THE LANDSCAPE FOR IMPACT INVESTING IN EAST AFRICA
ACKNOWLEDGMENTS

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LIST OF COMMON TERMS AND ACRONYMS

AFD | Agence Française de Développement (French Development Agency)
AfDB | African Development Bank
BIF | Burundian Franc
BIO | Belgian Investment Company for Developing Countries
BoP | Base of the Pyramid
CEPGL | Communauté Économique des Pays des Grand Lacs (Economic Community of the Great Lakes Countries)
COMESA | The Common Market for Eastern and Southern Africa
CSR | Corporate Social Responsibility
DFI | Development Finance Institution
DFID | The Department for International Development (United Kingdom)
DRC | Democratic Republic of the Congo
EAC | East African Community
Early-stage business | Business that has begun operations but has most likely not begun commercial manufacture and sales
EIB | European Investment Bank
ESG | Environmental, Social, and Governance
ETB | Ethiopian Birr
FDI | Foreign Direct Investment
FMCG | Fast-Moving Consumer Goods
FMO | Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (Netherlands Development Finance Company)
Focus countries | Countries under the study where non-DFI impact investors are most active in. Namely Ethiopia, Kenya, Rwanda, Tanzania, and Uganda
GDP | Gross Domestic Product
GEMS | Growth Enterprise Market Segment
GIIRS | Global Impact Investing Ratings System
GIZ | Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)
Growth-stage business | Company has a functioning business model and its current focus is developing new products/services or expanding into new markets
HDI | Human Development Index
ICT | Information and Communication Technology
IFAD | International Fund for Agricultural Development
IFC | International Finance Corporation
IMF | International Monetary Fund
IRIS | Impact Investing and Reporting Standards
KES | Kenyan Shilling
LP | Limited Partner
Mature business | Profitable company with a developed and recognizable brand
MDG | Millennium Development Goal
MFI | Microfinance Institution
MSME | Micro, Small and Medium Enterprise
NGO | Non-Governmental Organization
Non-focus countries | Countries covered in the study but have limited non-DFI impact investor activity. Namely Burundi, Djibouti, Eritrea, Somalia, South Sudan, and Sudan
OFID | OPEC Fund for International Development
OPIC | Overseas Private Investment Corporation
PE | Private Equity
PPA | Power Purchasing Agreement
PPP | Purchasing Power Parity
PPP | Public-Private Partnership
PTA | Preferential Trade Area Bank
RDB | Rwanda Development Board
RFP | Request for Proposal
RWF | Rwandan Franc
SACCO | Savings and Credit Co-operative
SAGCOT | Southern Agricultural Corridor of Tanzania
SDG | Sudanese Pound
SME | Small and Medium-Sized Enterprises
SOE | State-Owned Enterprises
SOS | Somali Shilling
SSP | South Sudanese Pound
TA | Technical Assistance
TIC | Tanzania Investment Centre
TZS | Tanzanian Shilling
UGX | Ugandan Shilling
UN DESA | United Nations - Department of Economic and Social Affairs
UNCTAD | United Nations Conference on Trade and Development
USAID | The United States Agency for International Development
VAT | Value-Added Tax
VC | Venture Capital
Venture-stage business | Sales have begun but cannot sustain the company’s operations. The business model is still being aligned with the realities on the ground
WASH | Water, Sanitation, and Hygiene
WHO | World Health Organization
UGANDA
SECOND TO KENYA; CATCHING UP
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INTRODUCTION

Uganda is the second largest impact investing market in East Africa, after Kenya. Within East Africa, Uganda boasts the second highest number of deals and second largest amount of capital disbursed in support of social and environmental impact—and the market is expected to continue to grow. Most impact investors interviewed noted there were no significant country-specific impediments to impact investing in Uganda but rather that the primary challenge was a less favorable business environment than they perceive in Kenya. Impact investors see considerable potential, and as the country continues to grow, they expect the general business environment to improve, presenting more opportunities to drive social change through sustainable social enterprises.

Despite these positive trends, many adverse conditions persist. Acquiring talent, particularly middle management employees, remains extremely difficult. Many businesses operate informally with multiple sets of accounts, which can compromise impact investors’ ability to place capital. Nevertheless, Uganda has a growing economy and is a primary target for impact investors. Most impact investors active in the region work in Uganda, and as impact investors diversify beyond Kenya, Uganda will be a primary destination.

