating the Silicon Valley culture will be important for Singapore’s future economic success. (Koh and Koh, 2009)

In particular, the Silicon Valley model of venture capital has transformed the innovation process in the United States, particularly in the fast growing, high technology sectors –
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semi-conductors, personal computers, biotechnology, and software – where venture-backed firms had risen into prominence (Rogers and Larsen, 1984). These successes, which include Microsoft, Apple, Sun Microsystems, Intel, DEC, Genetech, Amazon, eBay, have defined the emergence of new technologies and global business models. The experience of Silicon Valley has shown that thoughtful policies and support of the venture capital industry can create the right climate for innovation and entrepreneurship, which in turn will pay dividends in terms of job and wealth creation (Koh and Koh, 2009).

2.4.2.1 PRIVATE EQUITY AND INNOVATION

According to Lerner (2009) the rise of venture capital has been an important contributor to technological innovation and economic prosperity, and he suggest that an effective policy agenda going forward should simply seek to spur much venture financing. Dennis (2004) also noted that VC firms have played a significant role in realizing new biotechnology products. Venture capital (VC) financing is generally a more suitable financing mode for New Technology Based Firms (NTBFs) than bank loans (Bertoni, Colombo and Grill, 2005).

Private equity has the potential to accelerate and positively impact economic performance because it transforms underperforming firms and helps start-ups in a variety of ways including accessing critical capital, management mentoring and access to markets (Meyer, 2008). The importance of start-ups to economic performance is undisputed (Berger and Udell, 1998). Young firms go boldly where incumbents have not ventured. Their dynamism challenges incumbents and sparks creative destruction (Kirzner, 1973). This helps to rejuvenate the economy and averts its descent into complacency. This is why most development experts embrace venture capital, a segment of private equity that is designed for the early development or expansion of young firms (Meyer, 2008).
Since the beginning of the 21st century there is an increasing evidence of international business activity and globalisation that is motivated by global capital movements (Ernst and Young, 2012). The tremendous growth rates of funds raised for private equity and venture capital investments in emerging countries is an evidence for this phenomenon. According to data published by the Emerging Markets Private Equity Association (EMPEA), private equity and venture capital funds raised primarily in the US for investment in Africa for example went up from about 332 million dollars at 2002 to about 1 billion dollars at 2005, and to about 1,9 billion dollars at 2011.

Agmon and Messica (2005) conducted a research on the development of the Israeli Hitec industry between the years 1995 and 2005. Previously Israel did not have a reputable Hitec industry but Foreign Direct Investment (FDI) inflows in the form of Venture Capital from US based PE funds enabled the country to build comparative advantages in this sector which soon emerged as a globally reputable industry within a space of 10 years.

From a macroeconomic perspective, FDI is more stable than other types of capital flows as it is usually for investment in longer dated projects. This is because the life span of Private Equity and Venture Capital funds ranges between 7-12 years rendering the funds that they invest and manage to be committed to such time frames. (Lerner, Sørensen and Strömberg, 2008)

2.4.2.2 PRIVATE EQUITY AND LONG RUN INVESTMENT

Jensen (1989) predicted that the leveraged buyout would emerge as the dominant corporate organisational form. With its emphasis on corporate governance, concentrated ownership and monitoring by active owners, strong managerial incentives, and efficient capital structure, Jensen argued that the buyout is superior to the public corporation with its dispersed shareholders and weak governance. These features enable managers to make long-run investments without catering to the market’s
demands for steadily growing quarterly profits, which Stein (1988) and others argue can lead firms to myopically sacrifice such expenditures.

Lener et al. (2008), however, suggest that given their incentives to undertake and exit deals, private equity funds may well promote policies that boost short-run performance at the expense of more sustained long-term growth (Shleifer and Summers, 1988). This may lead to firms not pursuing long run innovative projects given their longer incubation periods. Despite this, firms pursue more influential innovations, as measured by patent citations, in the years following private equity investments. There is evidence showing that the patent portfolios become more focused in the years after private equity investments (Lener et al., 2008). There is, therefore, no conclusive evidence that VC deals led to firms shelving innovative ideas. Meyer (2008) also examined the claim that venture capital investors usually take a short term view to their investments at the expense of sustainable long term growth. Lener et al (2008) used a proxy of patents for long term view. Patent activity is usually linked to long term sustainable growth in that new products usually have a long incubation period. Results showed that patent activity increased after VC deals.

**2.4.2.3 PRIVATE EQUITY AND EMPLOYMENT GROWTH**

Belke, Fehn and Foster (2003) carried out a study of Japan, Germany and the Anglo-Saxon countries to investigate whether VC spurred employment. They noted that Anglo-Saxon type stock-market-based financial markets with fully developed venture capital markets tend to be superior in selection of worthwhile business ideas and financing of such ventures. This is because they give less shelter to entrenched managers who might not be innovative anymore, thus being more open to the entry of outsider entrepreneurs with new ideas. They also noted that the Anglo-Saxon countries with a more flexible set of institutions were able to respond quickly to shocks and to new economic opportunities. This, they noted, enabled these countries to create employment opportunities better than Germany and Japan that had rigid structures (Belke et al., 2003).
The poor performance of Germany, particularly in terms of rising unemployment is usually blamed on its rigid labor market and its generous welfare state. However, it might in addition be the case for both, Germany and Japan, that the insider-oriented bank-based institutional setting of their financial markets is no longer an asset but rather a burden for realizing further economic progress and for improving labor market performance (Belke et al., 2003). Venture capital has in recent years played a key role especially in Anglo-Saxon countries in financing structural change, innovations and new firms (Belke et al., 2003).

Belke et al. (2003) suggest that a highly developed and well-functioning venture capital markets might be a key element in the Anglo-Saxon institutional setting on financial markets. They suggest that the Anglo-Saxon setting had contributed in the 1990s and into the new millennium to producing a better labor market performance in comparison to countries which rely largely on bank financing and on internal financing in large established.

The lack of a well-functioning venture capital market represents a type of financial market imperfection (Acemoglu, Aghion and Zilibotti, 2002). It has been argued that it is a challenging empirical problem to demonstrate a causal relationship between the presence of venture capital investment and innovation or job growth (Gompers and Lerner (2001)). Venture Capital is mainly conducive to job creation in new and innovative firms and that it facilitates the process of structural change toward the new economy (Belke et al., 2003). The results obtained from the study are particularly important considering the fact that direct policies to combat unemployment, for example, by deregulating the labor market or by trimming welfare state activities, are notoriously difficult to implement in the political decision process. Indirect alternative routes to solving this problem are therefore required, such as via fostering the venture capital market and thus entrepreneurial dynamism are urgently called for in continental Europe.

Arellano and Bond (1998) suggested that governments should provide an institutional framework which is favorable to the development of a private venture capital industry
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and entrepreneurial dynamism. Belke and Schaal (2004) went further and suggest ways governments could achieve this. They suggested that the pension system could be capitalised to a greater extent and pension funds could be allowed to invest part of their assets in venture capital firms. This may however prove difficult in the developing countries due to existing regulations on investments in private businesses; the legal framework usually favours public sector issued financial instruments. Based on the US experience, this should further spur the development of the venture capital market. Secondly, a well-functioning market for initial public offerings needs to be created as an exit route for venture capitalists (Belke and Schaal, 2004).

The European Venture Capital Association (EVCA) in a 2004 study of the effect of venture capital firms on employment in Europe came up with the following results which reinforced the contribution of the PE industry to the labor market in Europe.

- One million jobs created by European PE and VC financed companies between 2000 and 2004.

- Employment in the PE/VC sector grew by an average 5.4% which was eight times the 0.7% aggregate growth in the EU bloc.

- Venture backed companies employed 17% of the total employment included in the survey at the end of 2004 as compared to the 6% at the beginning of 2004

The above results show the importance of Venture Capital in the EU bloc in terms of employment creation.

In terms of job creation, research has focused on understanding the relationship of employment growth with VC funding in macroeconomic terms. Wasmer and Weil (2000) found evidence of the impact on employment of an increase in the VC investment/GDP ratio in a panel of 20 OECD countries. The empirical results show the positive effect of VC-backed companies, in terms of aggregated sales, payment of taxes and job creation.
2.4.2.4 PRIVATE EQUITY AND FINANCIAL MARKET DEVELOPMENT

Ever since the pioneering contributions of Gurley and Shaw (1955, 1960, 1967), McKinnon (1973) and Shaw (1973), the relationship between financial development and economic growth has been an important issue of debate. Numerous studies have dealt with different aspects of this relationship at both theoretical and empirical levels. Garcia and Liu (1999) point out that research has tended to concentrate on the role of bank type financial market on development and little has been done to establish the link between stock market development and economic development. Some of the research that has been carried out has confirmed the link between stock market development and overall economic development.

