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Private Equity and Factors Limiting Its Contribution to Economic Growth in Zambia

Evaristo Chanda*, Shem Sikombe

Directorate of Distance Education and Open Learning, The Copperbelt University, Kitwe, Zambia

Email address:
chanda.evaristo@yahoo.com (Evaristo Chanda)
*Corresponding author

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Abstract: Private equity (PE) is recognized globally as a key driver of economic growth. Apart from providing capital to businesses, PE provides the expertise needed for their growth. Despite its great potential, the PE industry continues to struggle, especially in developing countries like Zambia. The aim of this study was to establish factors limiting PE contribution to economic growth in Zambia. The study was qualitative in nature and targeted fund managers at both local and international PE firms. An online open – ended questionnaire was used to collect data from respondents. 13 fund managers from 11 PE firms (Both local and international) agreed to take part in the study. 13 questionnaires were filled out and submitted. The collected data was analyzed by identifying common themes in the participants' responses and conclusions drawn with the guidance of the research questions. The study found that the Zambian PE industry contributes to economic growth through creation of new jobs, fostering innovation, tax contributions and helping companies grow. The study also revealed that the PE industry is still underdeveloped despite the country having great investment opportunities in sectors like tourism, agriculture, healthcare, manufacturing and retail. The main challenges facing PE identified in the study include the immature regulatory framework, underdeveloped PE culture, currency risk, limited investment opportunities and exit challenges. In conclusion, the study has noted that the Zambian PE industry is still underdeveloped and faces a lot of challenges. The study recommends raising awareness of PE among local businesses and other key PE players through educational campaigns.

Keywords: Private Equity, Venture Capital, Challenges, Economic Growth, Zambia

1. Introduction

Strong businesses are recognized as pillars of any economy. They provide goods and services to consumers, create jobs and create value for shareholders. They also generate revenue for the government and are a source of innovative and creative ideas which promote economic growth. Despite these advantages, most of the businesses are faced with the challenge of capital which significantly hinders their growth. Businesses operating in developing countries are mostly affected by this in addition to other challenges present in these markets.

Research has shown that private equity (PE) is an important alternative source of capital for businesses. PE not only provides capital but also the expertise needed for businesses to grow. According to Gatauwa and Mwithiga [1] PE is an alternative source of capital to the common sources such as share capital, bank loans, debentures, retained earnings and borrowing from family and friends. The authors emphasize that PE is an important source of financing for companies with a growth potential as it offers strategic advice at different stages of development and helps them achieve their growth objectives.

Private equity is simply capital provided by investors to unlisted companies which have a high potential to grow. Alsina [2] defines PE as funds invested in non-public companies by means of entering in their capital and eventually in their management after analyzing the company's growth rate over a mid-term period. Fisher and Smyth [3] add that the investment strategy for PE firms is to identify businesses that are underperforming but have a hidden growth potential. PE firms make sure that the selected company can be turned around by investing new capital, changing managerial talent and changing its business model. Doing due diligence on companies is very important for a successful investment since PE is a long term investment with an average life cycle of 10 years. Once the capital is invested, investors exit the company's capital after they achieve the expected rate of return usually after 8 to 10 years from the fund inception [2, 4]. This marks the end of a PE investment cycle. Once an investment cycle is complete, fund managers may launch another fund. To stay in business PE firms usually lunches a new fund every 3-5 years [4].

Private equity contributes to economic growth in different ways. It helps companies grow through the introduction of new services or products in the market [2, 5]; creation of jobs [1, 6]; encouraging technological and industrial innovation [1, 7]; tax contributions [6]; and contribution to gross domestic product [6, 8, 10].

Despite its importance, PE faces a lot of challenges. According to the Global Impact Investing Network (GIIN), regulatory barriers are the main challenges facing PE. These barriers include inadequate bankruptcy regulation, high levels of policy uncertainty and restrictions on institutional investment into PE [11]. The Oxford Business Group [10] recognizes slow digital transformation especially in developing countries as a big challenge. They give an example of Africa, where a digital divide persists, making businesses in this region miss out on good investment opportunities in this fourth industrial revolution which is dominated by technology. Other challenges facing PE include ineffective government policies, lack of expertise, limited business opportunities, the nascent PE culture and volatile foreign exchange rates [2, 12].

In Zambia, PE remains underdeveloped. To make matters worse, there is limited information on the Zambian PE industry, despite the industry being in existence for over a decade. Also, factors affecting PE and its contribution to economic growth in Zambia have not been well established. This study, therefore, aimed to fill this gap. It is hoped that the results of this study would shine more light on PE and enable policy makers and business owners recognize its importance to the Zambian economy.

2. Review of Literature

2.1. What Is Private Equity

Private equity refers to funds invested in non-public companies by entering in their capital and eventually in their management after assessing their growth rate over a mid-term period [2]. This injected capital allows the business to grow and after a certain set period of time, the investors exit the firm's capital after they achieve the expected rate of return. The average time period for an exit is usually 10 years. Gatauwa and Mwithiga [1] describe PE as capital provided in the medium to long term by investors to non-quoted companies with a high growth potential. The British Private Equity and Venture Capital Association (BVCA) assert that PE provides long-term and committed share capital to unquoted firms to enable them grow and succeed [13]. PE is usually invested in exchange for a stake in a firm. Thus, the returns for the investors who are shareholders depend not only on the growth but also the profitability of the business.