FIGURE 1: MAP OF UGANDA
COUNTRY CONTEXT

Uganda has a rapidly growing economy and has been comparatively stable for decades. This is reflected across economic indicators, although the country requires support to improve human development indicators and increase linkages between disadvantaged populations and the rapidly growing national economy.

Gross Domestic Product

Uganda, like most countries in the region, has seen strong GDP growth over the last decade (Figure 2). The economy has expanded at nearly 8% at purchasing power parity (PPP) per year, reaching approximately USD 54 billion GDP in PPP terms in 2013. This growth is expected to continue; the World Bank predicts that by 2019, Uganda’s GDP (PPP) will have grown to more than USD 91 billion or roughly 170% its 2013 size.

![Figure 2: GDP (PPP), 2004–2013](image)

Source: IMF World Bank Economic Indicators, April 2014

Despite growth, enterprises continue to face challenges with high infrastructure costs, lack of financing, and limited access to skilled workers. With most imports coming through Kenya by truck, input costs can be high. This difficulty importing and transporting goods, however, opens new opportunities for local manufacturing.

Foreign Direct Investment (FDI)

The growing economy has been matched by rapidly expanding foreign direct investment. FDI flows have grown by a compounded annual growth rate of nearly 15% in the past decade and are the third highest in the region (Figure 3).

These large FDI flows are driven primarily by oil and gas exploration, where the mining and quarrying sector attracted 42% of all FDI inflows in 2012. Real estate comprised another 18% and manufacturing a further 15%. Foreign oil and gas investment is expected to increase as the government of Uganda awards additional exploration licenses in 2015. At present, only three companies have active operations in Ugandan oil—China National Offshore Oil Corporation, Tullow Oil, and Total.

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5 Ibid.
6 Ibid.
Inflation and Exchange Rates

High and volatile local inflation rates, reaching greater than 18% in 2011 (Figure 4), and concerns about depreciating foreign exchange rates complicate some international impact investors’ ability to disburse local currency debt. The Ugandan Shilling has depreciated by an average of 8% annually against the US dollar since 2008, reducing the hard currency value of any local currency debt.

FIGURE 4: INFLATION AND USD/UGX EXCHANGE RATE, 2004-2013

Source: IMF World Bank Indicators, Oanda Historical Currency Rates

7 World Bank Indicators.
SUPPLY OF IMPACT INVESTING CAPITAL

Non-DFI* impact investors view Uganda as the country with the second highest potential in the region after Kenya, and expect it to grow in size and importance, following the same trajectory Kenya did several years ago.

There are at least 119 impact capital vehicles active in Uganda, managed by some 82 non-DFI impact investors—nearly as many as in Kenya. Most of these impact capital vehicles are active across the region, but at least USD 54 million has been committed specifically to investments in Uganda (Figure 5). There is an additional USD 2.5 billion in capital committed regionally that could be deployed in Uganda and, if historical deal flows persist, it is the country most likely to receive regional capital after Kenya. Most of these non-DFI impact investors focus on early-stage businesses that have some track record and operational structures in place. Excluding DFI activity, there have been at least 139 impact deals in Uganda, resulting in more than USD 300 million disbursed, more than 20% of all investment activity in East Africa overall.

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* Due to the unique nature and large size of development finance institutions (DFIs), the authors of this report analyzed their activity separately from those of other types of impact investors (“non-DFI”), and present this separate analysis when appropriate.
**Broader Investing Landscape**

Despite the volume of impact investing activity in Uganda, it represents a small portion of the overall Ugandan investment landscape. For example, local banks have nearly USD 6.9 billion in total assets under management, which is significantly more than the USD 2.5 billion in total non-DFI impact assets allocated to the region that could be deployed in Uganda (Figure 6). Indeed, banks lent approximately USD 3.3 billion in 2013, almost three times the disbursements made by both DFIs and non-DFI impact investors in Uganda to date.