Garcia and Liu (1999) cite research done by Levine and Zervos (1998) using cross-country data for 47 countries from 1976-93 which found that stock market liquidity is positively and significantly correlated with current and future rates of economic growth. In his research on Private Equity and financial markets development, Chidemo (2008) noted that private equity supported the development of financial markets especially in terms of new listings on the stock exchanges. The most preferred exit root for private equity firms is the IPO route. This has seen a flurry of listings on stock exchanges, a situation which has resulted in the deepening of financial markets. Jordan et al., (2005) in their study of the IPOs in the US during the period 1995 to 2005 noted that up to 54% of the IPOs were exits by private equity firms. A similar study comparing Germany to Anglo Saxon IPO activity noted there were less IPOs in Germany due to the fact that venture capital model is less developed in Germany. Hamao et al. (1999) noted that a similar situation existed in Japan where the preferred financing model, as in Germany, is bank financing and not PE investments. The Ernst and Young Round up on PE in Africa shows that data on PE deals in Africa is very limited and so are opportunities of exits through IPO. Data from the Roundup also shows that 95% of the deals in Africa are usually mergers and acquisitions and not IPO deals due to the less developed
nature of African stock markets outside of South Africa. A study of listings in Africa, however, sheds a different light.

Barry et al. (1990) cast some doubt on the link between PE and the deepening of stock markets. They argued that an already developed financial market drives activity in PE industry. They pointed out that buyouts deals are usually highly leveraged and therefore require a ready access to the credit market.

2.5 PRIVATE EQUITY IN DEVELOPING COUNTRIES

Avanzi Capital in a paper speaks of the robust growth of private equity in emerging and developing economies due to a number of factors. They point out that PE firms can be fairly confident of robust financial returns from private equity since many emerging-market countries are producers of natural resources, which are essential to the ongoing global economic recovery. They also note that Entrepreneurial activity is improving and the number of growth companies is increasing. Multinational agencies such as the International Finance Corporation, European Bank for Reconstruction and Development have spent many billions of dollars on private equity funds, in the belief that they are well suited for financing firms in developing countries (Brenner, 1999). These organizations have argued that the information problems in these nations are particularly severe, and hence that private equity funds should be very suitable investors in this setting. (These funds have also been encouraged on the grounds that they are less prone to the rapid inflows and outflows that often characterize public market investors in these markets). Makhene (2008) in a paper on PE in Africa argues that if private equity has indeed been a stimulus for economic expansion in developing nations, then this alternative investment asset class should be more widely adopted and encouraged as a vehicle for economic development in non-industrialized nations. This position can be supported from the case in Eastern Europe where as the transition to market economies in Eastern Europe took hold in the mid-‘90s, the rapid growth of private equity told a similar story” (Leeds and Sunderland, 2003).
Some writers point out PE firms often encounter problems of corporate governance at the firms they invest in, which is a drag on overall economic growth. For example Leeds and Sunderland (2003) point to emerging markets’ low standards of corporate governance, limited legal recourse and dysfunctional capital markets. In theory, private equity strengthens corporate governance through the alignment of ownership and management goals (Walker, 2007).

Lerner and Schoar (2010) also investigated the role of private equity on growth in India. Indian companies are becoming increasingly aware of the value that private equity firms can add. It was suggested that for many Indian investee companies, private capital provides the means by which they can get mentoring and advice without having to go to public markets. For example, one major company had the option of an IPO, yet preferred private capital because someone knowledgeable would be assigned and available to provide mentorship and advice.

The Ernst and Young Private Equity Round up for Africa for 2011 identify certain factors that are driving PE activity in Africa. These factors included rapid growth and stabilizing political situations, powerful demographic trends which include rural to urban migration, the ongoing commodities boom driven by Chinese demand and increasing regional cooperation. The report also cites a report by EMPEA and Coller Capital (2011) which shows 40% of international PE funds planned to either begin or increase their investments in Africa. The Ernst and Young round up lists the manner in which PE is contributing to growth in Africa. Of the US$500 billion required to fund Africa’s infrastructure needs over the next decade, PE funding structures work best for the complex business environment in Africa. Further several PE firms have adopted a deliberate strategy to support SMEs (such firms include Jacana Ventures and Summit Development Group). PE investment goals in Africa range from infrastructure development to social change (AFDB, 2012).
2.6 DISADVANTAGES OF PRIVATE EQUITY

Although research evidence and literature have tended to support and applaud private equity, some research has highlighted the downside of private equity. Vaas (2009) argues that private equity tended to amplify imbalanced growth in the form of income inequalities. Private equity investments are usually restricted to institutional investors and rich individuals. The poor cannot usually access such investments due to the large capital calls required. Vaas (2008) also noted that VC financing is usually concentrated in a few regions or sectors. Samila and Sorenson (2009) also highlighted the notoriety that buyout deals have earned and how they usually purge jobs and how they treat minority shareholders during hostile takeovers. PE funds are usually shrouded in secrecy which is why such funds are usually viewed with suspicion especially in in Africa and Asia (Samila and Sorenson, 2009).

The positive prejudice in the economic literature about venture capitalists obscures the role of the venture capital cartel in limiting investment opportunities and killing valuable ventures. The VC investment model in the United States prevents new markets from emerging (Vaas, 2009). The unchallenged assertion about the good deeds of venture capitalists needs to be re-examined in order to clear the way for a new generation of economic theory about the causes of self-sustaining, self-renewing economic growth. Ueday and Hirukawa (2008) commented on the lack of empirical evidence on the economic impact of venture capital investments in the Japanese economy. “There are limited academic studies on the economic impact of VCs,” they note, but then they add, that what research they could find contained some unexpected results. Vaas (2009) discusses how PE firms derive most of their profits from only a handful of their investments and then kill most of the unsuccessful ventures. The killing of so many ventures does not result in economic growth.

Samila and Sorenson (2009), using a panel of U.S. metropolitan areas from 1993 to 2002, they find that an increase in the local supply of venture capital (VC) positively affects; the number of firm starts, employment, and aggregate income. They concluded
that the results remain robust to a wide variety of specifications, including ones that address potential endogeneity in the supply of venture capital. Several governments, including those of Canada, Chile, Germany and Israel, in the interest of stimulating their economies, have even sought to expand their local supplies of venture capital by way of public policy (Gilson 2003; Cumming and Maclntosh, 2007). Consistent with the theoretical literature, then, an expansion in the availability of financial intermediaries, in this case venture capitalists, stimulates economic development (Greenwood and Jovanovic 1990; Keuschnigg 2004).

2.7 CHAPTER SUMMARY

This chapter has discussed literature on the role of Private Equity in development at both the microeconomic and macroeconomic level. The role of Private Equity in the development of the SME sector was also reviewed. The role of Private Equity on the development of financial markets was also reviewed although research evidence was mixed. The next chapter presents the research methodology.
CHAPTER 3

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter mainly focuses on the research design and research instruments used to collect data. The chapter is arranged in ten (10) sections as follows: section 3.1 discusses and justifies the research philosophy adopted for this study while section 3.2 justifies the research design for the study. The research method adopted for the study is the subject of section 3.3 while section 3.4 identifies the population for the study and justification for sampling method used. Data collection process and procedures are discussed in section 3.5 and 3.6 respectively including the justification thereof. Section 3.7 discusses data processing, analysis and presentation while section 3.8 discusses measures taken to ensure validity and reliability of the research data collected using the research instruments. Ethical issues that arise from this study and how they were addressed are addressed in section 3.9. A brief summary of the chapter is presented under section 3.10.

3.2 RESEARCH PHILOSOPHY

This study was based on the positivism research philosophy. Positivism is a philosophy of science based on the view that in the social as well as natural sciences, data derived from sensory experience, and logical and mathematical treatments of such data, are together the exclusive source of all authoritative knowledge (http://wn.com/social_positivism). Obtaining and verifying data that can be received from the senses is known as empirical evidence (Macionis and Gerber, 2003). The basic principle of Positivism is that all factual knowledge is based on the "positive" information gained from observable experience,

The study used a quantitative research design method since it wanted to solicit responses from a large number of respondents. Using a quantitative method of
research the study came up with responses from the sample. The responses from the sample varied and some responses were grouped together in order to come up with percentages and figures as the statistics. Such statistics were analysed to develop conclusions in terms of contribution of Private Equity to economic growth in Zimbabwe.

The basic starting point of this study was that information was available to enable the researcher to make conclusions based on the research objectives. Data was needed to support or refute the hypothesis. The study was also based on interrogation of the views of participants in the Private Equity industry, such data could be expressed mathematically thus the Positivist philosophy was considered appropriate for this study.

3.3 RESEARCH DESIGN

According to Barbie (1979) a research design addresses the planning of scientific enquiry and designing a strategy for finding out something. A research design is a plan that provides a researcher with a framework to collect data (Leedy, 1980). This study is descriptive as it is concerned with finding out the role of Private Equity in promoting economic development in Zimbabwe. This study was a statistical study which attempted to capture a population’s characteristics by making inferences from responses from Private Equity market players. Data were collected from a sample of twenty five (25) Private Equity firms in Harare.