The Spanish Association of Capital Risk Entities (ASCRI) defines PE as being equal to Capital plus Management Support plus Experience plus Contacts Company [2]. Alsina [2] adds that a PE firm invests capital into a business either by acquiring the business or by increasing capital and becoming a shareholder. The American Investment Council [6] state that by partnering with investors, PE firms form funds that invest in businesses, especially those on the cusp of growth or in need of retooling. They add that the aim of the investment which in most cases takes the form of a majority stake is to help strengthen the business through the use of the PE firm's access to capital and its strategic, financial, and operational expertise.

Private equity firms invest in a lot of industries. These include technology, healthcare, energy, manufacturing and retail. They also partner with a variety of investor types such as charitable foundations, university endowments, insurance companies and pension funds.

2.2. Types of Private Equity Funds

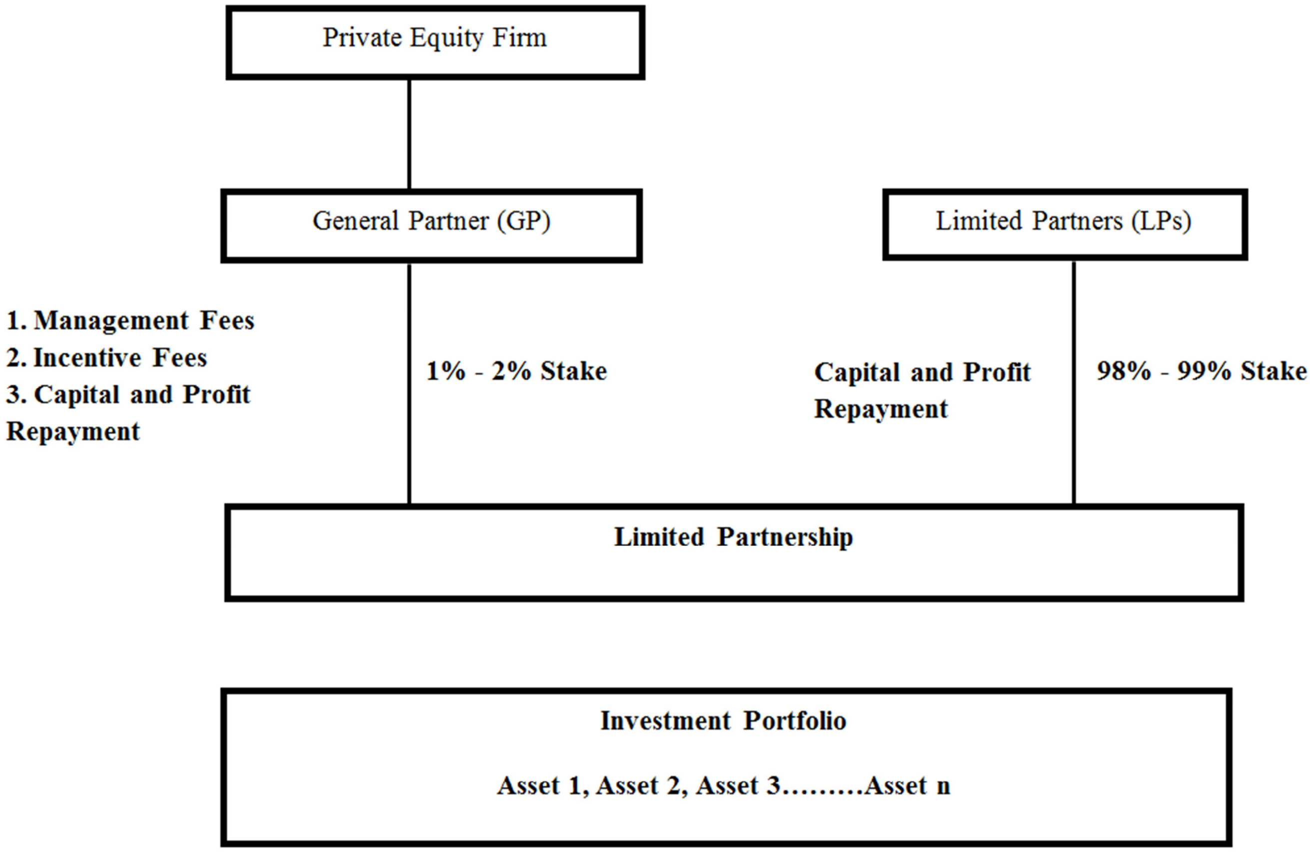
Shadab [14] identifies four types of private investment funds that fall under PE. These are Venture Capital (VC), Leveraged buyouts (LBOs), Mezzanine and Distressed PE funds. VC is equity that is invested in companies that are less mature for expansion, early stage development, start-up or launch of a seed [12]. VC usually takes on the director or advisor role of the new business in order to help it grow and mature.