<table>
<thead>
<tr>
<th>FIGURE 6: IMPACT CAPITAL RELATIVE TO OTHER FINANCIAL ASSETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD BILLIONS</td>
</tr>
<tr>
<td>Banking sector total assets</td>
</tr>
<tr>
<td>Non-DFI impact investors total capital committed</td>
</tr>
</tbody>
</table>

Source: Bank of Uganda, Open Capital Research

In addition, there is a large informal financing sector in Uganda that is not regulated. The dearth of reporting makes it impossible to estimate the total assets available through informal financing, but anecdotal evidence indicates the amount is substantial in the Ugandan financing landscape. Loan sharks run large operations that can provide significant amounts of financing quickly and with limited due diligence. However, they charge extremely high interest rates, which limits their attractiveness, particularly for longer-term financing.

Although impact investing represents a small portion of total investment activity in Uganda, it fills an important gap in the market for earlier-stage enterprises. Access to financing from commercial banks remains limited, with only approximately 20% of Ugandan adults having a formal bank account. This is due in part to an absence of physical bank branches—commercial banks have offices in most urban centers but limited penetration in rural areas. Even for those with physical access to formal financing, commercial banks remain risk averse and are unwilling to invest in early stage enterprises (which represent a large share of businesses in the region, particularly those of interest to non-DFI impact investors). When willing to lend, they

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require extremely high collateral ratios which often exceed 100% of the loan amount. Many early-stage businesses are unable to satisfy these requirements.10

Even if they are able to meet these stringent requirements, businesses must still face the highest lending rates in East Africa, which reached a record high of more than 26% in 2012 and still stood at more than 23% in 2013. These extremely high rates—roughly six times higher than average bank rates in the United States, which have been under 5% on average over the last 10 years—prompted a protest by most shop-owners in the capital city of Kampala, who closed shop for three days in January 2012.11

The collateral requirements and high interest rates from both banks and informal financers make debt investments extremely expensive and limit the practical availability of financing for enterprises. This limited availability in conventional settings provides a market opportunity for private investors who are able to provide equity and/or cheaper or less collateralized debt, particularly for early stage, longer-term investments that may be higher risk.

This gap is filled at times by non-commercial grant financing, which is available from donors active in Uganda such as charitable foundations, international aid agencies, and private individuals. Non-DFI impact investors report that they occasionally compete with donor funding for high potential deals, as those entrepreneurs who seek capital from impact investors are typically also aware of donors. Donor presence can complicate negotiations for impact investors because entrepreneurs may view donor funding as an opportunity to raise free capital and to avoid investors’ comparatively high return expectations. Many donor agencies, however, are unwilling to lend to commercial enterprises and often have stringent reporting or operational requirements that are less attractive for businesses. This opens up an opportunity for impact investors.


Impact Capital Disbursed

Uganda boasts the second largest deal flow in the region, around half the activity in Kenya. In total, non-DFI impact investors have disbursed more than USD 300 million to date (Figure 7), or over 20% of disbursements in East Africa. The country has received a smaller proportion of DFI direct investments (approximately 11%), or just over USD 875 million (Figure 7).

<table>
<thead>
<tr>
<th></th>
<th>Capital disbursed</th>
<th>Deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>DFI</td>
<td>USD 879 millions</td>
<td>79</td>
</tr>
<tr>
<td>NON-DFI</td>
<td>USD 306 millions</td>
<td>139</td>
</tr>
</tbody>
</table>

Source: Open Capital Research

Investments Over Time

Impact investing remains a young sector. As in Kenya, non-DFI impact investors have been present and investing in Uganda for more than a decade, but the large number of deals with undisclosed details prevents additional conclusions about non-DFI impact investor activity over time. Nevertheless, anecdotal reports from investors suggest that impact investing activity began to consistently pick up in 2010 and beyond.

Unlike the rest of East Africa, DFI activity in Uganda has not shown any clear growth trend (Figure 8). Though the level of DFI direct disbursements is high relative to the rest of East Africa—Uganda has the second highest amount of DFI direct capital disbursed in the region—the country has not seen the increasing attention characteristic of the other focus countries.

Source: Open Capital Research
**Sector**

The distribution of investments by sector broadly reflects non-DFI impact investor interest areas (Figure 9). Agriculture and financial services have received the most attention from non-DFI investors (roughly 40% of their deals in Uganda) and have the greatest expressed interest from investors.