3.4 PRIMARY RESEARCH METHOD

This study used the survey research method. The survey is a non-experimental, descriptive research method. Surveys can be useful when a researcher wants to collect data on phenomena that cannot be directly observed. Data are usually collected through the use of questionnaires, although sometimes researchers directly interview subjects. Surveys can use qualitative (e.g. ask open-ended questions) or quantitative (e.g. use forced-choice questions) measures. This study used both questionnaires and interviews but the questionnaire was the primary research instrument. The survey method was chosen for the following reasons;
• Surveys are relatively inexpensive (especially self-administered surveys). This minimized the cost of carrying out this research.
• It was possible to administer the research from remote locations using mail, email or telephone.
• A variety of questions could be administered during the survey which considerable flexibility to the analysis.
• The use of standardised questions makes measurements more precise as participants are forced to use similar definitions in cases where there are many.
• Usually, high reliability is easy to obtain by presenting all subjects with a standardized stimulus, observer subjectivity is greatly eliminated.

The survey method allowed this study to be carried out cost effectively and with minimum time. Further the respondents were considered to be of high knowledge levels to easily understand the research instruments being used.

3.5 SAMPLING STRATEGY

3.5.1 POPULATION

The population for this study consists of all the private equity firms and asset managers conducting private equity business in Zimbabwe with offices in Harare. This was the primary population for this study. Other information was obtained from individuals in the financial markets in Zimbabwe and development experts.

3.5.2 SAMPLING

A sample is a portion of the population, selected so as to represent the whole population (Mann, 1992). In this study, the primary respondents were the private Equity firms operating in Zimbabwe and with offices in Harare. Due to the small number in relation to global private equity firms (twenty firms were identified in Zimbabwe) of the PE firms in Zimbabwe, no sampling was necessary. In addition due to the fact that all
the identified firms were based in Harare the respondents were restricted to Harare based firms.

Secondary respondents were individuals actively involved in the local financial markets and development experts from international development agencies operating in Zimbabwe and senior persons from firms supported by private equity. These secondary respondents were chosen randomly from organisations which include UNDP, UNESCO, World Bank, IMF, and Afrexim Bank. Secondary respondents provided data and information that helped to put data and information from the primary respondents into perspective.

3.6 DATA COLLECTION PROCESS

According to Wegner (1991), research instruments are tools used in data collection to find solutions to the problems under investigation. The tools that the researcher used for collecting information were questionnaires and interviews.

3.6.1 QUESTIONNAIRES

Questionnaires are used extensively in SME financing research (Norton, 1991; Michaelas et al., 1998), the use of questionnaire surveys has recently come back into vogue in corporate finance as witnessed by seminal studies (e.g. Graham and Harvey, 2001) and also a special issue of The International Journal of Managerial Finance (Vol.3, no. 1, 2007). In this study questionnaires were administered both in hard copy and online.

A total of 25 questionnaires were administered to respondents within private equity firms with offices in Harare. Interviews were also carried out with professionals in the Private Equity industry and a senior individual from the Ministry of Small to Medium Enterprises and Development in addition to the interviews carried out with some officials from UNDP, UNESCO, World Bank, IMF, and Afrexim Bank.
Questionnaires for Private Equity firms were sent for the attention of Fund Managers or other senior managers within such firms. The questions in the questionnaires required such data as fund sizes, number of portfolio companies, IPO exits etc. Questionnaires for some of the portfolio companies chosen were sent for the attention of owner managers. Ang (1991) stated that SME owner-manager’s personal income is interrelated with the income of the firm, and so they are reluctant to disclose detailed financial information about their business. Due to the well-documented reticence in disclosing this data, sources of financing used by SMEs at start-up and at present were requested in percentage form rather than absolute amounts.

Questionnaires were sent to all the twenty five Private Equity firms with offices in Harare. This was because the number was small and it was considered not appropriate to use sampling. Additionally information was requested on companies in their portfolios.

The use of questionnaires in this study was justified for the following reasons:

- It was possible to administer and send them to a large number of people at the same time.
- The method was cost effective and convenient in collecting data.
- Questionnaires were easy to monitor and follow up.
- Use of questionnaires saved time as compared to interviews and minimised the need for physical presence by the researcher during data collection.
- The use of online questionnaire made data analysis very easy as data analysis was incorporated into the online platform.
- With modern trend towards paperless working environment, online questionnaire administration lent well to today’s networked environments.

However, despite the above mentioned advantages questionnaires had the following drawbacks:
• Not many people may be keen to go through the printed questionnaire; hence the response rate was lower than expected. To ensure a higher response rate follow up were made both through telephone and e-mails.

• Some of the respondents could have given incorrect and false answers wanting to shed off the hassle of filling in questionnaires. However this was not prevalent as the quality of the questionnaires returned was considered to be of high quality.

• Some of the respondents could have misinterpreted the questions and ended up giving wrong information. Questions were made as clear as possible and easy to understand. In addition the researcher made follow ups on some of the questions so as to ensure that they were clearly understood.

• Response rate could have lowered where some of the selected respondents did not have access to internet. Further some of the respondents were concerned with data usage cost. To ensure higher response rate the online form was made very simple to use and hence did not use too much data.

To counter the effect of the above weakness the researcher took the following precautions in designing the questionnaire:

• The questionnaires were made user friendly by use of clear, simple and straightforward English, in particular the use of jargon was minimised.

• Careful attention was given to the designing and analysis of the questionnaire.

• The participants were given reasonable time to respond to the questionnaires. The researcher collected completed forms from the premises of respondents and in cases where this was not possible, a return envelop was supplied.

• The design of the online questionnaire was done in such a way as to ensure low data usage and the questionnaire remained online and open for a period of two months

• Email reminders with links to the questionnaires were sent to respondents regularly without being overly bearing
3.6.2 INTERVIEWS

An interview is a method of eliciting primary data responses through direct questioning. The interviews can be through personal telephonic conversation (Wegner, 1999). The main advantage of using an interview is that respondents are able to expand on areas of interest and use of nonverbal clues such as facial expression to emphasize their responses. The interviews were conducted in the following manner. An initial contact was made with the chosen organisation and from an informal meeting with any of the managers available during the first contact the name and rank of the person with knowledge on Private Equity was identified and an appointment made for an interview. An interview guide was left with the identified interviewee to enable advance preparations to be made for interview.

Some other advantages for interviews are that answers are provided immediately and there is room for further explanations, which made it easier for the researcher to seek clarification where there was need. The main disadvantage of interviews is that they can be time consuming and expensive to conduct. The researcher used interviews to gain more insight in the area of research from professional in the private equity industry and from the various development institutions with offices in Harare and the relevant ministries. Five interviews were scheduled with professionals in Harare and of these four were successfully conducted. The interviews were all unstructured and covered a range of issues about Private Equity in Zimbabwe and other territories and were designed to gain an overview of the industry in Zimbabwe and its role in economic development.

3.7 DATA COLLECTION PROCEDURES

A number of procedures were used in collecting the data from respondents. A part time assistant was engaged at a nominal fee to assist with data collection. The procedure used for questionnaires was as follows:
The researcher and assistant physically visited the offices of the Private Equity firms in Harare and administered the questionnaires to senior personnel within these firms. Using the Central Africa Stock Exchange (CASE) Handbook published by Zanj Financial Network, the researcher gathered email addresses and contact numbers of financial market players in the country. The researcher used contact details obtained from the CASE Handbook to make telephone calls to the listed firms and obtained email addresses for individuals who could complete the online questionnaire.

An email with a link to the questionnaire was sent to the email addresses obtained. Hard copy questionnaires were also administered to individuals preferred hard copies. Where it was indicated during the telephone call that such a firm was not networked, printed questionnaires were dispatched for completion to the addresses provided. Arrangements were then made for collection of completed questionnaire. The researcher and assistant also obtained contact details of the respondents for the purpose of follow up.

Follow up calls were made to remind about completion of the forms and to clear up any areas that were not easily understood. Appointments for collection of completed forms were also made during the follow up calls. The completed forms were collected in person by the researcher and assistant.

Appointments for interviews were made by telephone and email with key personnel within local private equity firms and asset managers who conduct private equity business. All answers were recorded manually during the interview. Follow up telephone calls were made to clear up some issues raised during the interviews.

### 3.8 DATA PROCESSING, ANALYSIS AND PRESENTATION

To prepare for data entry, questionnaires were given unique codes for all responses from respondents and a data entry template was designed in Excel. The data was entered using the same package. After entry, the data was cleaned to remove
inconsistent responses by running frequency tables in the Excel. The data was then analyzed using the same package. In data analysis and interpretation, statistical principles like frequencies, percentages and mean were mainly used. Tables, graphs and charts were used in presentation of research findings which are laid out in chapter four.