Leveraged buyouts are the most common type of PE funding. LBOs are basically financed by debt. They borrow capital to make a company that is public, private or hand control to company managers, and then aim to raise the value of the business by improving its structure or operations [14, 15]. Apart from using debt only, LBOs may sometimes involve a combination of debt and equity.

Mezzanine funds have features of both debt and equity. They are a high-risk instrument intermediate between debt financing and equity [16]. Mezzanine capital refers to subordinated debt with equity warrants for financing LBOs. This capital lies between senior debt, which is less risky and equity, which is higher risk. It is normally given to companies pending for Initial Public Offerings.

Distressed funds usually buy debt securities of companies that are in financial distress or underperforming at a fraction of their face value. The aim is to improve the health of the business by using the securities to generate long term value [14, 15].

2.3. Nature of Private Equity and Players in the Private Equity Market



Source: Khamis [17]

Figure 1. *Private Equity Fund Structure.*

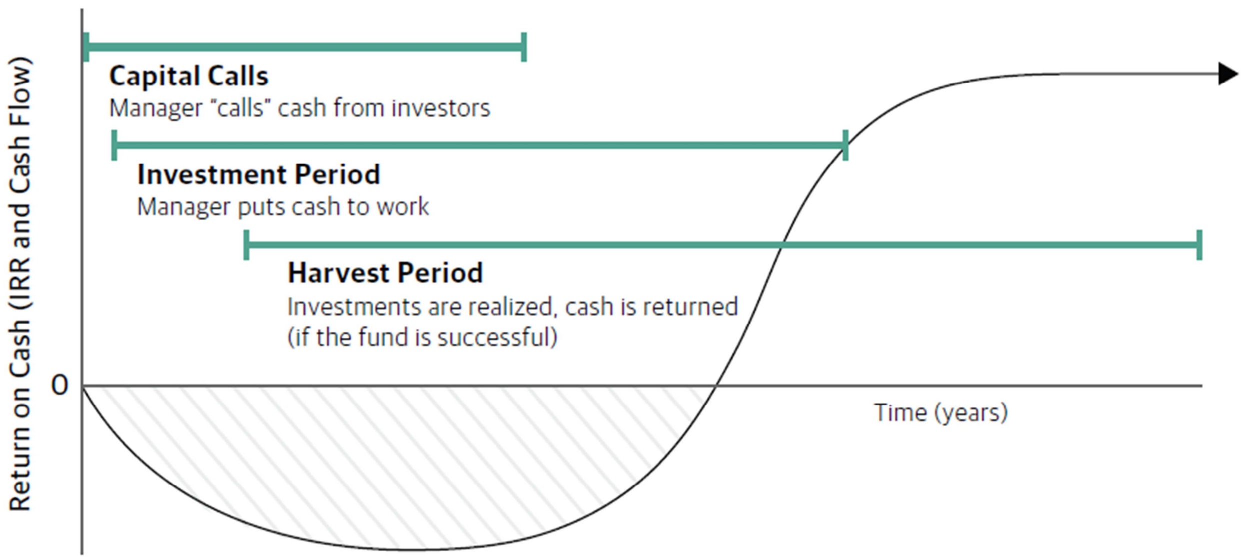
A PE fund also called a limited partnership serve as the vehicle through which funds are raised from investors. These investors are commonly called Limited Partners (LPs) and they contribute the majority of the capital to the PE fund. They include large institutional investors, high net worth individuals (HNWI), sovereign wealth funds, corporate investors and family offices [4, 17]. The PE firm also called the General Partner (GP) is the investment manager of the PE fund and contributes the smallest amount of capital to the PE fund. GPs invest their own money into the fund to ensure that their interests and that of their investors are properly aligned. The raised capital is then invested in companies for an equity stake, which can be majority or minority.

The life-span of a PE fund is usually 10 years [4, 18]. Fund managers normally invest for the first five years of the fund and then sell investment and return capital to investors during the last five years [18]. LPs are the first to receive any returns generated by the fund and fund managers start to participate in the returns only when these returns pass a certain point, called the 'hurdle rate' [18]. A hurdle rate is defined as a point at which the cash flow split between a PE firm and their investors changes [19].

It is also worth revealing that at the inception of the fund both GPs and LPs sign a limited Partnership agreement which has details of the contractual relationship between the two. This agreement covers fund management perspectives such as management fees, fund investment strategy, capital commitments, capital drawdowns, carried interest, investment holding period, exit strategy etc. [17].

