

UGANDA

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Key Data Points (as at end-December 2023, unless otherwise stated)

Total population	46.5 million (estimated)
National currency and exchange rate	Ugandan shilling, UGX3,890 per USD
GDP and growth rate	USD44.2 billion, 5.5%
SME proportion of GDP	70%
Annual average inflation	3.3%
Unemployment rate	2.9%
Total government debt outstanding	UGX96.1 trillion (USD25.3 billion)
Public debt to GDP ratio	52%
Primary stock exchange	Uganda Securities Exchange (USE)
Number of publicly listed companies	17 (9 local issuers)
Equity market capitalisation (total and % of GDP)	USD6.28 billion, 14% of GDP
Mutual fund assets under management	USD1.3 billion
Estimated debt market, including bank loans (total and % of GDP)	USD5.82 billion (1.3% of GDP)
Examples of domestic private market investment firms	TLG Capital, Inua Capital, Pearl Capital Partners

Sources: Uganda Bureau of Statistics; Bank of Uganda; Ministry of Finance, Planning and Economic Development; Uganda Securities Exchange; Capital Markets Authority of Uganda.

1. Introduction and Context

Over the past two decades, Uganda's efforts to establish itself as a competitive regional capital market, comparable to Mauritius, Rwanda, and Kenya, have faced significant challenges. In particular, a crowding-out effect persists when legal provisions require government-affiliated and local pension funds to allocate 80%–90% of their assets to domestic government bonds, limiting liquidity for private and alternative investments.

This legal framework has resulted in an overreliance on government bonds, limiting liquidity for such asset classes as private equity, real estate, and venture capital. The problem of liquidity is further worsened by Uganda's predominantly cash-based economy, subsistence livelihoods among its youthful population, and a growing informal economy.

The high yields on government bonds, although attractive to investors, create a barrier for higher-risk, low-liquidity investments in private markets. This situation has led to a low level of capital formation and limited growth in private and alternative investments. Consequently, strategic asset allocation decisions are constrained by the uneven distribution of risk and reward across Uganda's investment landscape, impeding the development of a vibrant and diverse capital market.

2. Raising Funds in the Public Markets

Since the mid-1990s, Uganda's capital markets have gradually developed, influenced by low domestic savings relative to GDP, high yields on government securities, and elevated domestic interest rates. The primary policy objective was to facilitate capital raising, institutionalize capital intermediation, and increase access to domestic financing for the government, corporations, and micro, small, and medium-sized enterprises (MSMEs).

Challenges in Capital Formation

Government borrowing at high yields has created a crowding-out effect, limiting affordable financing for the private sector. Investors prefer low-risk, high-yield government securities over private sector investments. This situation, coupled with low domestic savings and a preference for public debt, has hampered policy efforts toward tax, capital markets, and pension sector reforms necessary to build a robust private market ecosystem.

Regulatory Environment

The regulatory framework in Uganda heavily favours government debt. Local institutional investors, such as pension schemes and insurance firms, are mandated to allocate significant assets to domestic government debt, creating a clear home bias.

Historical Context

Uganda's current fundraising policy framework is rooted in a social development agenda and follows on from the IMF-driven macrostructural reforms from the mid-1990s. Uganda's participation in the Heavily Indebted Poor Countries debt initiative in the mid-1990s led to a shift from a socialist-driven economic model to a quasi-capitalist economic model that is in place today.

Public Fundraising

Uganda finances its government expenditures through tax revenue, donor support, and borrowing, both domestically and internationally. Although the government prioritizes concessional loans from multilateral and bilateral lenders, it also issues treasury securities in the domestic debt market and occasionally borrows on commercial terms from various development finance institutions.

Infrastructure Financing

To finance infrastructure development, Uganda relies on concessional loans, treasury securities and, increasingly, public-private partnerships. PPPs are earmarked to be used for such projects as expressways, hydropower dams, airports, and oil and gas infrastructure.

Financing MSMEs and Early-Stage Companies

Uganda supports MSMEs and early-stage companies through the Uganda Development Bank (UDB) and other government credit facilities. The UDB raises financing from global capital markets, donor agencies, and development finance institutions. Additionally, the Agriculture Credit Facility (ACF) finances agriculture-related projects at subsidized interest rates.

Foreign Direct Investment (FDI)

FDI is a vital source of financing for Uganda's capital-intensive projects. The country attracts multinational entities and global capital for such sectors as agriculture, oil and gas, mineral extraction, tourism, education, and health care. Incentives supporting import-substitution strategies have increased domestic light manufacturing, further attracting FDI.

3. Debt

Public Fundraising Framework

Uganda's fiscal fundraising process is guided by the Medium-Term Debt Management Strategy (MTDS), prepared annually by the Ministry of Finance, Planning, and Economic Development. The MTDS is a three-year

plan designed to manage public debt prudently, balancing cost and risk to meet the government's financing needs at the lowest possible cost. This framework is mandated by Section 13(10)(a)(iv) of Uganda's Public Finance Management Act, 2015.