![FIGURE 9: NON-DFI IMPACT INVESTMENTS BY SECTOR](image)

Source: Open Capital Research. Note: Chart shows total number of non-DFI impact investors interested in sector; may be multiple sectors

Unlike the rest of East Africa, Uganda saw significant capital disbursed into energy deals. This exceptional activity was driven by a single large transaction accounting for nearly 60% of the total capital disbursed in the sector. Uganda, unlike much of East Africa, has significant amounts of capital disbursed in the health sector. As with the energy sector, this is driven by a single large investment amounting to nearly 70% of the capital disbursed in the health sector. Correspondingly, both the energy and health sectors have high average ticket sizes, though the median deal size is significantly lower.
DFI direct investments favor investments in financial services, which make up 50% of direct deals and more than 25% of capital disbursed directly (Figure 10). The energy sector has the highest total capital disbursed (more than 40% of DFI direct capital disbursed), reflecting the large ticket size for many DFI-funded energy projects, but relatively few deals—less than 10%.

FIGURE 10: DFI DIRECT INVESTMENTS BY SECTOR

As shown in Figure 11, nearly 50% of capital disbursed by non-DFI impact investors in Uganda has been through deals larger than USD 1 million in size; however, more than 60% of the individual deals are under USD 1 million. Deals under USD 250,000 represent nearly 30% of all known non-DFI impact deals in Uganda. This proliferation of small deals contrasts with Kenya, where only 11% of non-DFI impact deals are below USD 250,000, and suggests that impact investors in Uganda find interesting businesses to be comparatively small.
By contrast, the average deal size for known DFI direct investments in Uganda is more than USD 11 million, greater than five times the average for non-DFI impact investors (Figure 12). This high average deal size is driven by three large investments in energy projects, which accounted for nearly 40% of DFI capital disbursed. Moreover, though deals under USD 10 million make up more than 75% of DFI direct investments, only approximately 10% of direct DFI deals were under USD 1 million compared to about 60% of non-DFI impact investor deals.

![Figure 12: DFI Direct Investments by Deal Size](source: Open Capital Research)

**Instrument**

Traditional debt and equity investments remain most common in Uganda, though this report is unable to provide a definitive break-down of non-DFI investment instruments due to insufficient available data at the time of writing. However, the preponderance of debt investments in the available data (debt investments were almost twice as common as equity investments among non-DFI impact investors), aligns with investor perceptions that it is sometimes challenging to explain equity investments to entrepreneurs in Uganda.

Though traditional debt and equity instruments are most common, non-DFI impact investors report that, as in much of the rest of East Africa, they increasingly consider quasi-equity structures such as convertible debt or revenue-participating debt. Especially given non-DFI impact investors’ focus on smaller deals and earlier-stage investments, these structures balance the limited cash flows common for earlier-stage companies with the return expectations and risk mitigation required by investors.
As elsewhere in the region, DFIs’ direct investments are overwhelmingly debt (Figure 13). Debt investments constitute more than 80% of all capital disbursed by DFIs directly and nearly two-thirds of known direct DFI deals. However, in contrast to the rest of East Africa (except Ethiopia), Uganda also attracted a number of debt guarantees, driven almost exclusively by a single DFI’s activity.

**FIGURE 13: DFI DIRECT INVESTMENTS BY INSTRUMENT**

<table>
<thead>
<tr>
<th>Instrument</th>
<th>USD Millions</th>
<th># of Deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Debt</td>
<td>700</td>
<td>50</td>
</tr>
<tr>
<td>Debt &amp; equity</td>
<td>200</td>
<td>40</td>
</tr>
<tr>
<td>Guarantee</td>
<td>100</td>
<td>30</td>
</tr>
<tr>
<td>Grant</td>
<td>0</td>
<td>20</td>
</tr>
<tr>
<td>No info</td>
<td>0</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Open Capital Research

**Local Presence**

A number of impact investors have chosen to place staff on the ground in Uganda, primarily in the capital city, Kampala (Figure 14). Uganda is home to the third largest number of impact investors in the region and two impact investors have their headquarters there.

Nevertheless, the impact investing community in Uganda remains small compared to that in Kenya and there are only a few local impact investor offices. Those based in Uganda noted that they knew all of the other players active in the ecosystem and consider this familiarity a strength, as it creates a friendly environment to share information about entrepreneurs and potential investments. This collegiality is an important source of pipeline and a valuable asset during due diligence. Several interviewed believe it would be unlikely for any investment to occur without their knowledge and that almost all high-potential entrepreneurs are quickly known to the entire space.