2.4. The Private Equity Business Cycle

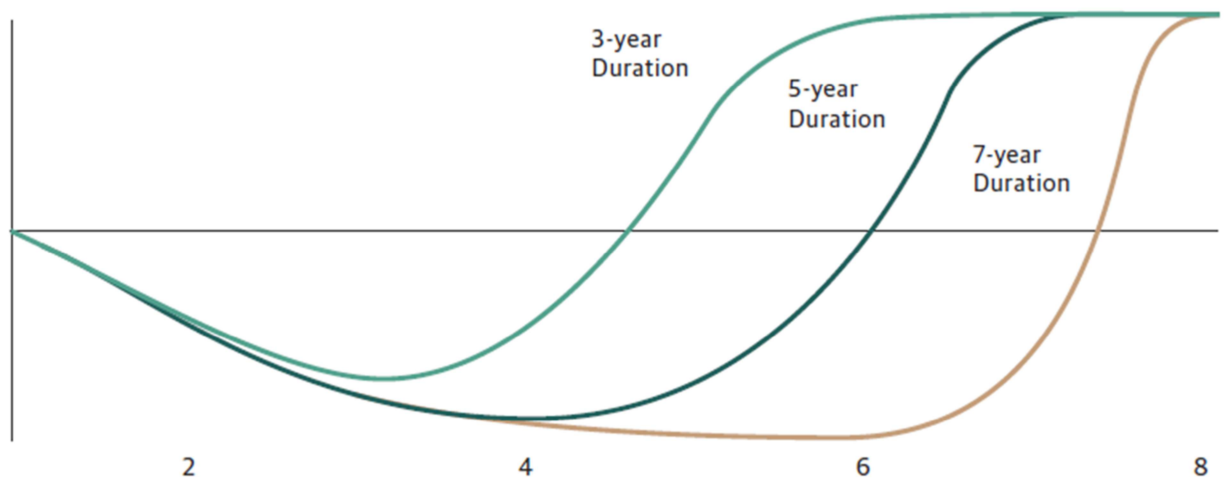
The average term of a PE fund is usually 7 – 10 years [4, 18, 20]. The PE business cycle can be dived into three stages: the fundraising period, the investment period and the harvest period [20]. The fundraising period, usually lasts a few years and is the period where investors commit their capital to the fund. During the investment period, the GP deploys the capital by investing it in opportunities they see fit. This is done in the first 3 – 5 years [20]. The harvest period is the final stage of the investment cycle and is the final 3 – 7 years of the fund [20]. This is the period when most investments and realized and investors and GP receive returns provided that the fund is successful. Figure 2 below summarizes the timeline of a PE fund.



Source: Blackstone [20]

Figure 2. *Private Equity Fund Timeline.*

To analyze the fund's value as it moves from one year to the next a J-curve can be used [21]. According to Blackstone [20], the J-curve characterizes an investor's potential performance experience through the PE fund's life cycle. During the first few years, the fund has negative returns and the curve slopes downwards. This happens because investors are providing capital and paying the management fees. Hence, returns are not enough to overcome the fees. After some time the curve slopes upwards when returns improve. This happens if the investment is successful [20]. Figure 3 below provides a summary of this information.



Source: Blackstone [20]

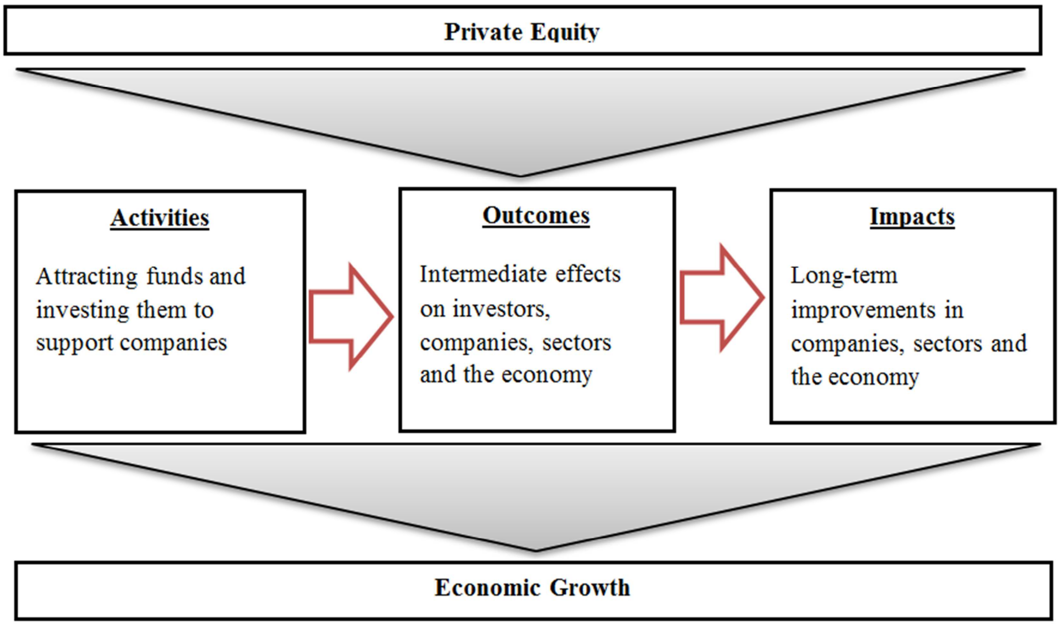
Figure 3. *Private Equity and the J-Curve.*

2.5. Economic Growth Models and Private Equity

The Frontier Economics [22] defines economic growth as the increase in the number of goods as well as services an economy produces over time. Two classes of economic models can be used to explain economic growth. These are growth models based on capital accumulation and growth models where innovation has a direct effect on growth [22]. These models link economic growth to the amount and productivity of capital and labour, and the changes to productivity that technological change brings [22]. Therefore, to understand economic growth, examination of productivity or factors that shape it like innovation and competitiveness is essential.

