Mapping the Impact investment Space in Uganda

A report for Oxfam Novib Impact Investments

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INTRODUCTION

Background

Oxfam believes the upcoming SME sector possesses strong and as yet untapped potential to contribute towards social change, by being catalysts of sustainable inclusion of Bottom of Pyramid communities. Supporting the growth and survival of SME's therefore aligns with the mission of Oxfam: a just world without poverty. Access to finance is one of the key determinants to enable SME's survive, grow and thrive, creating inclusion opportunities. Severely limited access to finance by SME's however remains one of the key constraints faced by most emerging companies in Uganda, and other developing countries.

Oxfam Novib Impact Investments

Oxfam has initiated Oxfam Novib Impact investments through which it will provide financing to Inclusive SME's- profitable businesses demonstrating a clear positive impact on the lives of small farmer's women and youth living in poverty.

Oxfam's ONII initiatives in Uganda will include two major activities:

(i) Providing Impact investments to qualifying Inclusive SME's

(ii) Providing Business Incubation support to 10 SME's that require strengthening as a means to access financial support.

Objective of the Report

To further understand the dynamics prevailing within the Venture capital and Impact investment space, Oxfam has requested a mapping of the key actors, activities, and sectors participating in impact funding initiatives, and so doing, to specifically address the following questions:

a. Which other social impact funds and incubation programs are operating in Uganda?

b. Who funds and manages these investment funds and incubation programs?

c. What is their focus in terms of region, sector, and client profile?

d. What are their eligibility criteria for the SME's / Incubatees?

e. Main outputs realized and lessons learned that they wish to share with Oxfam?

Methodology:

This study was conducted primarily through:

(i) Desk based research

(ii) Interviews with Venture capital firm managers

Financial Services Sector in Uganda

Sources of financing available to SME's in Uganda

To understand the role impact investments can play in servicing the financing needs of SME's, an analysis of the overall financial services sector in Uganda is an important first step. The table below highlights the outlook of the financial sector in Uganda today.

Tier	Type of Institution	Applicable Law	Regulator	Number
Tier I	Banks	Financial Institutions Act, 2004	Bank of Uganda	24
Tier II	Credit Institutions	Financial Institutions Act, 2004	Bank of Uganda	4
Tier III	MDIs	MDI Act, 2003	Bank of Uganda	4
Tier IV	Other MFIs and SACCOs	Companies Act, 1961	None	49
		NGO (Amendment) Act, 2006	None	81
		Cooperative Societies Act (Cap. 112), 1991	None	2,065
		Informal Institutions	None	Unknown
		Money Lenders Act, Cap. 273,1952	None	Unknown

Figure 1: Financial Institutions in Uganda as at Dec 2013

The provision of financial services in the country is growing, driven by the growth and penetration of (i) Banking services, (ii) Microfinance institutions (iii) SACCO's and Village savings systems and (iv) the mobile money platform.

From a **banking perspective** the number of bank branches for instance has grown from 402 in 2008 to 658 by December 2013 (a 64% growth), with bank ATM's more than doubling from 405 to 835 within the same period. (Bank of Uganda; BOU 2013), bringing banking services closer to people and businesses in the rural areas. Despite this growth todate, the banking sector remains quite small, with for instance only one branch for every 53,000 Ugandans compared to an average of 7,000[1] for the Common Market for East and Southern Africa (COMESA). Additionally most bank lending is extended to the non-traded goods sectors, especially trade, construction telecommunications and to the household sector. (BOU 2014) The traded goods sectors of the economy, such as agriculture and manufacturing receive only 21% of total bank credit. This is a key limitation of the financial system as these sectors are the principal drivers of economic development over the long term. "A developing economy can often generate rapid spurts of economic growth over the short term based on investment in services and construction, but long term growth and structural transformation is almost always led by the manufacturing based export sectors"[2]

Micro-financing which has also recorded significant growth over the past decade, with currently 89 microfinance institutions registered under the Association of Micro Finance Institutions of Uganda

[1]Cited from 2003 report 'Financing SME's the experience of Uganda' Updated average more likely to be even lower

[2]Dr. Louis Kasekende, Deputy Governor Bank of Uganda

(AMFIU), has proven its potential as a reliable delivery vehicle for financial services to SME's. MFI's consist of licensed institutions, NGO's, cooperatives, as well as large organized associations and clubs. "The strength of MFI's is that they serve the rural areas at low cost, their service delivery is flexible, which makes it easy for weaker or smaller sized SME's to access financial services from them"[3]. MFI's are therefore an important source of finance for Micro SME's which constitute over 70% of Ugandan businesses. MFI's are however limited in their level of financing, and do not cater to the needs of SME's as they start to require higher levels of financial assistance.