3.9 ENSURING VALIDITY AND RELIABILITY

Most of research literature is in agreement that there are several ways of content validation. Further research literature is in agreement that content validation is a subjective exercise. According to Cooper and Schindler (2001), a researcher can choose to rely on the opinion of experts in the field or choose to rely on his own judgement. This is further supported by Dzansi (2004) that a researcher can use own judgment to judge if the instrument meets the standards. In this study, the researcher decided to rely on her own judgement and also to solicit the views of colleagues and some experts in the Private Equity and development field to assess the validity of research instruments. The researcher also relied on literature (books, journals, dissertations, theses) to determine how well the research instrument meets standards.

The major types of errors in research of the current nature are response and non-response errors (Loubser, 1999). These errors are discussed in more detail below. Response errors were minimised by carefully constructing and pre-testing the questionnaires. The use of self-administered questionnaires, also, assisted in reducing response errors, because unclear questions were clarified by the researcher to the respondents. However, data for the study at hand was only obtained from the firms who were willing to complete the questionnaire. This might have created a bias relative to those firms that did not participate in the survey. The number of firms that did not respond to the questionnaire relative to the total population was small hence ensuring higher reliability for the data gathered.
Loubser (1999) describes a non-response error as an error caused by failure to contact all members of a sample and/or the failure of some contacted members of the sample to respond to all or a specific part of the questionnaire. The non-response error occurs because people who respond to the survey might not have characteristics similar to those who do not. Non-response errors were reduced to the absolute minimum in the research study by repeated telephone calls and visits to the respondents to check on the status of completion of the questionnaires.

3.10 ETHICAL CONSIDERATIONS

There are several reasons why it is important to adhere to ethical norms in research. One of the most important of these norms is to promote the aims of research, such as knowledge, truth, and avoidance of error. The researcher subscribed to the common norms in academic research. These include keeping all information gathered from this study confidential. The researcher also maintained openness in dealings with the respondents in this study. The researcher also strove to maintain objectivity in analysing the data gathered from this study. Respect for intellectual property gathered from the study was maintained and where relevant, appropriate acknowledgements have been made for information used in this study.

3.11 CHAPTER SUMMARY

This chapter discussed the research design adopted by the study and the justification thereof. Furthermore, the chapter reviewed concepts such as the population of the study, research instruments, data collection procedures, data analysis and presentation. The next chapter presents and discusses the study findings.
CHAPTER 4
DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 INTRODUCTION

This chapter presents and discusses the study findings. The chapter is arranged in four main sections as follows. The first section presents the response rate and demographic data of respondents. Section 4.2 presents information about respondent firms and includes such information as funds under management, number of funds operated and whether or not the firms are international. Section 4.3 presents data on Private equity and growth and among others present data on profit growth, sales growth and employment created. Section 4.4 present data on private equity and financial markets growth. This data includes IPOs and MA deals conducted on the Zimbabwean market by PE firms. Section 4.5 discusses Private Equity and development in Zimbabwe which includes factors constraining the industry growth as seen from the perspective of the industry players. Section 4.6 presents summary of the findings.

4.2 RESPONSE RATE

Twenty five (25) questionnaires were sent to Private Equity firms and asset managers conducting private equity business with offices in Harare. Of these questionnaires sent out nineteen (19) were returned, but one was rejected implying a response rate of 76% of which 72% were valid and the data considered in data analysis. The one questionnaire rejected was due to the fact that the responses were poorly presented as to invalidate the whole questionnaire. Five interviews were scheduled with professionals in the Private Equity industry, of these, four were conducted successfully; a success rate of 80%. The overall success rate for both questionnaires and interviews was therefore 73% which the researcher considered high and satisfactory as to give valid results which could be used to make conclusions.
4.3 DEMOGRAPHICS

4.3.1 GENDER AND QUALIFICATIONS OF RESPONDENTS

The respondents were all at middle management level within their organisation. The gender distribution of the respondents was as shown in the chart below (Figure 4.1).

![Figure 4.1: Gender of Respondents](image)

The majority of the respondents (78%) were male with only 22% females. The results indicate that at middle management level at least the private equity industry in Zimbabwe is dominated by males. The figure shows that all the respondents had a Bachelors’ degree or higher, although only one (6%) had a PhD.

![Figure 4.2: Educational Qualifications of Respondents](image)
The results show that the majority of the respondents (56%) had a Bachelors degree and 39% had a Masters qualification which shows that the professionals in the local Private Equity industry are well educated. The results, however, do not indicate the relevance of the qualifications to the Private equity industry.

4.3.2 INFORMATION ON REPONDENT FIRMS

4.3.2.1 YEARS IN OPERATION

Figure 4.4 shows the number of years each of the respondent firms has been operating in Zimbabwe.

![Figure 4.3: Years in Operation of PE Firms in Zimbabwe](image)

According to the results of this study many of the firms operating in Zimbabwe (61%) were began operations within the last ten years. Of particular interest is the fact that 33% began operations in Zimbabwe within the past five years. Only 6% of the respondent firms have been operating in the country for more than 15 years. The results point to the relative infancy of the Private Equity sector in Zimbabwe. The results are consistent with the AVCA report on Private Equity in Africa (AVCA, 2008) which points
to the nascent nature of the industry in Africa. The results also suggest that the PE industry is just taking off in Zimbabwe.

4.3.2.2 INTERNATIONAL ASPECTS OF PE FIRMS

The researcher sought also to find out whether the firms operating in the country had any international links or they were purely local. The chart shows that most of the firms were locally owned.

![Pie chart showing ownership of PE firms]

**Table 4.4: Ownership of PE Firms**

The majority of the firms (61%) are locally owned and the remainder have international ownership. The results however are not conclusive as a lot of locally owned firms use funding obtained from international sources with such funding partners/arrangements largely silent.

4.4 INVESTMENT CONSIDERATIONS

4.4.1 ZIMBABWE FOCUSED FUNDS

Respondents were asked how many Zimbabwe focused funds they managed and whether or not they also made investments outside the country’s boarders respectively and the results were as shown in the two figures below.
Figure 4.5: Regional Funds

Only 11% of the firms make regional investments from Zimbabwe. It is, however, not evident whether these firms actually make investments from Zimbabwe or whether their policies allow them to make such investments. The majority of the firms have funds focused solely on Zimbabwe. The results regarding the number of Zimbabwe focused funds that the firms were as shown in the table below.

**Table 4.1: Number of Zimbabwe Focused Funds**

<table>
<thead>
<tr>
<th>Number Funds</th>
<th>Number of Firms (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>6%</td>
</tr>
<tr>
<td>1</td>
<td>56%</td>
</tr>
<tr>
<td>2</td>
<td>28%</td>
</tr>
<tr>
<td>3+</td>
<td>11%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

A large number of the firms, (56%) had just one Zimbabwe focused fund each while 28% had two Zimbabwe focused funds. The results are suggestive of the early stage of development of the PE sector in Zimbabwe as results have already suggested.
4.4.2 FUNDS UNDER MANAGEMENT

Data on funds under management was a bit sensitive and as a result the information was given in ranges and not in absolute values. The results were as shown in the Table 4.2.

Table 4.2: Total Funds Under Management

<table>
<thead>
<tr>
<th>Range</th>
<th>Midpoint ($)</th>
<th>Funds</th>
<th>Total ($)</th>
<th>Cum Total ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - $100,000</td>
<td>50,000</td>
<td>1</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>$100,001 - $200,000</td>
<td>150,000</td>
<td>3</td>
<td>450,000</td>
<td>500,000</td>
</tr>
<tr>
<td>$200,000 - $500,000</td>
<td>350,000</td>
<td>5</td>
<td>1,750,000</td>
<td>2,250,000</td>
</tr>
<tr>
<td>$500,000 - $1,000,000</td>
<td>750,000</td>
<td>6</td>
<td>4,500,000</td>
<td>6,750,000</td>
</tr>
<tr>
<td>$1,000,000 - $5,000,000</td>
<td>3,000,000</td>
<td>8</td>
<td>24,000,000</td>
<td>30,750,000</td>
</tr>
<tr>
<td>$5,000,000</td>
<td>-</td>
<td>3</td>
<td>22,500,000</td>
<td>53,250,000</td>
</tr>
<tr>
<td>$10,000,000</td>
<td>-</td>
<td>2</td>
<td>35,000,000</td>
<td>88,250,000</td>
</tr>
<tr>
<td>$10,000,000 - $25,000,000</td>
<td>17,500,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The same data is also presented in the graph below.