The following conceptual framework can be used to examine the relationship between PE and economic growth.

The framework is based on three building blocks which underlie the causation chain running from PE to economic growth. These concepts are activities, outcomes and impacts.

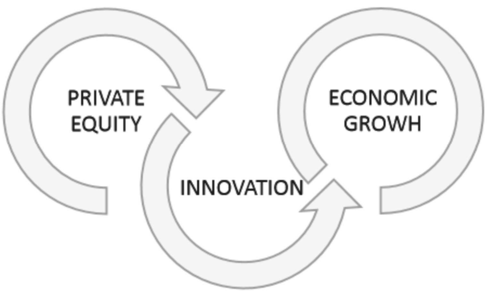


Source: Frontier Economics [22]

Figure 4. *Conceptual Framework.*

The activities block comprises material as well as financial and human resources utilized by PE to attract investors, offer them alternative investment opportunities and invest funds in businesses to help them with their start up, growth or recovery. The outcome block includes intermediate effects caused by PE activities on investors (e.g. portfolio diversification), companies (e.g. increased capital), sectors (e.g. new companies, new employment) and the economy (e.g. greater product innovation) [22]. The impacts block is concerned with the long term effects PE activities and their associated outcomes have on businesses, sectors and the economy. These include factors that contribute to economic growth such as innovation, increased productivity or enhanced competitiveness [22].

Gudiškis and Urbšienė [23] also provide a link between innovation in PE and economic growth. The researchers argue that private equity-backed businesses delivers greater and more relevant innovation when compared to non-private equity-backed enterprises. The link between PE and economic growth through innovation is summarized in figure 5 below.



Source: Gudiškis and Urbšienė [23]

Figure 5. *Economic Growth and Innovation.*

2.6. The Importance of Private Equity and Its Contribution to Economic Growth

Private equity contributes greatly to economic growth. To begin with, PE helps companies grow through the introduction of new services or products in the market. One study revealed that companies in the US that received PE capital raised their market share at a higher rate of 1.88% when compared to those without PE funds. These companies, in turn grew because their sales and revenue increased due to higher market shares [2]. Another study claimed that PE has higher investment returns when compared to the public market [7].

Private equity also leads to the creation of new jobs. In the US for example, the PE sector employed 11.7 million workers who earned $900 billion in benefits and wages in the year 2020. The average PE sector worker made about $73,000 in wages and benefits in the same year. This is about $38 per hour for a full-time worker [6]. In Europe, the PE industry created more than 103,566 Jobs between 2019 and 2020 [24].

Additionally, PE helps foster innovation. Several authors have linked innovation by PE to economic growth [1, 7, 22, 23]. One study found that PE stimulates growth by encouraging technological and industrial innovation [1]. Another study revealed that private equity-backed businesses delivers greater and more relevant innovation when compared to non-private equity-backed enterprises [23]. Gray [7] contends that PE helps fund the development of a high technology ecosystem which has been a magnet for scientists and entrepreneurs from around the globe.

Apart from the considered aspects, PE increases internationalization capabilities of businesses. Research has shown that companies with PE fund managers on their management boards increase their internationalization capabilities and profits, especially that today's economy is a global economy [2]. For example, firms in Canada without private funds exported only 17% of their production, whereas companies that received venture capital exported 70% [2]. In Italy, Bosio et al. [25] found that PE funds in the Italian market have adopted internationalization as a key strategy of value-creation.

Last but not least, PE is important because of its tax contributions. To give an example, the US PE sector generates tax revenue through US PE firms, private equity-backed companies, and its employees. In the year 2020, the sector paid $218 billion in local, federal and state taxes. Almost two-thirds of these were federal taxes ($142 billion) with the remaining taxes paid to state and local governments ($76 billion) [6].

2.7. Challenges Facing Private Equity

From a global context, the private equity industry faces a lot of challenges which significantly hinder its growth. Many of these challenges are faced by PE firms in developing countries. One major problem is the PE legal and regulatory framework present in a particular country. One study revealed that the tax and corporate legal framework in Morocco did not provide enough advantages for investors to develop the PE industry [2]. The same study also found that the legal framework in Tunisia was too restrictive for investors to promote PE and that the Algerian legal framework had a lot of limitations when it came to the level of participation in investment operations. The author maintains that these limitations are a burden on the growth of SMEs who are the major drivers of the country's economy and services [2]. The Global Impact Investing Network (GIIN) also identifies several regulatory barriers facing the PE industry [11]. These include restrictions on institutional investment in PE, uncertainties in policies and poor bankruptcy regulation. Gatauwa and Mwithiga [1] suggest that a well-developed legal and regulatory framework is important as it leads to increased financial activities in a country. This facilitates exits that promotes a more favorable legal environment and encourage investors to invest in PE.