The phenomenal growth of **mobile money** services has also transformed the financial services sector in Uganda, creating and extending a platform for basic payment services and savings to millions of Ugandans who were previously excluded from the formal financial services industry. The number of mobile money subscribers has grown from about 10,000 in 2009 to 14.2 million subscribers in 2013, representing about 80% of Uganda's adult population. In 2012, mobile money transactions totaled 11.7 trillion shillings. The mobile money platform offers enormous potential for further expansion, especially in broadening the type of services and to customers- including SMEs.

The Uganda stock market presents new equity financing opportunities for Ugandan businesses. However most SMEs cannot take advantage of the Exchange because of listing rules regarding disclosure requirements which require companies to provide credible information to investors. This makes it difficult for most SMEs to participate and benefit from stock listing. Additionally, the traditional mindset barriers among SME owners who are often reluctant to dilute ownership as a tradeoff for equity capital injections, makes equity investments unattractive. It is worth noting that some SME's have been open to and benefited from equity financing for example *Ugachick Ltd* and *Commercial Microfinance Ltd*, which received equity financing from Development Finance Company of Uganda (DFCU), East African Development Bank (EADB) and the European Investment Bank (EIB).

Venture capital financing is increasingly becoming an attractive investment vehicle in developing economies. Venture capital typically involves the provision of investment finance to SMEs in the form of equity or quasi equity instruments not traded on a recognized stock exchange. This mode of financing is particularly relevant for startup SME's that cannot satisfy the stringent bank requirements. Unfortunately as we see further below, Venture capital funds, continue to increase their average deal size because of the limited profitability and administrative difficulties associated with smaller sized deals. A particular aspect of venture capital- impact investments-however presents significant relevance to SME's in Uganda. This financing option is explored in greater detail in this report.

[3] Financing SMEs- Uganda's experience: a BOU Working Paper 2013

Constraints to financial access for SME's

Despite this increase in availability of financial services, the access by SME's to appropriate financial services remains constrained. The barriers to access are both supply and demand driven.

Supply driven challenges: Are well documented, and include among others, the extremely limited branch network, a limited range of financial instruments and lending conditions, a risk averse attitude driven increasingly by high levels of nonperforming assets- and therefore choosing where possible to invest in treasury bills, creating further cautious lending, weak interbank collaborations, and inadequate capacity to appraise credit worthiness of SME's

At a demand level: SME's usually look to banks to finance working capital requirements, credit for short term liquidity management, as well as long term debt to finance capital expenditures. They often fail to access financial resources in the required amounts because banks evaluate them on a basis of a checklist including: (i) audited financial statements, (ii) feasible and convincing project proposals (iii) financial projects, (iv) credit or default risk (v) enforcement costs. As is often the case, financial and accounting records, are rarely in place, and where available their accuracy is usually doubted. SME's also lack the required collateral requirements, have low levels of technical and management skills, apply inadequate and inefficient production technologies, have limited awareness of market and competitive dynamics, and generate low returns on capital.

Supply of impact investment financing

An interview and desk based study of the impact investment space, highlights the existence of a number of impact funds active in Uganda. An analysis of the key findings in terms of the sector priorities, financing ranges, and investments todate is detailed below.

Key findings:

Growing presence of venture capital/impact investing funds in Uganda.

12 Venture capital and Impact investment funds have active investments in Uganda. Only 3 of the funds operating in Uganda are headquartered locally in the country. The rest, 5 of whom have a global footprint headquarter their East African operations in Kenya, with either local Ugandan offices, or providing support remotely.

The Government of Uganda has also taken a position of venture capital provider through the Youth Venture Capital Fund, through which it is supporting the growth of youth led SME's targeting Individuals between 18-35 years of age across all sectors.