The key objectives of the MTDS (2022/23–2025/26) are as follows:

- Manage refinancing risk by issuing longer-dated securities.
- Optimize the borrowing mix to reduce debt costs and interest rate risks.
- Align borrowing with government financing needs to minimize debt costs.

Outstanding Debt Stock²⁶

As of December 2021, Uganda's total debt stock was USD20.7 billion, up from USD18.0 billion in December 2020. The increase was caused by borrowing related to COVID-19. The debt composition was 37.8% domestic (USD7.8 billion) and 62.2% external (USD12.9 billion).

Debt Terms and Maturity Profile

Uganda's borrowing strategy focuses on concessional interest terms and local-currency debt. Occasionally, the country incurs commercial or nonconcessional debt, increasing interest payments as a percentage of GDP. The domestic debt stock includes a significant portion of long-term instruments, with 10-year and 15-year treasury bonds making up 25.9% and 18.4% of the total domestic debt, respectively. This strategy aims to lengthen the average time to maturity as of December 2021.

Interest Rate Types and Currency Composition

As of December 2021, 86.5% of Uganda's debt was fixed-rate debt, down slightly from 87.5% in December 2020, while variable-rate debt increased. The debt is primarily denominated in local currency (37%), US dollars (30.2%), and euros (19.4%).

Challenges

Uganda faces several challenges in its fiscal fundraising process:

- High cost of debt
- Refinancing risks of near-term maturing debt
- Fluctuations in foreign-currency-denominated debt
- Adverse impacts from repricing variable interest rate debt

²⁶Unless otherwise stated, the data reported in the Debt section of this chapter are from Briter Bridges, I&M Burbidge Capital, and EAVCA (2023) and AVCA (2024).

4. Raising Funds in the Private Markets

Private Markets Overview

Private Capital Inflows

Africa receives an average of USD5 billion in private capital annually. Of this amount, 12% (USD600 million) is allocated to East Africa, with Uganda attracting approximately USD259 million. This figure includes direct development finance institution (DFI) investments, which play a major role (70%) in Uganda by way of investment capital contribution. Key investment sectors in Uganda include energy, financial services, technology, agribusiness, manufacturing, education, and health services.

Challenges

Uganda's private markets face several challenges:

- Low participation from local institutional investors because of unfamiliarity with the asset class
- Low levels of investment skill among asset owners and professionals
- Delay in implementing suggested reforms to the tax regime
- Lack of regulation to implement suggested reforms
- Weak investor protection

Growth Trends

Despite these challenges, Uganda's private market ecosystem is growing. Increased global focus on East Africa, particularly for alternative investments, has contributed to this growth. Kenya remains the dominant destination for East Africa-focused funds, but Uganda is increasingly attracting investor interest, ranking second in the region.

Investment Activity

Investment activity in East Africa continues to grow. More than 427 private equity and direct DFI investment deals valued at about USD7.3 billion were reported between 2013 and 2023. The financial services sector has attracted the most investment activity (20%), followed by the agribusiness, energy, and ICT sectors, which each contribute on average 12% to activity. During the same period, Uganda made 57 investments in both private equity and direct DFI, with a value of USD2.5 billion and in an almost similar sector profile as the rest of the region.

Exits

Uganda experienced a slow pace of investment exits between 2013 and 2023, with only 11 reported transactions, none of which disclosed their financial value. These exits were exclusively from private equity investments facilitated through intermediaries; direct DFI investment strategy had no exits during this period.

Given the scarcity of comprehensively reported exit data specifically for Uganda over this decade, the subsequent analysis will draw upon broader trends from the wider East Africa region. This regional perspective offers context for understanding the dynamics at play, which are likely to influence Uganda's investment landscape.

In the East Africa region, the average holding period is about seven years, a duration that naturally fluctuates with economic conditions. As an example, the exit market tapered off between 2020 and 2022, with almost no exit activity recorded. Signs of recent recovery have arisen, especially as funds that were established and made investments in the last 7-10 years are being actively prepared for exit opportunities.

The primary mechanisms for achieving exits from East Africa are predominantly trade sales (strategic acquisitions), followed by secondary buyouts and, lastly, management buyouts. This finding is supported by the East Africa Venture Capital Association's research throughout the 2013–2023 period. Notably, the IPO route for exiting investments remains an untapped avenue in East Africa.

Investment Strategies

Private capital managers in Uganda use various strategies, including equity, mezzanine, and debt. Impact investing remains a distinct strategy because of the influence of DFIs. Mezzanine instruments are often used to balance risk and reward.

The Impact of COVID-19

The impact of COVID-19 in East Africa was felt across investment, portfolio management, and exit strategies for different portfolio managers. In the region, private equity (excluding direct DFI) investment activity fell from an average of USD530 million annually over 2013–2019 to USD430 million annually from 2020 to 2023.

The opposite occurred in Uganda, where private equity (excluding direct DFI) investment activity accelerated from an average of USD70 million over 2014–2019 to USD125 million annually from 2020 to 2023.