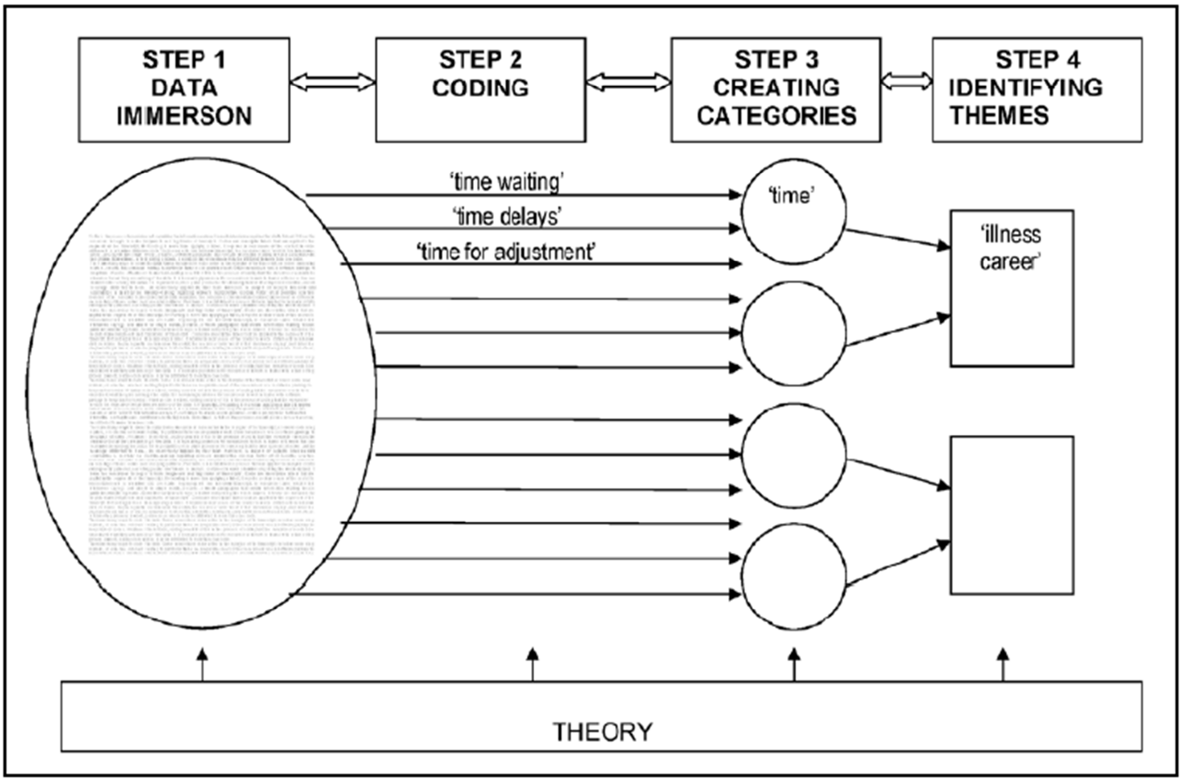
Another challenge facing PE is currency depreciation, especially in developing countries. The Investment Consulting Unit [15] points out that the depreciation of local African currencies is a key concern for international investors who report performance in hard currencies. They argue that foreign investors into the African PE would report diluted returns in US Dollars provided that these depreciations are sustained over the long term. Herrera-Echeverri et al. [26] also state that devaluation adds no benefits to PE investments and it does not encourage the appetite of investors.

The Oxford Business Group [10] identifies technology as a key challenge facing the private equity industry in Africa. They point out that a digital divide persists in this region despite digital transformation providing numerous opportunities for VC and PE investors. Very few people and places in Africa have access to fast and reliable internet, and this gap has been widened by the COVID-19 pandemic. Investors are also concerned about cybersecurity and safeguarding of electronic data and systems. Even though this is a global issue, developing countries are mostly at risk. Jett [27] points out that PE firms face the risk of a cyberattack on their technology, and small firms are at a higher risk because of lack resources and misguided beliefs about cyberattackers that they have bigger fish to fry. The author argues that investors nowadays want assurance that a PE firm has cybersecurity controls that manage cyber risks effectively. Thus, PE firms that fail to embrace technology or lack the capacity to handle cyberattacks are not attractive to investors.

Finally, weak exit environments are also an important challenge facing PE. An exit is part of PE lifecycle and every PE firm aims to have a successful exit. Exiting is simply a process by which a PE firm liquidates its assets. The Oxford Business Group [10] recognizes weak exit environments as one of the major challenges facing PE in Africa. Sakuwaha [28] reports that only one PE investment exited through a public listing in 2016 in Zambia. The AVCA [29] revealed that the number of exits decreased in the year 2020. This was mostly due to the economic crisis caused by the COVID-19 pandemic. The Oxford Business Group [10] also states that the COVID-19 pandemic made fund managers in sub-Saharan Africa to close their funds at smaller sizes.

3. Methodology

Considering that the Private Equity industry in Zambia is underdeveloped and that quantitative data on the subject is limited, a qualitative research design was adopted for this study. This approach allowed for the collection of detailed information on the subject under study. In this study, a total of 18 PE firms comprising 7 local firms and 11 international firms with experience investing in Zambia were identified and invited to take part in the study. The study targeted fund managers from these firms. 13 individuals representing 11 firms gave informed consent and agreed to take part in the study. An online open–ended questionnaire was used to collect data from respondents. A participant information sheet together with a link to the questionnaire was sent to the respondents via email. 13 questionnaires were filled out and submitted. Analysis of the collected data was based on the refined approach to the grounded theory by Green et al. (2007) in Lumbala [12]. This approach has four steps as shown in Figure 6 below.