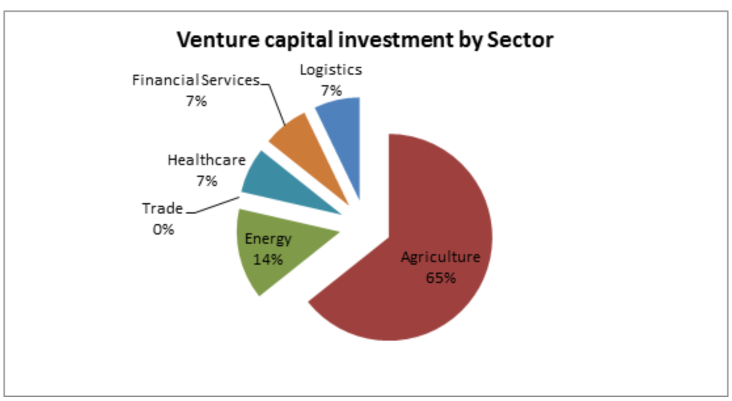
Also important to note is the recent launch of the Small and Medium Agribusiness Fund (SMADF), in August 2014. This fund is a EU and GoU initiative that will support up to 35 SME's engaged in Agribusiness in Uganda through a Euro 25m equity fund. First funding is anticipated in 2016.

The table below categorizes funds into Venture capital and more specifically Impact investment funds, particularly categorizing Agribusiness focused funds. (The detailed analysis of funds is provided as an appendix)

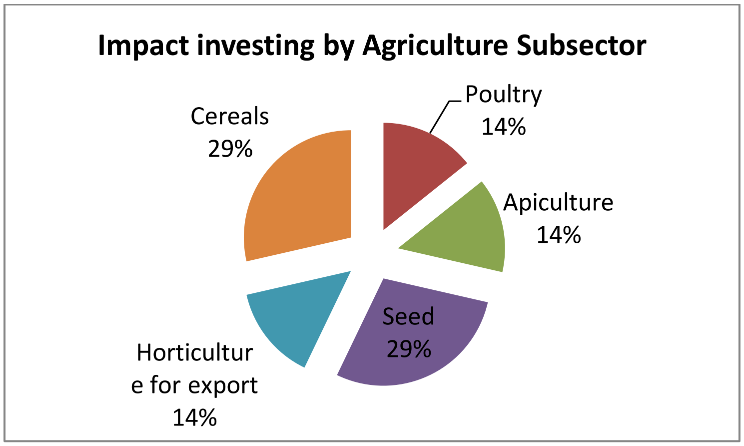
Table 1: Summary Analysis of Investment Funds in Uganda

Category	Investment Fund
Agribusiness Specific Impact investors	1) Pearl Capital Partners 2) Voxtra East Africa
Other impact investors (nor restricted to agribusiness)	3) Acumen Fund 4) Root Capital 5) Grofin 6) DOB Equity 7) ONII 8) ICCO Investments
Venture Capital Firms	9) ACTIS 10) TBL Mirror Fund 11) Abraaj Group
Government supported funds	12) Youth venture Capital Fund
Upcoming Funds	13) EU SME Agribusiness Fund

Sectors of interest as per current active investments :



Most of the financing by Impact investment and venture capital funds to date are directed at businesses within Agricultural value chains. This finding aligns well with the fact that most Ugandans are dependent on the Agricultural sector for their livelihoods. Most impactful opportunities for catalyzing social impact-inclusion of rural, poor yet enterprising Ugandans are presented through Agribusinesses SMEs. The analysis below further analyses the investments todate by subsector and agribusiness activity.



Impact investments within the agribusiness, are currently directed towards a variety of subsectors and business activities. The focus on cereals and food processing, is clear, and aligns well with national statistics that indicate that food processing accounts for up to 40% of total manufacturing activity in Uganda.

Additional take-outs from the analysis above:

- It is important to note that one of the investments in the cereals category relates to Primary production activity- large scale farming initiative in Northern Uganda. This is important affirmation that investments in primary production are viable (they are often perceived as too high risk by investors and banks)
- The investment in Poultry (Biyinzika International) has further demonstrated the viability of good prospects in the agribusiness sector having succeeded in attracting successive impact investments through different funds (supported both by Pearl Capital and Voxtra East Africa. This reaffirms (i) the high potential in the poultry sector, and more so (ii) that profitable exists from impact investments are achievable-good news for what might be perceived as high risk SME investments.
- The cereals and seed subsectors as evidenced above, represent the highest level of economic activity in Agriculture. This makes them high prospects for the identification of viable Agribusiness investments; Investments in cereals above relate to (i) Large scale mechanized primary production, (ii) bulking, drying, cleaning and sell of grains. And the investments in Seed companies are primarily driven by the high and constantly growing demand for high quality and hybrid seeds in Uganda.