![Graph showing total funds under management](image)

**Figure 4.6: Total Funds Under Management**

According to the data the PE firms represented in the respondents had about USD88 million under management and invested in assets in Zimbabwe. Since the respondents represented the majority of the largest PE firms in the country this figure is indicative of total PE funds invested in Zimbabwe by the firms. Twenty nine percent of the funds represented had fund size ranging from US$1 million to US$5 million. Only 7% of the funds were larger than US$25 million in size. The results also showed that the majority of the funds (54%) were US$1 million or less in size. These results indicate the PE industry in Zimbabwe is still quite small and characterised by smaller funds. These results are in line with the findings of the Ernst & Young Round Up for Africa (2012) which shows that markets outside of South Africa account 50% of the funds among themselves with South Africa accounting for the remainder. The AfDB report (2011) also shows that countries that have been in crisis have not managed to receive much funding from risk averse investors.
4.4.3 FOREIGN FUNDING

Respondent firms indicated that they source funding for their investments both locally and from foreign investors. The results below show the proportion of funds under management that is foreign funding.

![Figure 4.7: Foreign Funding Portion](image)

The results showed that 44% of the funds had foreign funding in excess of 50%. Thirty nine percent (39%) of the funds have a foreign funding component below 20% and the remaining funds have between 21% and 49% foreign funding. These results show that PE plays a significant role as a conduit for foreign direct investment to Zimbabwe. These results are consistent with Agmon and Messica (2005) who found that a significant portion of FDI flows into the Israeli economy came in the form of PE investments. The Ernst & Young report (2012) also cites increasing interest in the rest of Africa for investing by foreign Private Equity firms to fund various growth industries, in particular extractive industries from resource rich nations. Similar results were reported by Lener and Schoar (2010) for FDI inflows into the Indian economy via PE investments.
4.4.4 DIFFICULTY IN RAISING FUNDING FOR INVESTMENTS

Figure 4.9 shows the results from the respondents when they were asked if they had any difficulties in raising funding for investments in Zimbabwe.

![Graph showing difficulty in raising funds for investments](image)

**Figure 4.8: Difficulty in Raising Funds for Investments**

Results showed that 78% of the respondents indicated that it was difficult to raise funding for investments in Zimbabwe while the remainder (22%) indicated that it was not difficult to raise funding for financing portfolio investments. Study results generally showed that PE firms in Zimbabwe are finding it hard to raise funding for investments. These results partly explain the relative small size of funds under management. Several reasons were cited for the difficulties in raising funding for investment. Table 4.3 shows the results of the study.
Table 4.3: Reasons for difficulties in raising financing

<table>
<thead>
<tr>
<th>Reason</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political environment (Indigenization Laws)</td>
<td>83%</td>
</tr>
<tr>
<td>Lack of Interest from International investors</td>
<td>39%</td>
</tr>
<tr>
<td>Expensive local interest rates</td>
<td>72%</td>
</tr>
<tr>
<td>Lack of depth in local financial system</td>
<td>67%</td>
</tr>
<tr>
<td>Lack of understanding of PE investments</td>
<td>67%</td>
</tr>
<tr>
<td>Lack of investment culture</td>
<td>78%</td>
</tr>
<tr>
<td>Other</td>
<td>33%</td>
</tr>
</tbody>
</table>

The reasons for the difficulties in raising financing for local portfolio investments were varied. The study established that 78% of the respondents were of the opinion that a low investment and saving culture in Zimbabwe was responsible. Issues raised for the low investment culture included the low saving by the general population with total deposits with banks a mere US$3 billion, most of which short term (Ministry of Finance, 2012). An overwhelming majority of the respondents (83%) felt that the political environment, in particular the indigenization laws discouraged investors from making commitments towards local portfolio investments. Only 39% of the respondents felt that international investors lacked interest in the local PE industry. Other reasons should therefore be responsible for the difficulty in raising financing apart from foreign investor apathy. This is consistent with recent press reports of increasing interest in Zimbabwe as a recovery play (The Zimbabwe Independent, 10 February 2012). Other reasons cited included high risk profile, immature industry and low returns.
4.4.5 NEW INVESTMENTS SINCE 2009

Raw data from the respondents shows that since dollarization of the economy (from the start of 2009) private equity firms have made new portfolio investments amounting to just over US$67 million. The figure below shows the distribution of new investments into portfolio firms by the PE firms for the period 2009 to 2012.

<table>
<thead>
<tr>
<th>Number of Firms</th>
<th>&lt;500k</th>
<th>500k - 1m</th>
<th>$1m - $2.5m</th>
<th>$2.5m - $5m</th>
<th>$5m +</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>17%</td>
<td>28%</td>
<td>22%</td>
<td>33%</td>
<td>11%</td>
</tr>
</tbody>
</table>

*Figure 4.9: New investments into portfolio firms*

The data shows that 17% of the firms made investments of less US$500,000 while 28% of the firms made new investments between US$500,000 and US$1 million mainly into SME portfolio companies. A total of 55% of the firms made new investments of between US$1 million and US$5 million with the remainder making investments totalling more than US$5 million. The results tally with earlier results concerning the relative small size of the industry in Zimbabwe.
4.5 PRIVATE EQUITY AND GROWTH

4.5.1 INVESTMENTS IN NEW TECHNOLOGY BASED FIRMS

New Technology Based Firms (NTBF) are expected to be the new drivers of the modern economy. Bertoni and Colombo (2006) suggest that investment in NTBFs is a good indicator for expected future economic growth. The following results show the proportion of the Zimbabwe Private Equity firms investing in NTBFs.

![Figure 4.10: Investment in NTBFs](image)

The results showed that 83% of the respondents invested in NTBFs while the remainders did not invest in NTBFs but instead focused solely on established businesses with established product offerings.

4.5.2 NEW JOBS CREATION

A good measure of the contribution to economic growth according to Meyer et al. (2009) is the number of jobs added to the economy by Private Equity firms. Figure 4.8 shows the results of employment creation by PE firms in Zimbabwe over a period of 10 years.
A total of 2,219 new jobs were created during the ten years prior to the research. The majority of the firms (78%) created less than two hundred (200) jobs per firm. The number of jobs created may seem a smaller number but this should be interpreted against the background of rising unemployment in Zimbabwe over the period. This result is consistent with the results of the study by EVCA (2004) which shows that the PE sector contributed more to employment creation than the overall economy. The results also indicated that PE contributed significantly to employment creation and overall economic growth. Creation of employment by private equity represents a social dimension of its contribution to development. Alleviating poverty is an important aspect of economic development. The number of jobs created represents a growth of 227% over the period prior to PE injection.

Table 4.4: New Jobs Created

<table>
<thead>
<tr>
<th>Range</th>
<th>Number of Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 50</td>
<td>39%</td>
</tr>
<tr>
<td>50 – 100</td>
<td>17%</td>
</tr>
<tr>
<td>100 – 200</td>
<td>22%</td>
</tr>
<tr>
<td>200 – 300</td>
<td>11%</td>
</tr>
<tr>
<td>300 – 400</td>
<td>6%</td>
</tr>
<tr>
<td>400+</td>
<td>6%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100%</td>
</tr>
</tbody>
</table>
4.5.3 GROWTH IN SALES AMONG PORTFOLIO COMPANIES

Respondent PE firms were asked to give average cumulative sales growth over a period of 3 years on their portfolio investments using the year prior to investment in portfolio companies as the base year. The results were as shown in Table 4.6.

<table>
<thead>
<tr>
<th>Average Sales Growth</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 25%</td>
<td>17%</td>
</tr>
<tr>
<td>26% - 50%</td>
<td>22%</td>
</tr>
<tr>
<td>51% - 75%</td>
<td>39%</td>
</tr>
<tr>
<td>76% - 100%</td>
<td>17%</td>
</tr>
<tr>
<td>+100%</td>
<td>6%</td>
</tr>
</tbody>
</table>

The results were over a period of 3 years from 2009 to 2012. A shorter period was used due to the fact that consideration of data covering the Zimbabwe dollar would distort the results. The majority of the respondents have seen cumulative growth of between 51% and 75% in sales over the three year period. This growth is above inflation for the period (4.5%) and average economic growth for the period (7%). A smaller number of the respondents (6%) saw sales among their portfolio companies rise by a cumulative rate greater than 100%. The results of sales growth greater than economic growth are consistent with the results from Jain and Kini (1995) and Manigart and Van Hyfte (1999). This finding is in conformity with the studies by Steiner and Solem (1988), Cuba, et al (1983), Khan and Rocha (1982), and the United States Small Business Administration (1980) which has used sales growth as a key indicator of small business success and overall performance. Their study reported that there were substantial sales growth by firms that used venture capital. However availability of finance is no guarantee to increase in sales. Cook (2000) observed that proper marketing strategy, pricing policy, research and development, proper management among others contribute.
The presence of venture capitalists in a firm provides guidance to all the above hence sales growth. These results show that Private Equity in Zimbabwe has contributed to economic growth in so far as it has resulted in accelerated sales growth among portfolio companies. These results should be interpreted against the background of the small size of the sector however.