Source: Green et al. (2007) in Lumbala [12]

Figure 6. *Data Analysis Model.*

The first step is Immersion and it involves the researcher using computer software to enter the collected data in the form of text, then going through it in order to become familiar with the interviewees responses. The second step is Coding and it involves the user examining and organizing the information provided by each respondent and the entire dataset. Here, the investigator assigns codes to the responses of interest. The third step is Categorization. In this step, the researcher analyzes the codes using a spreadsheet and highlights similar codes based on their relationships with one another. The final step is Themes. Here, the investigator attaches the themes that have been identified in the data based on the relationship to the research questions. In this step, generalizable conclusions from the obtained results are reached by interpreting the categories based on theoretical concepts [12]. The current study followed the above steps during data analysis.

4. Results and Discussion

4.1. Description of the Zambian Private Equity Industry

Majority of the respondents highlighted that the PE industry in Zambia is small and underdeveloped. This description is in line with what is in the literature. One study described the Zambian PE industry as being relatively new [12]. Other studies conducted in Africa also show that the PE industry is still new in most of the countries [30, 31]. These findings are interesting and call for sensitization of businesses in Africa, especially Zambia on PE and its importance. This is so because Africa, Zambia inclusive has a lot of investment opportunities [12, 30].

4.2. Private Equity Contribution to Economic Development

The study found several ways in which PE contributes to economic development in Zambia. These include creation of new jobs, fostering innovation, tax contributions and helping companies grow. These are discussed in detail below.

4.2.1. Creation of New Jobs

All participants in this study pointed out that job creation is one of the main contributions of PE to economic development. However, due to the lack of quantitative data on PE in Zambia, the number of jobs created by the industry could not be established. One reason for this is the industry being small and underdeveloped. Hence, it receives less attention. Studies from countries with a well-developed PE sector show massive job creation. In Europe, for example, the PE industry created more than 103,566 Jobs between 2019 and 2020 [24]. In the United States of America, the PE sector directly employed 11.7 million workers in the year 2020 [6]. Zambia can learn a lesson from this and put measures in place to develop the PE industry. This will help reduce the levels of unemployment in the country.

4.2.2. Fostering Innovation

Over a quarter of the respondents highlighted that PE fosters innovation. This helps increase competitiveness and promotes growth of companies they invest in. Research has shown a strong link between innovation and economic growth [1, 7, 22, 23]. One study revealed that private equity-backed businesses delivers greater and more relevant innovation when compared to non-private equity-backed enterprises [23]. This shows that innovation is essential to economic development and the PE industry has the potential to provide relevant innovation.

4.2.3. Tax Contributions

Some participants in this study revealed that PE firms have tax obligations and their contributions promote economic development. These findings conform to the literature. For example, the American Investment Council [6] highlighted that the US PE sector generates tax revenue through US PE firms, private equity-backed companies, and its employees. In the year 2020, the sector paid $218 billion of local, federal and state taxes. In Zambia however, data on the tax contributions of the PE industry is not available.

4.2.4. Helping Companies to Grow

All the respondents in the study pointed out that PE helps companies grow. PE can provide both capital and the expertise needed for a business to grow. Invest Europe [24] contends that PE firms are actively involved in running the companies they invest in. They help strengthen management, deliver operational movements and help them expand into new markets. This approach helps businesses that are underperforming survive. It also helps create successful companies with a strong future and protects jobs.

4.3. Factors Private Equity Firms Consider Before Making an Investment in Zambia

This study revealed several factors that PE firms consider before making an investment in Zambia. These are political stability, corruption, exchange volatility, commercial returns on the investment and potential ESG risks. Similar findings have been reported in the literature. Sakuwaha [28] identified various factors which make Zambia an attractive investment destination. These include political stability, a growing population, increasing urbanization and a growing middle class. Preston [32] acknowledges political volatility, corruption, historic returns and deal access as serious concerns among investors investing in Africa. Despite some of these risks being perceived, majority of them are real and a huge hindrance to the development of the PE industry. African governments must learn from this and put measures in place to fight corruption and promote political stability.

4.4. Main Challenges Private Equity Firms Face in Zambia

The study found several challenges facing PE firms in Zambia. These are immature regulatory framework, underdeveloped PE culture, currency risk, limited investment opportunities and exit challenges. These issues are discussed in detail below.

4.4.1. Immature Regulatory Framework

Most of the participants in this study highlighted that Zambia has an immature regulatory framework for PE funds. This framework is not favorable to most investors as they consider it high risk. According to Sakuwaha [28] the Zambian law does not impose any restrictions on PE investments. Khamis [17] argues that a well regulated PE industry is important as it serves to increase more disclosure and better transparency for both LPs and GPs. Gatauwa and Mwithiga [1] also claims that a well-developed legal and regulatory framework motivates venture capitalists and PE funds to invest more often in the local country. The United Nations Economic Commission for Africa advises that the PE industry needs policies and regulatory frameworks aimed at promoting its growth [30]. Such policies can only be developed if policy makers have a deeper understanding of the PE industry.