**FIGURE 14: IMPACT INVESTORS WITH LOCAL OFFICES**

Source: Open Capital Research
Impact Tracking Standards

Impact investors’ dual mandate to realize both financial and social or environmental returns requires a strong focus on measuring impact as part of their core activities. Beyond tracking metrics as best practice, impact asset owners require it. This is particularly true for DFIs, which act as anchor investors to many non-DFI impact investors.

As is true across the region, most impact investors in Uganda do not apply a specific pre-defined framework or system for measuring the impact of their investments. Instead, they typically choose metrics that suit each investment. Investors believe this customization reduces the administrative burden for their portfolio businesses and enables a focus on the metrics that are most meaningful. For more detail on impact measurement in East Africa, see the East Africa regional overview chapter of this report.
DEMAND AND NEED FOR IMPACT INVESTING CAPITAL

There is strong demand for impact capital from entrepreneurs operating in Uganda. There are significant gaps in the provision of key goods and services, which create opportunities for entrepreneurs to build enterprises that fill key needs while also realizing financial returns.

Development Context

Uganda has seen slight recent improvement in human development indicators, but still remains well below global averages. Overall, Uganda ranked 164th out of 187 countries in the United Nation’s Human Development Index, scoring below the Sub-Saharan Africa average (Figure 15). This low ranking is reflected in poor performance across a variety of individual development indicators, including poverty, health, and education.

![Figure 15: UN HDI Scores, 2008-2013](chart)


More than a third of Ugandans live on less than USD 1.25 per day, which is more than 50% higher than the global average (Figure 16). Nevertheless, the country has achieved its Millennium Development Goal to reduce poverty, raising a large proportion of the population above the national poverty line. More than 55% were living below the national poverty line in 1992/93, compared to less than 25% in 2009/10.\footnote{14 The World Bank, Poverty Trends in Uganda: Who gained and who was left behind?, available at http://siteresources.worldbank.org/INTUGANDA/Resources/uganda-poverty-and-inequality-trends-full-policy-note.pdf.}

Uganda’s health metrics are also well below global averages (Figure 17). For example, under-five mortality stands at 69 for every 1,000 live births, compared to 47 globally.\footnote{15 The United Nations Development Programme, Human Development Report 2014, available at http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/UGA.pdf.} Similarly, approximately 33% of Ugandans under five suffer from moderate or severe stunting, compared to a global average of just over 25%.\footnote{16 Ibid.} Uganda has made only modest progress on other health metrics. For example, maternal mortality decreased only slightly from 506 for every 1,000 live births in 1990 to 438 in 2011.\footnote{17 Ministry of Finance, Planning and Economic Development, Millennium Development Goals Report for Uganda (2013), available at http://planipolis.iiep.unesco.org/upload/Uganda/Uganda%20MDG%20Report-Oct%202013.pdf.} Also, HIV/AIDS prevalence rates among the population aged 15-24 increased from 2.9% in 2004/05 to 3.7% in 2011.\footnote{18 Ibid.}
Like the rest of the region, Uganda’s performance on educational metrics is poor relative to global averages (Figure 18). Uganda’s gross secondary enrollment of 28% is less than half the global average and among the worst in East Africa, above only Somalia and approximately equal to Burundi. Its population aged 25 and above with at least some secondary education is less than half the global average, although it leads East Africa.

FIGURE 18: KEY EDUCATION INDICATORS
(LATEST AVAILABLE DATA POINT)

Source: UN Human Development Report 2014
Educational metrics are an especially important indicator for future development given Uganda’s demographics. Like other East African countries, Uganda has a disproportionately young population, where over 48% is under the age of 15 and nearly 70% is below age 25 (Figure 19). This youth boom has led to high unemployment among young people which, when compounded with low levels of education, poses a challenge to economic growth.

![Population by Age and Gender](image)

**Source:** UN ESA, World Population Prospects

### Entrepreneurs

There is optimism from both entrepreneurs and impact investors predicting ample opportunity for growth in Uganda. Many of these opportunities are social businesses in sectors of interest to impact investors—education, housing, healthcare, water and sanitation, energy, etc. These entrepreneurs seek capital across the spectrum of funding, from start-up and SME-size deals to capital for scaling up, although they are primarily start-up and early-stage businesses. This concentration in earlier stages aligns with the local landscape, in which there are few mature social enterprises, as with the rest of East Africa.