What emerges is simply that current investments from Venture capital and impact funds in Uganda are extremely limited in number relative to the (i) existing need and (ii) opportunity available. Investments so far undertaken reflect a positive move to address Agribusiness SME needs-typically the main SMEs caught in the ‘missing middle’- too big for Microfinance and yet too small, too risky, too unattractive for conventional banking finance.

Ranking along an investment continuum

The illustration below categorizes venture funds by degree or level of financing. Each fund has a threshold below which it is not willing to invest. It is immediately apparent that there are funds participating across the all key financing ranges. This ideally means that the venture capital market in Uganda can indeed cater to the needs of most SME’s. The reality is different. It is important to recognize that there is a disproportionately higher need for funds at or below the $100K range as this category represents the highest financing needs for the emerging SME sector in Uganda today. The high costs and risks associated with these SME’s however reflect the limited number of funds participating at this level.

<=$100,000	$100k-$1m	$1m-$2.5m	$2.5m-$5m
➢ Yunus Business Fund ➢ Mango Fund ➢ Root Capital ➢ GoU Youth Fund	➢ ICCO Investments ➢ ONII ➢ Grofin	➢ Pearl Capital Partners ➢ ICCO Investments ➢ DOB Equity ➢ Voxtra ➢ Acumen Fund	➢ ACTIS ➢ TBL Mirror Fund ➢

A key lesson is that more impact funds that provide lower financing thresholds (<=$100K) are required to ‘recruit’ SME’s into the impact investment pipeline, from where they can grow and graduate towards higher thresholds as they become more successful. It is important for impact funds to address this issue and reorient themselves to be more relevant to the existing needs of the market.

Incubator services

Several business incubators are currently identified in Uganda. The leading incubators for SME's particularly in the Agribusiness sectors are summarized below:

University based Incubators:

(i) Consortium for Enhancing University Responsiveness to Agribusiness Development (CURAD): Is a public-private partnership initiatives promoted by Makerere University, the National Agricultural Research Organization's (NARO) among others. Its aim is to catalyze innovative business ideas and entrepreneurs in agribusinesses. Several noteworthy businesses have been successfully incubated, and are young and growing businesses in Uganda. CURAD are an important collaboration partner any venture funds participating in agribusiness development.

(ii) Renewable Energy Incubator: Based at the college of Engineering Design, Art and Technology at Makerere University, the Incubator welcomes business ideas from local entrepreneurs and SME's in Uganda. Incubator is supported by the Nordic Climate Facility project. Incubator participates in a strategic sector that is currently attractive in terms of creating appropriate BoP solutions such as solar lamps, and solar chargers. AN important partner for Initiatives catalyzing social impact.

(iii) The Food Technology Business Incubation Centre: While this Incubation centre is primarily aimed at providing a teaching and research infrastructure for the University students, it is also open to Industry, to provide process and product development support. It has been used by several food SME startups and existing SME's developing new processes and product lines.

(iv) Makerere University Business School Incubator: Is currently under process of being set up.

Private Sector Based Incubators:

(v) FinAfrica: Is a private not for profit one stop enterprise Incubation, training and advisory centre. FinAfrica empowers small businesses, and provides incubation through a packaged service that includes office infrastructure support, mentorship, and business skills training. FinAfrica is not sector specific but caters more towards the Micro SME categories.

(vi) Mara Launchpad: Is an initiative of the Mara Foundation in partnership with Angels Finance Cooperation, and targets young entrepreneurs across Kampala. It is an action packed business incubation ecosystem that fosters the growth of small startups or expanding business that lack the required tools and support to achieve structured growth. It equally provides incubatees with affordable “office infrastructure”- including furniture, boardroom, internet access, and meeting areas, for a fixed monthly fee. Additional Incubation support services include access to BDS, Mentorship and promotion.