### 4.5.4 GROWTH IN PROFITS AMONG PORTFOLIO COMPANIES

In this study profit growth was used as a proxy for economic growth. The justification being that profit growth implied value creation. Respondent firms were requested to provide average cumulative growths in profit post accessing Private Equity financing.

**Table 4.6: Growth in Profits**

<table>
<thead>
<tr>
<th>Average Profit Growth</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 50%</td>
<td>6%</td>
</tr>
<tr>
<td>51% - 100%</td>
<td>28%</td>
</tr>
<tr>
<td>101% -150%</td>
<td>33%</td>
</tr>
<tr>
<td>151% - 200%</td>
<td>28%</td>
</tr>
<tr>
<td>+200%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Table 4.7 shows the average increase in profits among portfolio companies of the respondent firms. The results, like those of sales considered above, were for a period of three years up to 2012 for similar reasons. The growth in profit figures are much higher than average growth rates achieved in developed economies due to the fact that they are coming off a low base. Portfolio companies within the majority of the firms (33%) achieved profit growth between 101% and 150% which is much more than what was achieved by ZSE quoted companies over the same period (Financial Markets Handbook, 2012). The results show the role of Private Equity in accelerating growth and
wealth creation. One of the firms in the respondent sample had cumulative growth among portfolio companies greater than 200%. It is, however, important to put these results into perspective. A number of the PE firms are new with portfolio companies that are new hence these growth rates are coming off a low base. Similar trend was reported by Chaganti and Mahajan (1983) in Indian SME that used venture capital. The important aspect here is not just the finance the venture capitalists provide value creation in the venture. Empirical evidence (Brav and Gompers 1997) confirms that increase in profit by venture capital-backed firms is often attributed to better management teams and corporate governance structures that help these companies to perform better in the long run.

4.5.5 R&D EXPENDITURE AND NEW PRODUCT DEVELOPMENT

Research and Development (R&D) expenditure is very important at both firm level and macroeconomic level and can be used as an indicator for future economic growth (Dennis, 2004). According to the survey results direct funding by PE firms in respect of R&D expenditure over the period of 10 years amounted to US$356,000 (0.5% of total investment over the same period) which is significant given the background of challenging economic situation experienced by the Zimbabwean economy and the small number of PE firms in Zimbabwe. While R&D expenditure is important as an indicator of the contribution to economic growth, new product development is, however, considered a superior indicator Lener et al, 2008). The following table shows the results on the number of products introduced over the last 10 years by portfolio companies of the various PE firms.
Table 4.7: New products Introduced

<table>
<thead>
<tr>
<th>Number of New Products</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>11%</td>
</tr>
<tr>
<td>2</td>
<td>17%</td>
</tr>
<tr>
<td>3</td>
<td>39%</td>
</tr>
<tr>
<td>4</td>
<td>22%</td>
</tr>
<tr>
<td>5</td>
<td>11%</td>
</tr>
</tbody>
</table>

The results show that all the firms introduced at least 55 new products among their portfolio companies. Total new products among the portfolio companies amounted to 55 across various industries. Two of the firms (11%) introduced or helped to introduce at least 5 new products across the portfolio companies. The results indicate that PE firms are active in introducing new products to their portfolio companies and are active in promoting innovation. These results support the findings of Shleifer and Summers (1988) which showed that PE funding in Europe supported long term innovation through sustained product innovation.

4.5.6 ZIMBABWE DEDICATED SME FUNDS

None of the respondents reported having funds that were dedicated entirely to SMEs in Zimbabwe but they explained that most of their investments were in SMEs in Zimbabwe. On average about 75% of the funds were invested in small to medium sized businesses. The Zimbabwe government has been deliberately trying to promote growth of the formal SME sector as it is the sector that is the source most of global economic growth. For example Kovacs (2000) provides some interesting data about the role of SMEs in Europe. He claims that SMEs account for a large portion of Europe’s economic and professional activity and in practice 59% of all businesses in Europe are SMEs and they provide two thirds of all private sector jobs in the EU.
4.6 PRIVATE EQUITY AND FINANCIAL MARKETS DEVELOPMENT

Private Equity is very important as a driver of growth of the stock market in particular. The study sought to establish the role played by the PE sector in terms of two key indicators; namely the number of new listings on the Zimbabwe Stock Exchange attributed to PE exits and other stock market deals involving buyouts. The results are presented in the following two sections.

4.6.1 NEW LISTINGS

Study responses showed that none of the firms had brought any new companies to the stock market through Initial Public Offerings (IPOs) during the past 10 years. In fact no IPO in Zimbabwe could be attributed to PE firms for all listed counters currently on the Zimbabwe Stock Exchange. In developed economies, however, most of the IPOs since the 1980s have been attributed to PE firms (Jordan et al 2005). The trend has not gained a foothold in Zimbabwe, due in part to the infancy of the sector and the political and economic crisis that Zimbabwe has been experiencing for the past decade. However, through interviews respondents indicated that they would consider IPOs in the event the global market stabilises but not in the immediate future as they need to consolidate operations after the multicurrency system of the economy.

4.6.2 STOCK MARKET DEALS

A total of $16.5 million worth of deals were conducted by respondent private equity firms and other publicly reported deals by PE firms not in the respondent sample. Over a ten year period this may look insignificant but the situation changes when considered against the historical market capitalization of around US$3.5 billion. For stock markets to function smoothly, liquidity is important. Buyout deals play a significant role in making stock markets more liquid. From the data, however, it appears the Zimbabwean PE sector has not contributed much to the development of the local stock markets although this is expected to change going forward with economic stability emanating from the multicurrency system.
4.7 PRIVATE EQUITY DEVELOPMENT IN ZIMBABWE

The research also sought to establish the status of the PE industry in Zimbabwe. Among others the study sought to establish the reasons for the slow growth of the sector in Zimbabwe, the position of the industry regarding addressing the stunted growth of SMEs in Zimbabwe and any other comments from the participants in the study. The results are presented in the sections that follow.

4.7.1 CHALLENGES FACED BY PE FIRMS IN ZIMBABWE

Table 4.8: Reason for slow PE/VC sector growth

<table>
<thead>
<tr>
<th>Reasons</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor regulatory and legal environment</td>
<td>36</td>
</tr>
<tr>
<td>Poor returns funds invested</td>
<td>36</td>
</tr>
<tr>
<td>Lack of international capital</td>
<td>40</td>
</tr>
<tr>
<td>High political risk</td>
<td>64</td>
</tr>
<tr>
<td>Few investment options</td>
<td>21</td>
</tr>
<tr>
<td>Lack of knowledge about this form of financing</td>
<td>93</td>
</tr>
<tr>
<td>Problem with exists from investment</td>
<td>93</td>
</tr>
<tr>
<td>Other</td>
<td>43</td>
</tr>
</tbody>
</table>

The study established that 36% of the respondents thought the returns on their funds invested in Zimbabwe were too low which suggests that the returns on private equity investments in Zimbabwe were satisfactory. The results may also imply that returns on PE investments in Zimbabwe are expected to be satisfactory in the long term. Lack of international capital was cited by 40% of the respondents as constraining the development of the private equity sector in Zimbabwe. Not surprisingly 64% of the respondents also cited high political risk as a cause for the slow growth in the local PE/VC industry. This can be attributed to the fact that although most of the firms are local, they still need to raise capital from international investors.
Of particular interest is that 93% of the respondents thought that private equity as a way of financing was not sufficiently well known in the country in particular by SME entrepreneurs who may be in need of capital injections to grow their enterprises. This supports research results in Chidemo (2008) which showed that only 30% of the SME entrepreneurs knew about private equity as a form of financing. The study also noted that 36% of the respondents thought that the poor regulatory environment was hampering the growth of the sector in Zimbabwe. Further analysis shows that this mainly regards property rights, contract enforcement and rule of law since alternative investments are not tightly regulated the world over. A small portion of the respondents (21%) cited few investment options as holding back the growth of the sector. This suggests that investment options are adequate in Zimbabwe or they are expected to be so in the medium to long term. All the respondents bemoaned the difficulty with exits from most investments, but especially SME investments, in Zimbabwe. This is due to the very high and stringent listing requirements of the Zimbabwe Stock Exchange and the lack of an alternative exchange for SMEs that could make exits easier. This can also be explained by the lack of buyout financing from the local financial services sector and the very small number of buyout deals that have been done in Zimbabwe in the past ten years.