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19 Open Capital Research.
However, despite growing demand for capital from enterprises in these sectors, entrepreneurs face substantial challenges. Encouragingly, interviewees did not identify any significant country-specific impediments to growth in Uganda. Rather, the primary challenge is seen to be a general lack of development of the broader business environment, as is common throughout the region. For more detail on the challenges facing both early- and growth-stage companies in East Africa—which include limited human capital, informal operations, sourcing capital beyond family and friends, and a strong need for local relationships—see the East Africa regional chapter of this report.
ENABLING IMPACT INVESTING: THE ECOSYSTEM

The impact investing ecosystem in Uganda remains challenging and is a key constraint on the growth of the sector. The lack of a well-developed business environment affects potential investees as well as impact investors.

Regulatory Environment

Today, Uganda is relatively politically stable and has a generally welcoming regulatory landscape for investors. For example, investors are able to access foreign currency easily, repatriate profits, and own local companies. The country has been relatively free of armed conflict since the Lord’s Resistance Army was expelled in 2006, though there has been some instability on the borders as a result of continuing conflict in South Sudan and the Democratic Republic of Congo.

Despite the welcoming formal environment, Uganda remains one of the more difficult countries to do business in, ranking 150th of 189 countries in the World Bank’s Ease of Doing Business rankings and 5th out of the 11 countries in East Africa. While the underlying regulations and investment environment are open to foreign investment, interacting with the Ugandan state to pay taxes or apply for licenses, for example, can be complicated due to inefficient bureaucracies.

- **Government incentives**: Uganda provides a number of incentives for foreign and local investors to place capital. For example, Uganda offers a 10-year tax holiday to investments in export-oriented production and concessionary import duties on some capital goods that meet certain criteria, which for foreign investors is reserved for capital goods in excess of USD 500,000. Beyond tax incentives, Uganda offers free access to industrial parks to investors in priority sectors including information and communications technology (ICT), tourism, value-added agriculture, and value-added investments in mineral extraction.

- **Repatriation of profits and dividends**: In general, Uganda does not restrict capital transfers, though it does require a tax clearance certificate for repatriations.

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rankings.


in excess of UGX 50 million (about USD 20,000). In addition, Uganda must authorize repatriation for foreign investors who take advantage of investment incentives under the Ugandan Investment Code Act, which governs investing activity in Uganda.

- **Foreign exchange controls:** Uganda has open foreign exchange rules. Foreign exchange is freely available from commercial banks and can be acquired and held equally by locals and foreign nationals.

- **Land ownership:** The formal land system is complex, with four different land tenure systems. Foreigners may only lease land in Uganda and must seek approval from the Ugandan Investment Authority before leasing more than 50 acres for agriculture or livestock. Though each plot is governed by a single system, neighboring plots may be held under a different system. Freehold land may be owned permanently by Ugandan citizens and leased by foreigners. Leasehold land may be leased by nationals and foreigners alike. Customary land and Mailo land pose more challenges—customary land is governed by the traditions of the area, and typically does not have a title deed. Mailo land use must be approved by lawful residents, which includes many squatters. Freehold land makes up 22% of all land in Uganda, with customary land making up the majority of the rest. Despite complicated regulations, local impact investors report that most land of interest to them is governed by the more favorable land tenure systems.

- **Local ownership requirements:** Foreign investors may own up to 100% of any local company except in the petroleum industry, in which foreign investors may supply goods and services not available in Uganda only via a joint venture with a Ugandan company. In such a joint venture, the Ugandan company must own at least 48% of the shares.

- **Government enterprises:** Since 1993, the state has been privatizing Uganda’s state-owned enterprises. Major divestitures include the Uganda Commercial Bank to Stanbic Bank, the Sheraton Kampala to MIDROC, and the Uganda Electricity Distribution Company concession to Umeme Uganda. The government still has interests in the mining, housing, electricity, and transport sectors, though it is open to private competition.
Ecosystem Players

There are few ecosystem players active in Uganda (Figure 20). With around twenty identified organizations supporting impact investing, Uganda has roughly two-thirds the number of Kenya. Many of these organizations operate regionally. As in most of the rest of East Africa, the support ecosystem primarily comprises incubators and accelerators, which tend to focus on seed or very early venture stage businesses in specific sectors, leaving a gap for service providers to support businesses more appropriate for non-DFI impact investors across a range of sectors. For more detail on intermediaries and service providers in East Africa, see the East Africa regional chapter of this report.

