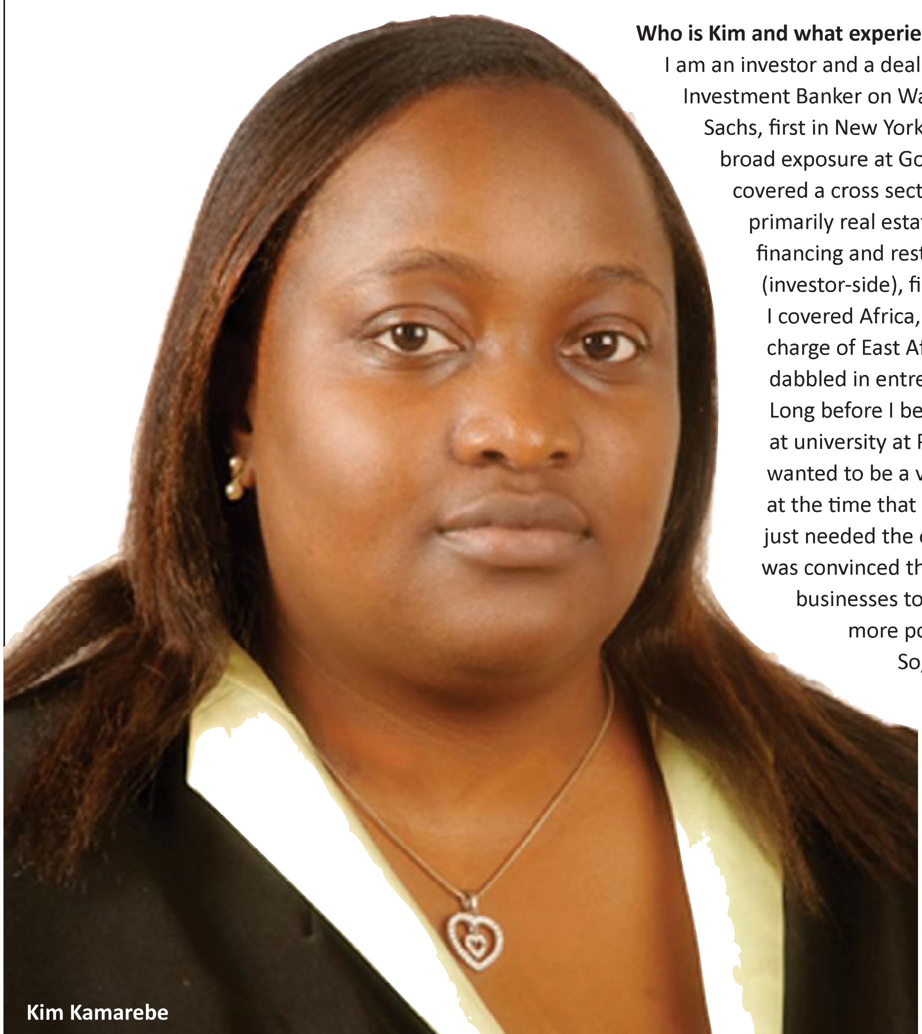
Private Equity:

Greed, ego and dirty history curtails equity investments

As Uganda continues to gain popularity as an African investment destination, Damascus Capital has entered the market as the first private equity investment firm resident in Uganda. **The CEO Magazine's Steven Baryevuga** sat down with **Kim Kamarebe, the Chief Investment Officer of Damascus Capital**, the investment arm of the Damascus Group, to hear her thoughts on investing in Uganda and the introduction of the private equity model here:


Kim Kamarebe

Who is Kim and what experience do you bring to the game?

I am an investor and a dealmaker at heart. I began my career as an Investment Banker on Wall Street and spent the bulk of it at Goldman Sachs, first in New York then in London. I was fortunate to gain broad exposure at Goldman Sachs. During my time there, I covered a cross section of specialties, sectors and regions, primarily real estate, mergers and acquisitions, leveraged financing and restructuring. I moved over to the buy-side (investor-side), first at HSBC Principal Investments where I covered Africa, and then at TLG Capital where I was in charge of East African Investments. Along the way, I have also dabbled in entrepreneurial ventures.