In general, the COVID-19 period in Uganda was characterised by a drop in portfolio performance leading to valuation write-downs. Fund managers took on

operational roles in portfolio companies, supported by business development grants. Smaller funds and those targeting midsized companies were hit hardest, while larger, more experienced managers fared better.

DFI support has been crucial for recovery, providing long-term capital and mobilising third-party investments. Indeed, direct DFI investments in Uganda were representative of a significant percentage (70%) of investments in East Africa.

5. The Challenges to Capital Market Formation

An Outdated Regulatory Framework

Uganda's current regulatory framework for private capital markets is not up to date, recognising only venture capital and corporate entities. This framework conflicts with international best practices, where private capital vehicles are registered as partnerships, offering better investment, management, exit, and tax efficiency.

An EU policy brief by the International Fund for Agricultural Development (2021) elaborated on the problems brought about by the rigid regulatory framework. This disconnect between local regulations and global norms presents challenges for mobilising private capital and aligning with preferred investment structures. According to the International Fund for Agricultural Development (2021, p. 2),

The Ugandan Partnership Act remains untested, . . . and commercial funds are not willing to incur the cost of checking whether the Act creates appropriate vehicles for private equity funds.

Because of the lack of proven application of the Partnership Act, funds are reluctant to commit resources towards navigating the uncertainty.

Shortage of Local Talent

Uganda faces a significant shortage of skilled fund managers, competent management teams, and adherence to corporate governance standards. This scarcity hampers the effective management of investment portfolios.

Low-Quality Investment Pipeline

The quality of potential investments is often low, partly because of a weak macroeconomic environment. Such factors as unstable economic policies, insufficient infrastructure, and limited access to critical resources contribute to an investment landscape that often lacks viable opportunities.

6. Possible Solutions to Accelerate Capital Market Formation and Policy Recommendations

Reform Efforts

Regulators, policymakers, fund managers, enterprises, and DFIs are collaborating to reform these regulations. The goal is to align with international standards, making Uganda an attractive destination for both foreign and local capital.

Recent progress has occurred in the form of tax reforms—namely, the Income Tax Amendment Act and the Stamp Duty Amendment Act—which will improve the efficiency of private capital formation in Uganda. The reforms mainly address the issues of double taxation on incomes derived from private equity investment through intermediaries (funds). In the past, Ugandan private equity funds were taxed as normal corporate entities; this additional layer of taxation disincentivized their use.

These amendments address specific exemptions on incomes derived through intermediaries in private equity, at the fund level, on

- withholding tax on dividends and interest,
- capital gains tax on the disposal of equity interests,
- corporate tax at the fund level, and
- stamp duty on registration of securities.

Finally, the Capital Markets Authority will need to update the regulation so that the implementation of these reforms in tax incentives can take effect. Only funds duly recognised by the Capital Markets Authority can benefit from the tax incentives.

Business Development Services (BDSs)

Investment capital is often deployed alongside BDSs to address these weaknesses. BDSs must be subsidized to be effective because improvements are not immediately visible.

Solutions must therefore focus on the following:

- *Regulatory reforms:* Update the regulatory framework to allow local domiciliation of private capital vehicles as partnerships, aligning with international best practices.
- *Skill development:* Invest in training and development programs to enhance local fund management skills and improve corporate governance standards.

- *Enhanced BDS support:* Provide subsidized BDSs to help businesses improve their operations and investment readiness.

Exhibit 14 summarises the solutions and policy recommendations we believe should be considered by policymakers and regulators.

Exhibit 14. Possible Solutions and Policy Recommendations for Uganda

Area of Focus	Policy Recommendations
Capital formation	Vehicle structure: Revise capital market rules to permit the registration of private market vehicles as limited partnerships instead of limited companies.
	Fund structure: Extend fund registration requirements to permit GP/LP structures instead of LLC structures.
Talent development	Investor and manager skills: Invest in skill development programs for angel investors, investment specialists, alternative investment managers, and private equity/venture capital managers.
	Trustee training: Conduct investment trustee training to deepen knowledge of alternative investment principles and practices.
Business support	Financial assistance: Provide subsidized or grant-based financing to enhance support for improved resilience and investment readiness of small businesses, startups, and emerging companies.
Investor protection and transparency	Central registry: Establish a central private market registry for transactions, contracts, and deals to reduce information asymmetry and increase investor protection.
	Standardized contracts: Foster a culture of investor protection by establishing standardized private market contracts.
Pension funds	Asset allocation reform: Reform rules and limits on strategic asset allocations and the investment universe within pension regulations to permit alternative and private market investments.
Taxation	Investor incentives: Provide tax incentives on capital gains, dividend income, profit-sharing, and interest earned on general partner/limited partner (GP/LP) and angel investor to foster risk taking.
Ecosystem development	Startup support: Provide incentives to support the launch and resilience of small businesses, startups, and emerging companies.
	National strategy: Establish Uganda as an international finance centre to attract global capital.
Legal framework	Regulatory reform: Align existing capital market regulations with international best practices for alternative investment funds, venture capital, and private markets.
	Dispute resolution: Establish a court arrangement to handle private market contract and transaction disputes.

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