FIGURE 20: SELECTION OF CURRENTLY ACTIVE INTERMEDIARIES AND SERVICE PROVIDERS

Beyond incubators, there are a number of consultants and technical assistance providers focused on the impact investing ecosystem, including Open Capital Advisors, I-DEV International, and Global Village Energy Partnership (GVEP). Despite consultants and technical assistance providers operating in Uganda, there remains a lack of detailed market research and data to support both non-DFI impact investors and social enterprises. This market gap is consistent with the rest of the region, and is discussed in more detail in the East Africa regional overview chapter.

Few of the impact investors and entrepreneurs interviewed report using intermediaries or service providers. Impact investors noted that even when interested, entrepreneurs struggled to identify high-quality service providers and that ecosystem players often struggle to adequately explain their services to entrepreneurs. Nonetheless, the challenges facing entrepreneurs clearly indicate there is a need for greater investment preparedness, human resources, and financial sophistication, which present
opportunities that intermediaries and service providers could address. One impact investor interviewed proposed that, if given significantly more capital, they would use it to establish an intensive pre-investment support program to supplement the management team for interesting businesses in order to build the business in-house. As investors and entrepreneurs become increasingly active in Uganda, the ecosystem appears ready to grow accordingly.

In line with the general impact investing ecosystem in Uganda, there are gaps in the availability of more general business service providers. Every company in Uganda must produce annual audited accounts, and a large industry has developed to serve this requirement. However, quality varies and so does the reliability of any accounts produced. Developing clear financial documentation can be challenging, particularly for small companies or family-owned businesses, even if they are operating formally. Similarly, legal representation is available, but of varying quality. Impact investors report that reliable legal advice is difficult to find, even from expensive providers.
Impact investors based in Uganda stress that there are many opportunities and that, while the business environment remains challenging, it is improving. That said, they also note that the pipeline of businesses with strong performance and sophistication is thin. As a result, most opportunities remain risky and require significant support before being investment ready. The difficult business environment presents a range of challenges for impact investors seeking to place capital in Uganda. These challenges include:

- **Insufficient investment-ready opportunities:** Despite robust activity to date, many impact investors struggle to place the capital they have raised. Although there are many businesses with exciting potential, investors encounter few companies that are truly investment ready. Early stage businesses, which are the primary target for non-DFI impact investors, typically face certain common challenges that keep them from being fully prepared, including inefficient or unproven operations, an unclear or ineffective strategy to scale, poor financial management, a lack of realistic forward looking projections, and unsupported capital asks.

- **Insufficient human capital:** Talent is the key constraint for many Ugandan businesses. Companies struggle to find the talented, reliable management needed to plan for and reach scale. This challenge is particularly acute for finance professionals with 5-15 years of experience who can serve as a company CFO. Even when a talented, experienced professional can be found, they often command high wages that can be challenging for impact businesses or impact investors to support, especially in their early years.

- **Lack of local presence:** Even though interest in Uganda is growing, only a handful of impact investors have staff on the ground, and then only in Kampala. Investing in this market, with limited legal recourse, requires implicit trust between investor and entrepreneur. Entrepreneurs remain wary of investors, particularly those seeking equity, and if an entrepreneur has been operating informally, it can be difficult to evaluate their history and trustworthiness without a strong personal relationship, which is hard to build from abroad. Local social networks can provide insight on a potential target that is extremely important to an investment decision.

- **International decision makers:** Many impact investors have investment committees that are based abroad and include international decision-makers who may not have experience with on-the-ground investments in Uganda or East Africa. These remote investment committees interpret risk differently than do their investment teams operating locally, creating friction between investment...
officers forming relationships with entrepreneurs and investment committees making the ultimate investment decisions.

- **Competition with donor funding**: Grant financing is widely available from donors active in Uganda. At times, non-DFI impact investors compete with this grant capital as entrepreneurs looking for funding from impact investors are typically also aware of donors. The presence of donor funding can complicate negotiations for commercial capital as entrepreneurs may believe that donors can provide them cheaper capital and that investor return expectations are comparatively too high.