Long before I became an investment banker, while still at university at Princeton, I had decided that I ultimately wanted to be a venture capitalist in Africa. I was convinced at the time that aid was not working and that our people just needed the opportunity to show what they could do. I was convinced that providing capital to entrepreneurs and businesses to jumpstart our economies was a much more powerful and sustainable tool, the right tool. So, as an idealistic student on a mission, I worked hard and looked out for the opportunities that would place me on a path to this career. I had a number of formative experiences along the way – at Princeton, at Goldman Sachs, at Harvard where I did my MBA, at HSBC and TLG, the list is endless – and I had some good fortune too. I am glad that I got here in the end, that it worked out just as I had planned.

Over the last 5 years, over $5 billion of private equity has been raised to invest in East Africa across various continental and regional investment vehicles. What has attracted this bullion of investment capital to East Africa? And, what is your take on the investment climate in East Africa?

Africa's reputation as a risky and forbidden investment destination is gradually giving way to an emerging market giant much in the same tradition as China and India. In East Africa, there is a significant perception-reality risk arbitrage, given misconceptions on macroeconomic fundamentals and economic viability. East Africa is home to 3 of the world's top 10 fastest-growing economies, and the economies have posted a consistent 5 percent year-on-year over a decade in terms of GDP growth rates, a sustainable returns wave that investors now want to ride. As a predominantly non-commodity-reliant economy, East Africa couples this with high return profile with less volatility (risk) than other fast-growing regions in Africa. If you consider this together with the benefits of EAC regional integration, that is substantially lowering the cost of doing business and increasing the already-growing consumer base, you have an unrivalled investment destination. The value proposition to investors is clear.

FOR ONE, AS YOU MENTIONED, FAMILIARITY WITH EQUITY CAPITAL IS LIMITED AND ENTREPRENEURS CAN BE APPREHENSIVE OF SELLING A STAKE IN THEIR BUSINESS.

Damascus Capital recently became the first private equity firm to set-up in Uganda and with a specific focus on Uganda. Why would you leave a lucrative career on Wall Street to take this gamble?

Firstly, I don't look at it as a gamble. As I mentioned before, Uganda can be a very lucrative investment destination with consistently high risk-adjusted returns, for an experienced investor with a strong understanding of the local market and environment. In terms of being the first to focus on the Ugandan market, there are very few Ugandans in this career worldwide, and so the combination of global private equity experience and deep local knowledge and relationships is rare – deep relationships is the missing piece for many investors, due-diligence is difficult and thus risk is higher.

Secondly, career-wise, what I do here is no different to what I did at Goldman Sachs, or at the other Wall Street firms where I worked. Having honed this expertise abroad, I felt compelled to bring my experience in global capital markets back to Uganda, to have a positive effect on African development and to play a role in building up our local capital markets to similar levels of efficiency. I am an ardent believer that the efficient allocation of capital will unlock Africa's growth potential and catalyze her economies.

Finally, my return to Uganda was not purely commercial, but also an opportunity for me to give back to a community that gave me so much growing up. At Damascus, our mission is to "Do Well and Do Good" – we invest a substantial proportion of our profits and the philanthropic funds of others through our foundation, the Damascus Foundation. Having been here less than a year, our Foundation is more active than the commercial arm of the business!

For an investor, such as yourself, what is the primary challenge to deploying private equity capital in Uganda?

In general, other than the more touted challenges of deploying capital in Africa such as regulatory issues and the high cost of doing business, there are a couple of further challenges for the private equity investor in the Uganda market. For one, given the historical absence of such private equity capital in Uganda, the firms of interest to PE investors are typically not ready nor in a position to receive such capital from a governance, professionalism, structural, compliance and even familiarity point of view. Also, as mentioned before, an additional challenge that investors face in the Ugandan market is due-diligence and the selection of the right investments, a consequence of the lack of fair market information and lack of deep local knowledge and relationships. This increases the market's perceived risk – an investor invests unwittingly in a poor or fraudulent opportunity due to lack of extensive local knowledge, loses a substantial amount of money, and tarnishes the credibility of the market to other investors. This is why I believe while the market opportunity is immense, it is best harnessed by savvy but local fund managers.

As one such local manager, what is Damascus Capital's strategy in Uganda?

Uganda is dominated by growth capital investment opportunities, which will continue to be prevalent – driven by a consuming class with significant unmet demand. However, these opportunities are both barely known (given the lack of market information and local presence) and barely refined (given the lack of free access to capital, which creates market efficiency and discipline). Thus, the very opportunities that present the greatest returns potential for investors are a challenge to find and manage for non-resident investors. That's why we are here, on the ground.

