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Navigating the Capital Raising Process: Key Steps and Expectations for Businesses in Uganda

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Introduction

The capital raising process offers businesses the opportunity to secure various forms of capital, including equity, debt, grants, or a combination of these options. The choice of capital is often informed by the business's growth stage and long-term strategic goals. As we have highlighted in previous publications, businesses in Uganda can raise capital through either bank-based financing or market-based financing.

Bank-based financing, predominantly in the form of debt, remains the most common external funding source for businesses in Uganda, accounting for approximately 80% of business financing. This is largely due to the steady growth of the banking sector, which has extended to include microfinance institutions. In contrast, market-based financing—which includes debt, equity, and grants—is still in its early stages of development and it is projected to grow to 3% by 2027.

Businesses can raise capital through market-based financing in various ways, depending on whether they are private or public entities. Private companies, for instance, can seek capital from Private Equity (PE) and Venture Capital (VC) funds.

They may also consider listing on financial markets and transitioning to public status. Public companies, on the other hand, can raise capital by issuing bonds or reinvesting equity in the financial markets. This publication, however, focuses on how private companies can raise capital from PE and VC funds.

While many businesses are familiar with bank-based financing, it is essential to explore market-based financing to diversify capital sources and access long-term funding, which is critical for sustained business growth.

Banks in Uganda have clear loan approval checklists, typically focusing on factors such as the creditworthiness of the business, the quality of collateral, and the overall financial health of the business. While these requirements might seem straightforward, securing capital through market-based financing particularly from PE firms, VC funds, and grant providers requires a more strategic and flexible approach.

In this publication, we discuss the key considerations Ugandan businesses should keep in mind during the capital-raising process. Although the focus is on market-based financing through PE and VC funds, many of these principles can also apply to bank-based financing. By understanding these considerations, businesses can better diversify their capital sources and improve their access to affordable funding, essential for achieving long-term goals.

Key Considerations During the Capital Raising Process

1. Identify the Source and Purpose of Capital

At the start of the capital raising process, directors must determine the type of capital—whether equity, debt, or grant—that best suits their business’s needs. While the source of capital may be driven by the company’s financial strategy, it can also be influenced by the pre-qualification requirements or investment incentives.

For instance, in Uganda, impact investors often provide both debt and grant financing to businesses in sectors like agribusiness and renewable energy. Such factors can play a crucial role in shaping the business’s capital-raising strategy.

Establishing the source and purpose of capital early on enables the business to initiate discussions with potential investors or financial institutions and fosters a competitive environment during negotiations.

2. Valuation and Return Assessment

For businesses seeking equity or debt financing through market-based sources, a due diligence process and company valuation are to be expected. Before providing capital, investors assess the company’s financial health, corporate governance, and business risks to evaluate whether the business can generate a profitable return on investment. Common risks include tax, credit, and regulatory issues, all of which should be mitigated through effective risk management measures.

In determining the company’s value, the investors may use income-based, market-based, or asset-based valuation models. This helps to determine how much capital will be provided and, in the case of equity financing, how much ownership the company will offer to investors.

3. Align Business Strategies with Investor Expectations

Business owners should communicate their strategic goals and demonstrate how the capital will support these plans. This is especially important for market-based investors such as PE and VC firms, who are not only interested in financial returns but also in business growth. Aligning the company's strategic plans with investor expectations is critical for discussions related to growth milestones, profit-sharing, and exit strategies at the end of the investment cycle.

4. Negotiate Terms Effectively

Whether raising capital from market-based investors or financial institutions, negotiating terms is a vital step in the process. It is important to understand all the terms and conditions in the term sheets, which may cover aspects such as interest rates, board control, ownership percentages, and exit strategies. Seeking legal and financial advice is essential to ensure the financing terms protect the company's long-term goals and interests.

5. Meet Regulatory and Compliance Requirements

Capital raising, particularly from market-based sources, involves compliance with legal and regulatory frameworks. Ensuring full compliance with all regulatory requirements is critical to avoid delays, penalties, or losing investor interest.

6. Evaluate the Impact of Capital on Business Operations

The capital raising process does not end with the receipt of funds. Businesses must also evaluate the impact of the capital on their operations. The capital may be used to expand operations, invest in new technologies, or pursue other business goals. The success of the capital raising process largely depends on how effectively the business deploys the capital. For instance an investment of capital by a PE fund to expand petrol stations outreach shouldn't be used to purchase fuel for trading.

During the post fund stage, investors will closely monitor how the funds contribute to growth, improved cash flow, and increased profitability, all of which justify their investment.

Conclusion

Whether through debt, equity, or grants, raising capital requires careful planning, negotiation, and alignment with the business's long-term strategic goals. While debt financing by banks dominates the Ugandan market, businesses should also consider market-based financing to diversify their capital sources and access affordable, long-term funds for growth. At JRK Advisory, we are committed to supporting your business through the capital-raising process by offering expert legal and financial advisory services tailored to your capital needs, helping you unlock your full potential.

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Eva is the Managing Partner of JRK and a qualified lawyer specializing in corporate finance and taxation. She has extensive experience working with local, regional, and international companies, advising them on complex legal and financial matters.

Eva also lectures banking and negotiable instruments at Uganda Christian University, sharing her knowledge and passion for legal education with future legal professionals.

Prior to establishing JRK Advisory Limited, Eva served as the Global Structuring Manager at MBO Partners in the United States. She also gained valuable experience as a Legal and Tax Consultant at KPMG Uganda.

Educational Background:

- Masters in Banking and Finance Law – Boston University, USA
- Advanced Diploma in International Taxation – Chartered Institute of Taxation, UK
- Postgraduate Diploma in Legal Practice – Law Development Centre, Uganda
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