- **Long diligence processes**: Correlated with the lack of investment-ready deal flow and international decision-making, the diligence process for impact investors can often stretch from 12 to 18 months for both debt and equity investments. This lengthy process can damage relationships with entrepreneurs, who often view it as indicating a lack of trust. It puts additional pressure on the business and can lower long-term returns as companies must survive without needed capital, creating a significant opportunity cost as management teams spend time courting investors.

- **Few exit examples**: For new funds looking to raise capital, the relative youth of the impact investment industry means there are few examples of successful exits. Without a successful track record, it can be difficult for fund managers to raise a second fund—some interviewed for this report believe it may be easier for a new fund manager to raise funds than it can be for an experienced one to do so.

- **Difficulty accessing local currency instruments**: Many social businesses engage with disadvantaged populations, often earning the majority of their revenues in local currencies. However, most impact investors track returns in international hard currencies and have little ability to invest in local currencies. This is especially challenging for long-term debt instruments that require repayment in hard currencies that can appreciate 5-10% per year.

  At present, investees typically bear the resulting currency risk, which can place a substantial burden on the business if the local currency depreciates, and may endanger the ability of the company to achieve the desired growth and repay the loan.

**Opportunities**

Despite these challenges, there are many opportunities for impact investors to leverage return-seeking investments to drive job creation, economic development, and opportunities for disadvantaged populations. Opportunities for impact investors in Uganda include:

- **Leverage technical assistance facilities for pre-investment pipeline building**: Many impact investors have successfully raised technical assistance facilities for portfolio companies. Increasingly, TA funders such as USAID or DFID recognize

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32 Based on primary and/or secondary research conducted during this study; see “Introduction and Methodology” chapter of this report for details.
the importance of pre-investment support to get companies to the point where they can pass rigorous investment committee requirements. One impact investor interviewed proposed that, if given sufficient capital, they would establish an intensive pre-investment support program to strengthen management teams and build the business in-house.

Targeted, tailored support, whether from the impact investor or a third party, requires an upfront commitment of resources but impact investors report that it has proven effective in preparing potential targets for investment and building high quality deal flow. This can dramatically reduce diligence timelines if the investor is able to increase familiarity and visibility during pre-investment support.

- **Increase local decision-making**: Where possible, impact investors have cited significant improvements in their portfolio through local decision-making and local support. This allows investment officers to form meaningful relationships with portfolio companies, where they are empowered to respond to the realities on the ground as things often change in emerging markets. Placing staff and investment committees locally can also reduce diligence timelines, as these individuals are more familiar with local trends and realities. In an environment of increasing competition between impact investors for high potential deals, designing effective diligence procedures aligned to the region could be a key differentiator for successful impact investors.

- **Source opportunities outside major cities like Kampala**: Many impact investors with staff on the ground in East Africa report finding investments more easily than those based abroad. However, many entrepreneurs operate in rural areas or smaller cities, rather than in Kampala. For impact investors who see these types of businesses as highly impactful, it will be increasingly necessary to build relationships beyond those made in economic centers.
In addition, impact investors in Uganda see specific opportunities in the following sectors:

- **Agriculture**: Overwhelmingly, impact investors identify agriculture as a key opportunity sector. Uganda has ample arable land, favorable weather conditions, and fertile soil. While plot sizes are already considerably larger than in Kenya, impact investors see opportunity to aggregate smallholder plots into even larger plots and significantly increase yields. In addition, there is a rapidly expanding extractives industry in Uganda whose large, concentrated labor force will require significant amounts of high-quality agricultural produce. Impact investors also noted opportunities for entrepreneurs in agricultural sub-sectors, such as dairy.

- **Renewable energy**: Impact investors identify strong government support for new businesses and approaches in energy, as Uganda looks to expand its power generation capacity. This opens the door for large scale projects as the government has been willing to allocate tracts of land for energy projects in particular. At the same time, there are large segments of the population that lack reliable access to grid power, opening opportunities for micro-grid and off-grid solutions.

- **Urbanization**: Impact investors also noted that Uganda is rapidly urbanizing and demand for services to support these expanding cities is expected to grow strongly. This includes affordable housing, infrastructure development, water, healthcare, and sanitation.
ABOUT THE GLOBAL IMPACT INVESTING NETWORK

The Global Impact Investing Network (GIIN®) is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry. For more information, see www.thegiin.org.

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