In an inefficient market, value creation is not rocket science – for example with many of our potential investee companies, we have seen profitability double by simply better utilizing existing assets that have been under-utilized due to historical lack of financial resources, lack of best-practices and technical know-how, and lack of stability. At Damascus, we believe that these conditions offer up significant low-hanging fruit for a resident, savvy and well-connected SME investor – with information on and relationships with the top-of-the-range SMEs in-country, an investor can inject capital and expertise to restructure and prepare these firms to be more attractive to the larger and more stringent pools of East Africa-focused capital.

Put simply, our strategy is to be savvy local investors that solve SMEs' most pressing challenges. Basically, we provide access to finance and global expertise, while bridging the gap to larger pools of regional capital and access to larger regional markets. In doing so, we stimulate market efficiency and increase market liquidity.

Given the lack of market information on companies in Uganda, and the limited familiarity with private equity in-country, how do you address the challenge of finding, educating and investing in the right company?

This is a great question. We find that the most significant proportion of our job is due-diligence and client education. Whereas on Wall Street we could make an investment decision in days, here I find that the decision could take months, or longer. For one, as you mentioned, familiarity with equity capital is limited and entrepreneurs can be apprehensive of selling a stake in their business. Their default model is bank debt – "give me money, I will pay you back, but stay out of my business" – and it can take time to make one understand that owning 60 percent of a $10million business is preferable to owning 100 percent of a $5million business. We spend a lot of time educating these entrepreneurs on what equity capital is, how to diligence their potential investors to pick the right partners, and what protections are in-built into our partnership to ensure their interests are just as protected as before.

With regards to finding companies, we have no problem in this arena, as we know this market well and monitor all the players in our sectors of interest. The decision and timing to invest becomes more of a challenge, since, as I had mentioned, you typically find considerable governance, professionalism, compliance and HR issues that you have to diligence and in many cases rectify before cutting the cheque to invest.

Another key challenge, one we intend to take a leadership role in working on, is the absence of a financial ecosystem required to support our type of investors. I am talking about financial market professionals, due-diligence consultants, legal teams and commercial bankers are equally as unfamiliar with the private equity model, which means that the investor will take on a larger proportion of the due-diligence and transactional responsibilities than they would have elsewhere. This absence is understandable, as an ecosystem for investment can only grow around capital for investment – but now that the capital is here, we need to take the initiative to grow and strengthen our local financial ecosystem.

Is initiating this financial and investment ecosystem necessary to attract foreign funds to Uganda? Are there any other education initiatives that Damascus Capital is undertaking?

As I mentioned, Damascus Capital intends to take a leadership role in this area, given our experience. For example, we are right now running a world-class training course on the Fundamentals of Equity Investing, to educate the current players in this arena and ready them to support, and benefit from, the influx of private equity into East Africa. This one day intensive seminar targets financial market professionals, consultants, legal teams, commercial bankers and anyone with an interest in investment and investment services as a career. The inaugural seminar will be held on Wed 13th June 2012 at the Kampala Serena Hotel – so tell your friends!

Private equity investment firms in Africa seem to primarily invest foreign capital – particularly from European government funds, is this the optimal funding model for East Africa?

The funding model in private equity is indeed imperfect. But it is important to note that the African private equity industry is in its infant stages and growing. The onus is partly on us, as professionals in the industry, to maneuver the model towards one that is more sustainable and more accessible. Attracting private capital, and where possible regional capital to the party is key. For example, as Damascus Capital, we have created a domestic fund to invest alongside our international funds to give local Ugandans the opportunity to invest in private equity funds, no matter how little they have to invest. While the international fund has a much higher threshold, the inaugural domestic fund, which closes in July this year accepts investments from local investors as low as Ush25 million, in order to introduce the Ugandan community to the private equity investment class.

What advice do you have for SMEs and companies out there that are looking to learn about and access private investment capital, and/or partner with Damascus and the other private equity firms in your network (such as TLG Capital)?

I would advise all firms in Uganda with great ambition to dominate locally and regionally to get their companies in order – from their books to their management teams. Prepare your company to receive global funding and to compete on a regional basis. Specifically, with regards to learning about private equity and its benefits to your business, research it extensively online, attend the numerous talks and conferences on it in Kampala, Nairobi and Kigali. Also ask your lawyers, meet the players – basically get informed. If you don't, your competitors will! Our website provides extensive information about our own fund and activities, and our contact information (www.damascuscapital.com). Those interested in investing in private equity via our domestic fund, or would like to attend our Fundamentals of Equity Investing sessions, can send us an email at enquiries@damascuscapital.com.