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Unlocking Capital: How Ugandan Businesses Can Become Investor Ready

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Introduction

Uganda's venture capital market is forecasted to grow to USD 102.4 million by 2024. This is lower than our peer Kenya's venture capital market, which is experiencing rapid growth, with a projected value of USD 416.0 million by 2024.

In both countries, these venture capital markets are largely driven by later-stage investments, with Uganda's market volume expected to reach USD 82.7 million and Kenya's market projected at USD 363.9 million in 2024.

The Uganda venture capital landscape is gaining significant momentum, fueled by an increasing number of local startups securing investment and driving innovation. There is substantial potential to further expand Uganda's share of the venture capital market to meet the capital needs of local businesses. However, attracting such capital requires more than just a compelling idea; it demands thorough preparation and strategic positioning. This article outlines the essential steps Ugandan businesses should take to become investor-ready, empowering them to seize opportunities for sustainable growth.

Understanding Investor Readiness

Investor readiness refers to the degree at which a business or business owner understands the key aspects that an investor needs to evaluate before deciding to invest. This readiness varies depending on the company's size, maturity, and strategic goals as well as industry within which it operates. For Ugandan businesses, being investor-ready is crucial as it opens access to diverse capital sources, including debt and equity from private equity and venture capital firms. This readiness not only addresses the challenge of limited access to finance but also aligns with Uganda's Vision 2040, which aims to transform the economy from predominantly low-income to a competitive upper-middle-income status.

1. Develop a Comprehensive Business Plan

A detailed business plan is the foundation of any investment-ready business. It should clearly articulate the company's mission, vision, market analysis, competitive landscape, revenue model, and growth strategy.

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A well-prepared business plan provides clarity and confidence to investors, demonstrating that the business is well-positioned in the market and has a clear path to profitability.

2. Ensure Strong Financial Management

Strong financial management is critical in building investor trust. This involves maintaining accurate financial records, understanding cash flows, and developing realistic financial projections. In Uganda, it is mandatory for listed companies, financial institutions, government-invested companies, and foreign companies to adhere to International Financial Reporting Standards (IFRS). Although, there's no mandatory requirement for SMEs to use IFRS accounting standards for SMEs, they are encouraged to adopt them given their significant benefits such as attracting credit from financial institutions, gaining supplier confidence, and attracting venture capital investors from other jurisdictions.

Given that SMEs make up 90% of the private sector in Uganda, it is essential for the Government, in collaboration with the Institute of Certified Public Accountants of Uganda (ICPAU), to implement strategies that support SMEs in adopting IFRS for SMEs.

By addressing key barriers such as high costs and limited capacity, these initiatives can help SMEs fully utilize capital sourcing opportunities within their respective sectors.

3. Build a Strong Management Team

A competent and experienced management team is one of the most critical factors investors consider when evaluating a business. The management team should possess the necessary skills, industry experience, and leadership qualities to execute the business plan and drive growth. Building such a team requires strategic hiring and continuous development and aligning with the business's long-term goals.

4. Establish Effective Corporate Governance

Effective corporate governance is essential for risk management and long-term sustainability. A well-defined organizational structure should clearly outline the roles and responsibilities of board members and the management team, ensuring effective implementation of the business plan. Internal controls should be in place to maintain transparency and accountability.

Adhering to corporate governance practices, as outlined in Companies Act of 2012 and other relevant regulations, reassures investors of the company's commitment to operating transparently and in compliance with regulatory standards. Smaller SME's that are unable to meet the cost of a typical board can opt for a board of advisors.

5. Maintain Regulatory Compliance

Investors conduct due diligence to verify information and assess risks before making investment decisions. Compliance with all applicable regulatory requirements, including financial, legal, tax, and intellectual property laws, boosts investor confidence by mitigating investment risks. Ensuring compliance demonstrates the business's commitment to ethical practices and reduces the likelihood of legal or financial setbacks.

6. Demonstrate Market Traction and Business Impact

Investors are attracted to businesses that demonstrate market traction, which can be shown through a growing customer base, strategic partnerships, or increased sales. Additionally, with the rise of impact investing, businesses that contribute to social and environmental needs have a competitive edge. Demonstrating positive impact in the communities they serve can enhance a company's attractiveness to investors focused on sustainable development.

Conclusion

Becoming investor-ready is a journey that requires thorough preparation and strategic positioning. It may involve rethinking business operations and embracing best practices in management, governance, and compliance. By organizing and managing business structures effectively, businesses can increase their access to affordable, long-term financing. At JRK Advisory, we are committed to supporting businesses in becoming investor-ready through our strategic legal and financial solutions, helping you unlock your capital needs and achieve sustainable growth.

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Educational Background:

- Masters in Banking and Finance Law – Boston University, USA
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