4.4.2. Underdeveloped PE Culture

The study found that Zambia has an underdeveloped PE culture and many businesses are not aware of the industry. This, coupled with limited information on PE and the long term and risk nature of PE funds makes it difficult to attract investors. Similar findings have been reported in Morocco [33]. That study revealed that cultural issues hindered the growth of PE, and that SMEs and family businesses did not open up fully to PE funding [33]. To develop a good PE culture in Zambia, the public should be sensitized on PE and its importance. Furthermore, information on the Zambian PE industry needs to be frequently published.

4.4.3. Currency Risk

The study established that currency risk is one of the factors limiting growth of the PE industry in Zambia. Some respondents pointed out that the depreciation of the Zambian Kwacha especially in the last 5 years was a major concern for investors. The Investment Consulting Unit [15] submits that the depreciation of local African currencies is a key concern for international investors who report performance in hard currencies. Herrera-Echeverri et al. [26] also contends that devaluation adds no benefits to PE investments and it does not encourage the appetite of investors. The AVCA warns that Foreign Exchange (FX) risk is acute in Africa and one has to be cautious of possible erosion in value on account of local currency devaluation if investing in hard currency [29]. In the past few months, the Zambia Kwacha started to appreciate and this provides opportunities for PE investments.

4.4.4. Limited Investment Opportunities

Less than a quarter of the participants stated that Zambia has limited investment opportunities for PE. They argued that most Zambian businesses demand smaller investments while most foreign investors prefer investments with a large ticket size. This makes these businesses less attractive to some investors. These findings are supported by a study conducted by Lumbala [12]. The United Nations Economic Commission for Africa revealed that securing deals is difficult in Africa. They point out that deal-flow is most proprietary and are generated by a personal network of fund managers. They claimed that about half of all deals are sourced through networks or relationships, while one third are identified through company and sector tracking [30].

4.4.5. Exit Challenges

Almost half of the respondents cited exit challenges as one of the key issues they face in the Zambian PE industry. Limited exit options are a big hindrance for investors because an exit is part of a PE lifecycle and every PE firm aims to have a successful exit. The Oxford Business Group [10] also recognizes weak exit environments as one of the major challenges facing PE in Africa. In Zambia, one author points out that only one PE investment exited through a public listing in 2016 [28]. The AVCA [29] disclosed that the number of exits decreased in the year 2020. This was mostly due to the economic crisis propelled by the COVID-19 pandemic. The pandemic also caused fund managers in sub-Saharan Africa to close their funds at smaller sizes [10]. However, since the COVID-19 pandemic is over, it is hoped that things will improve.

4.5. Areas Most Attractive for Private Equity Investments in Zambia

The areas that were identified in this study as the most attractive for PE investment in Zambia are agriculture, renewable energy, technology, healthcare, manufacturing and retail. These findings correspond to those in the literature. A survey carried out by AVCA ranked Zambia 10th among the 10 most attractive countries for PE investment in Africa with Kenya, Nigeria and South Africa been viewed by the biggest proportion of GPs as most attractive regions [34]. In the same study, healthcare and life sciences, technology and agribusiness were identified as attractive sectors for PE investment in Africa. One author highlights that financial services and consumer goods are target sectors for PE investments in Zambia. Investments in tourism and agribusiness also continue to grow [28]. These results clearly show that Zambia is a very important region for PE investments.

5. Conclusion

The study has established that PE is very important to the economic development of Zambia. The industry contributes to economic growth through the creation of new jobs, fostering innovation, tax contributions and helping companies grow. However, the industry is still underdeveloped and faces a lot of challenges which include immature regulatory framework, underdeveloped PE culture, currency risk, limited investment opportunities and exit challenges. The study has also noted that Zambia is a very attractive region for PE investments. Attractive sectors in the country include agriculture, renewable energy, technology, healthcare, manufacturing and retail.

6. Recommendations

Based on the research findings, the study makes the following recommendations:

1) There is need to improve the legal and regulatory environment in Zambia. Policies and regulatory frameworks are needed that aim at promoting growth of the PE industry. These policies can only be made if policy makers have a deeper understanding of the PE industry.
2) There is need to raise awareness of PE among local businesses and other PE players. This can be done through educational campaigns. Information can be shared through business conferences, social media, radio and television. This will help improve people’s knowledge of the industry and attract local investors.
3) Since most Zambian businesses require small capital which is unattractive to international investors, the Zambian Government needs to provide special incentives to encourage PE firms to invest in various sectors. Incentives should be provided to motivate PE firms to invest in agriculture, technology, renewable energy and healthcare which are important for economic growth.
4) The Zambian government should create a conducive environment to help attract and retain skilled fund managers with experience in using capital to grow businesses. Having this talent pool will attract both local and international investors and help the industry grow.
5) There is need for more studies on PE in Zambia, especially those that are quantitative in nature. This will help shine more light on the industry.

Conflict of Interest

The authors declare no conflict of interest.

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