4.7.2 ROLE OF PE/VC IN ADDRESSING STUNDED SME GROWTH IN ZIMBABWE

Respondents were asked if they thought private equity firms could address the problem of stunted growth of SMEs in Zimbabwe. The results were overwhelmingly in the positive as 83% of the respondents agreed that PE participation will address constraints being faced by the SME sector. Some pointed to issues of governance for SMEs which they point out has been a major issue constraining their growth. In addition some of the 83% pointed out that private equity firms usually bring more than just money to the table as they also bring useful networks and business management experience that could be exploited to the advantage of the SME. Only 17% of the respondents did not think that private equity firms had a role to play in addressing the problem of SME growth in the
country. The reasons some of the respondents gave range from lack of interest in SMEs by PE firms to failure to meet minimum due diligence requirements of most PE firms. Some of the respondents also felt that concessionary funds from the government were more appropriate to accelerate growth of the SME sector. Analysis shows that most of the firms that answered in the negative were international firms whose main focus is on leveraged buyout deals. The results clearly demonstrate that private equity has a role to play in accelerating SME growth as the industry is acutely aware of its role in this regard.

![Figure 4.11: Does the PE/VC sector have a role to play in addressing stunted SME growth](image)

4.8 ADDITIONAL COMMENTS FROM PE RESPONDENTS

Many of the respondents were very positive about the role of Private Equity in addressing growth in Zimbabwe. They felt that with proper support and regulatory framework, PE funds could act as conduits for FDI flows into the economy. Many of the respondents were also confident that the SME sector in Zimbabwe presented exciting opportunities for the private equity sector. Already international investors were
beginning to make enquiries regarding funds exposed to SME sector in Zimbabwe. Some lamented the lack of an industry association in Zimbabwe and the apparent lack of commitment to the sector by the government.

4.9 CHAPTER SUMMARY

The majority of the respondents reported that raising capital for their funds was a big challenge. Respondents from the private equity sector confirmed the small and undeveloped nature of the sector in Zimbabwe. There is a general belief among respondents that the private equity sector can assist in the growth of SMEs and the sector as a whole. Data shows that although PE has helped in accelerating sales growth, profit growth and employment growth among portfolio firms, the small size of the local sector has lessened the impact of PE to boosting economic growth in Zimbabwe. The next chapter gives the summary of the study, conclusions and recommendations.
CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter presents the summary of the entire study, the research conclusions and the recommendations. The rest of the chapter is arranged as follows: Section 5.2 gives a summary of the research and section 5.3 lists the conclusions drawn from the study in light of the research objectives. Section 5.4 discusses the recommendations that arise from the study while the last section proffers suggestions for further study in the area of PE and development in Zimbabwe.

5.2 SUMMARY

This study sought to investigate the role that Private Equity has played in Zimbabwe’s economic development over the period, 2002 - 2012. Specifically the study sought to investigate some of the factors that have contributed to limited growth of this sector. There is limited research on this area of study in Zimbabwe. Policymakers have tended to talk about economic development and growth without being specific on how such growth would be financed. Academics have talked in various fora about the merits of Private Equity as a sustainable driver of economic growth and development. Twenty five questionnaires were distributed to private equity firms and asset management companies that conduct private equity business. Invaluable findings and observations were made during the study, and the following conclusions were drawn.

5.3 CONCLUSIONS

The following conclusions have been drawn from the research findings:

5.3.1 SIZE OF THE ZIMBABWEAN PRIVATE EQUITY SECTOR

The size of the Zimbabwean Private Equity sector is still insignificant when compared to the global private equity deal flow. Funds under management of just over $200 million
dollars are insignificant when compared to global deal flows estimated to be around US$2 trillion in 2008. However, the situation is different when considered against local stock market total capitalization of around US$3.5 billion. This represents 6% of total market capitalization which is significant and growing.

5.3.2 CONTRIBUTION OF THE ZIMBABWEAN PRIVATE EQUITY SECTOR

Research results show that at firm level, PE has contributed to growth when considered using the following metrics: sales growth, profit growth and employment growth. However, the results should be interpreted in the context of the small size of the sector as stated above. Employment growth amounting to 2,219 jobs is significant when considered against chronic unemployment registered by the overall economy during the same period. Results show that portfolio firms registered cumulative sales growths exceeding 51% against the whole economy registering just over 7%. The contribution over the period is therefore significant. The study also showed that a total of 55 new products or major product improvements were introduced over the study period.

Within the confines of the current study results show that PE has contributed to the growth of the Zimbabwean economy although the overall effect is dampened by the small size of the sector as a whole.

5.3.3 LINK BETWEEN PRIVATE EQUITY AND GROWTH

There exists a link between PE and accelerated economic growth as secondary evidence from the West and South Africa shows. PE acts as an indirect catalyst for economic growth in so far as it helps recipient firms of Private Equity to register above average growth rates in sales, profits and new product development.

5.3.4 ROLE OF PRIVATE EQUITY IN SME DEVELOPMENT

The majority of respondents believe that Private Equity in Zimbabwe has a role to play in the development of a vibrant SME sector in particular and the industrial sector in
general through provision of adequate risk capital. As SMEs are regarded as the engines for economic growth, PE firms in Zimbabwe are aware of this fact and have established funds that are dedicated to this sector. Other funds although they may not be SME focused these funds still invest in SMEs.

5.3.5 PRIVATE EQUITY AND FINANCIAL MARKET DEVELOPMENT

Zimbabwe has not witnessed any PE sponsored Initial Public Offerings. There are not many buyout deals that have been done by PE firms on the Zimbabwe Stock Exchange. PE has not contributed much to the development of the local stock market. However, PE inflows help in improving local market liquidity conditions. As research results show that 61% of PE funding is foreign sourced, PE in Zimbabwe plays an important role in providing liquidity to the market and also acting as a conduit for financial foreign direct investment (FFDI).

5.3.6 STATUS OF THE ZIMBABWEAN PRIVATE EQUITY SECTOR

Research results shows that the local private equity sector is quite small and largely undeveloped due to a number of reasons, chief of which are the lack of international capital and the high political risk in the country. Returns on the local PE sector are considered to be adequate hence there are significant opportunities for growth of the sector. The number of players in the sector is also growing although fund sizes are still very small compared to emerging and developed economies.

5.3.7 THE CASE FOR PRIVATE EQUITY

The results of the study provide overwhelming evidence for the case of private equity as a form of financing for accelerated development of SME sector. Results show that private equity financed firms have registered superior growth rates than the whole economy in terms of employment creation, sales growth and profit growth.
5.4 RECOMMENDATIONS OF THE STUDY

Cognizant of the above conclusions regarding private equity and national economic development, the study makes some recommendations and each recommendation is going to be evaluated using the three criteria; suitability, feasibility and acceptability as described by Johnston and Scholes (1993).

Suitability is the criterion for assessing the extent to which a proposed strategy fits the situation identified and how it would sustain or improve the competitive position of the organisation. (Johnson and Scholes 1993). The recommendations are going to be assessed for suitability and compatibility with current and expected external environment. It should also be in alignment political and social context.

Johnson and Scholes (1993) argue that, a feasibility assessment of a strategy is concerned with whether a strategy can be implemented successfully. The focus will be on availability of resources to implement a recommendation. Some of the question to be answered would be;

- Can the strategy be funded?
- Are the necessary skills available at managerial and operator level?
- Is the necessary technology available?

Acceptability is concerned with what people might expect from the strategy. (Johnson and Scholes 1993). The two main aspects will be the financial aspect and the stakeholder aspect. The financial aspect focuses on the return to risk profile of each alternative. The stakeholder aspect focuses on the effect of a strategy to stakeholders and their reactions thereon.
5.4.1 PROMOTING GROWTH OF PE SECTOR IN ZIMBABWE

In light of the link established between Private Equity and economic growth, it is important for authorities to design measures that deliberately promote the growth of the sector in Zimbabwe in order to accelerate economic growth.

**Suitability** - The authorities will come up with measures that will exploit all the opportunities available in the private equity market. This involves research and development for SMEs as well as marketing their products.

**Feasibility** - As much as the growth promotion measures can be vital for the private equity market, funding can prove to be a stumbling block against the liquidity challenges that the country is facing. However, openness to foreign investments can assist in ensuring implementation of this strategy.

**Acceptability** - This recommendation will be highly acceptable to the stakeholders which are the government, society and private equity players as it is an employment creation opportunity and profitability growth strategy.

5.4.2 NEW FRAMEWORK FOR FINANCING ENTERPRISES

The ministries responsible for finance and economic development should relook at financing models for economic development. In particular, the ministry responsible for SMEs should develop a new framework for the financing of SMEs that recognises the importance of private equity and other forms of risk capital providers.

**Suitability** - This recommendation would fit within the ministry’s purposes (mission and vision). The vision for the ministry of finance reads as follows “To be the centre of excellence in facilitating sustainable socio-economic growth and development”. By coming up with financing models that promote growth of SMEs indirectly, they will be growing the economy.
Feasibility - Are the necessary skills available at managerial and operator level. Coming up with the financing models requires experienced economic analysts and assessors. Zimbabwe has got a large pool of skilled labor force

Acceptability - Financial return of the strategic choices can be calculated using various financial measures like Net Present Value (NPV), Internal Rate of Return (IRR), Economic Value Added (EVA) to mention but a few. The ministry can implement only those models that will yield positive returns.

5.4.3 RESEARCH

In light of the result which showed that PE firms face a number of challenges to create a vibrant sector in Zimbabwe, authorities need to study further the challenges faced by the sector so that these may be addressed holistically. This should allow the economy to realize the full potential of PE in terms of development.

Suitability - The question to be answered is ‘How far does the strategy overcome the environmental threats?’ The private equity firms are finding it very difficult to have the necessary information about investors. An effective research authorities will bring on to the table the challenges and all the plausible solutions can be drawn and implemented.

Feasibility - The availability of the necessary technology is the question. Although Zimbabwe is still trailing behind in technology compared to advanced countries, there is a dual effort from the private and public sectors to catch up with technology.

Acceptability - This recommendation will be acceptable to the government and PE players in so far as it seeks to document challenges being faced by the industry and establish the way forward.
5.4.4 ADDRESSING RISK ISSUES

The research also established the role played by high political risk which is affecting efforts to increase capital inflows through Private Equity investments. There is need to address the risk issues identified. However this is a political issue which may be difficult to resolve and requires the commitment of politicians to address political risk.

Suitability- High risk in the Zimbabwean economy requires to be managed by PE firms if they are to realize acceptable returns on PE investments.

Feasibility- As already highlighted the major issue identified by PE investors is the risk attaching to the political situation in the country. Addressing political risk will take time and is a function of political will.

Acceptability- it is important to address sovereign risk in order to make sure that Zimbabwean investments yield satisfactory returns for investors to ensure sustained fund flows from outside the country.

5.4.5 NEW FINANCIAL MARKETS FRAMEWORK

The government needs to create a new framework for the financial markets that makes it easier to raise capital for investment and exits through IPOs. The PE sector while it has been shown to contribute to financial markets growth, it requires a strong financial markets framework in order to thrive. A strong such framework will allow the PE thrive hence accelerating growth.

Suitability- The relevant ministries within the government are always preoccupied with creating an enabling environment to deepen the financial markets. A new framework based on strengthening the PE sector should do well to achieve these macroeconomic objectives.

Feasibility- There is need to ensure strong financial markets growth to support growth of the PE sector. Alternative exchanges or SME exchanges have been shown to work in economies like India and Malaysia. A vibrant Over the Counter (OTC) market can also
be encouraged in Zimbabwe. SME and OTC exchanges are not very expensive to set up.

Acceptability- This recommendation will be accepted by many players especially existing and potential investors on the stock market as it will ensure transparency. This will also enhance their confidence on the Zimbabwe financial market.

5.4.6 ESTABLISHMENT OF INDUSTRY ASSOCIATION

There is no recognized industry association for private equity in Zimbabwe. The study recommends the establishment of a national industry association along the lines of the South African Venture Capital Association (SAVCA) as a representative body that will help publicize private equity and spearhead the development of the industry in Zimbabwe.

Suitability- An industry association is important in that it can articulate the issues affecting the whole industry so that the government can address the issues. An industry association is the best body to establish standards for the industry and carry out research into the challenges facing the industry as a whole.

Feasibility- It is easy to form such an association although the small nature of the industry could negate this. A more feasible solution would be to join with SAVCA and adopt all the SAVCA standards with relevant amendments to make them relevant to the Zimbabwean environment.

Acceptability- Some industry players bemoaned the lack of an industry association along the lines of SAVCA and therefore the establishment of such an association should be a welcome move.
5.5 SUGGESTED AREA OF FURTHER RESEARCH

This study is expected to be only a preview of important and relevant research to come in the areas of private equity financing and economic development. For example, by identifying conditions that promote the growth of a vibrant private equity sector, we can develop a roadmap of policies to develop the small business sector and the PE sector in Zimbabwe. This research can provide powerful policy tools to the Ministry of Economic Development, Ministry of Finance, Ministry of Small to Medium Sized Enterprises and Development and the private equity sector in Zimbabwe for the development of an appropriate framework for small business development.

Some policy implications can be easily derived from this analysis. Since the private equity industry appears to play an acknowledged role in development in the country, government policies should encourage the growth of this sector, which could help jump-start the growth of a more dynamic and profitable private sector. A detailed study of the private equity sector in Zimbabwe would be welcome in that it helps to document the industry challenges and provide a framework for growth of the sector.
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APPENDIX 1: QUESTIONNAIRE

Stand No19007  
Damofalls  
Ruwa  
Phone:0775 534 241  
email:mercymukwembi@yahoo.com

21 March 2018,

Dear Sir/Madam,

I am currently carrying out an empirical study entitled: “The Role of Private Equity in National Economic Growth: The Case of Zimbabwe” in partial fulfillment of the requirements of the Master of Business Administration Degree at the University of Zimbabwe (UZ). The study also aims to explore the role of Private Equity in financing the growth of the Zimbabwean economy and provide a framework for the development of a vibrant Private Equity sector in the country.

Could you kindly provide information by completing this questionnaire to the best of your knowledge? Your responses will be treated as confidential and will not be used for purposes other than those intended for this research.

For any further information, do not hesitate to contact the researcher on the above contact details.

Thank you in anticipation

Mercy Mukwembi (R012995B)
QUESTIONNAIRE FOR PRIVATE EQUITY FIRMS

Please answer the following questions in an honest manner.

SECTION A: COMPANY INFORMATION & RESPONDENT DETAILS

1. Name of Firm ........................................................................................................
2. Name of Representative.....................................................................................
3. Position of respondent in the company ..............................................................
4. Gender of Respondent.........................
5. Highest Qualifications .........................
6. Year firm commenced operations in Zimbabwe ............
7. Is your firm part of an international group?
   YES ☐  NO ☐

SECTION B: INVESTMENT CONSIDERATIONS

8. How many Zimbabwe focused funds do you manage? ............
9. How much do you have under management? US$............... 
10. Have experienced difficulties in raising funding for investments?
    YES ☐  NO ☐
11. How much has your firm invested in Zimbabwe ever since 2009?
    US$............... 
12. How many new jobs have your investments contributed directly in the past 10 years in Zimbabwe?
    .............
13. What has been the average annual growth in Sales among your new portfolio companies for the past 10 years?

...............%

14. What has been the average annual growth in Profit among your new portfolio companies for the past 10 years?

...............%

15. Does your firm specifically target New Technology Based Firms (NTBFs) in Zimbabwe?

YES □  NO □

16. How much has your firm invested in R&D among your portfolio companies in Zimbabwe over the past 10 years?

US$.................

17. Has your firm overseen the introduction of new products among your portfolio companies over the past 10 year? If Yes state how many new products.

YES □  .................  □  NO

18. What have been the major constraining factors to growth prior to your investment among your new portfolio companies over the past 10 years?

- Inadequate Capex [ ]
- Inadequate Working Capital [ ]
- Poor Management Systems [ ]
- Lack of Requisite Skills [ ]
- Generally Poor Economic Climate [ ]
- Other (Specify)....................... [ ]

(tick all applicable choices)

19. What portion of your funds are sourced from outside Zimbabwe?

- Below 20% [ ]
- 21 – 49% [ ]
- Above 50% [ ]
20. What percentage of your funds is dedicated to SMEs in Zimbabwe?
- Below 20% [ ]
- 21 – 49% [ ]
- Above 50% [ ]

21. In your opinion what do you think the stunted growth of SMEs in Zimbabwe is due to?
- Inadequate capital [ ]
- Lack of proper management systems [ ]
- Challenging hyperinflationary economy [ ]
- Inappropriate business models and systems [ ]
- Other (specify) ................................. [ ]
(tick all applicable choices)

22. Do you think Private Equity can solve some of the above identified problems?
- YES ☐
- NO ☐

SECTION C: PE DEVELOPMENT IN ZIMBABWE

23. What do you think is holding back the development of Private Equity in Zimbabwe?
- Poor regulatory and legal environment [ ]
- Poor returns funds invested [ ]
- Lack of international capital [ ]
- High political risk [ ]
- Few investment options [ ]
- Lack of knowledge about this form of financing [ ]
- Other (specify) ................................................ [ ]
(tick all applicable choices)

24. Please provide any other comments about the difficulties you face in your operations as a Private Equity firm and what you think should be done to help the development of a vibrant PE sector in Zimbabwe?

........................................................................................................................................
........................................................................................................................................
........................................................................................................................................
25. Provide any other comments on Private Equity as regards development in Zimbabwe as you may think necessary

End of questionnaire

Thank you for taking your time to fill in this questionnaire
APPENDIX 2: INTERVIEW GUIDE

1. In what ways does PE encourage economic growth in any economy?
2. What evidence is there to support this assumption that PE promotes growth?
3. What is the position of your agency regarding PE and growth?
4. Has your agency produced any research documents on the role of PE and growth given the position your organisation has adopted regarding PE and growth?
5. What is your position regarding PE and income inequalities?
6. What other information could you provide that would be useful for the study at hand?