Public Sector Based Incubators:

(vii) Uganda Investment Authority: Uganda Investment Authority (UIA) in partnership with CURAD (see above), is jointly undertaking the development of a modern Agribusiness Incubation facility for Small and Medium Enterprises (SME’s), and has set aside land at the Kampala Industrial and Business Park, Namanve for the purposes of the construction of an multi-purpose MSME Incubation Centre. The centre shall support the following subsectors (i) agro-processing of fruits for juice and wine (ii) textile, art and craft (iii) metal fabrication (iv) leather and (v) furniture. The centre will also provide advisory and access to important support services to SME’s including (a) Company Registration (b) Taxation issues (c) Environmental compliance (d) Land ownership verification and (e) work permits and visa clearances.

Demand Analysis

The demand analysis explores areas of potential demand for impact Investments in Uganda, and looks as well at the current structure of the SME environment in Uganda. Insights from this section can be useful in prioritizing sectors and subsectors for further focus.

Sector analysis per National performance& priorities

The key drivers of Uganda’s economy are the ***Agriculture, forestry and fishing sectors*** (contributing 23.2% of GDP) (UBOS 2013), ***Industry sector*** (26.6% of GDP, of which formal sector accounts for 6% GDP, and informal 2% of GDP) and the ***Services sector*** (44.7% GDP).

Focus on the Agricultural sector- the rationale

The Agriculture sector in Uganda is further categorized into (i) Crop (14% of GDP), (ii) Fisheries (2.8% GDP), and (iii) Livestock (1.9% GDP) subsectors. This sector however remains the major source of employment with about 66% (UNHS 2010) of the country’s working population engaged in and earning their livelihood in Agriculture.

In addition, an analysis of manufacturing activity indicates that up to 65% of total manufacturing activity is derived from the processing of (i) food (41%), drinks and tobacco (18.5%), and textiles, clothing and footwear (5%), industry activities that catalyze inclusion into markets of small holder primary producers.

Agribusinesses have been prioritized by government to play a crucial role in catalyzing the realization of the 2040 Vision- the transformation of Uganda from a peasant country to a modern and prosperous upper middle income country within 30 years.[4] Accordingly Government has earmarked a number of agricultural subsectors which will be prioritized with the promotion and setup of agribusiness enterprises. These prioritized commodity areas are:

(i) traditional export crops: (coffee, tea, cotton)
(ii) cereals (maize, rice)
(iii) fish;
(iv) legumes(beans);
(v) tubers (cassava, Irish potatoes);
(vi) livestock (dairy, cattle, beef, cattle, goats and poultry);
(vii) fruits (citrus, pineapples and apples)

The subsectors with the highest opportunities for catalyzing social impact through impact investments are explored further below:

High Potential Agribusiness Sectors

Cereals: Formal and well run Agribusinesses focused on cereals can be found at all levels of the value chain including (i) primary production- large mechanized farms (ii) value addition- cleaning, drying, storage and milling (iii) commodity trading and (iv) food processing- with several mills and food packaging companies registered.

Maize is regarded as the most widely consumed cereal in Uganda, and the most common staple in Sub-Saharan Africa, produced primarily be small holder farmers, although a number of large scale mechanized farms have emerged. Uganda produces about 2.7Bn Metric tons of Maize (FAOSTAT 2012), and actively supplies the demand across the Region.

Rice production in Uganda is growing especially with the introduction of Upland rice varieties that have created significant opportunities for smallholder participation. Uganda's current production is about 212,000 MT (FAOSTAT2012), not enough to meet local demand, leaving the country as a net rice importer. Both commodities therefore present strategic opportunities for impact investments.

Livestock: The poultry and Dairy sectors present the highest opportunity for impact investments within the livestock sector.

Poultry: First the growing and unmet demand for poultry products (broilers and eggs) by both the local and regional markets makes investments in Poultry extremely viable. The evidence of Impact funds which

[4] Uganda's National Development Plan, 2011-2014.

have already identified and invested behind Biyinzika Enterprises, a leading local producer of day old chicks, broiler meet, and poultry feeds, further solidify the potential in the sector. Poultry production is essentially done by small holders, and has significant opportunities for social impact. The opportunities for additional investments in this subsector remain abundant.

Animal Feeds: Additionally, poultry and other animal feeds are recognized as the drivers of the high and erratic prices of chicken meat and egg products. Feeds are based largely on maize as the primary ingredient, creating pressure on demand for maize with human consumption. It is nevertheless, reasonable to conclude that SME's that can achieve lower production cost models (e.g. through bulk purchase of ingredients during low price season) have the potential to significantly transform the feeds sector, increase social impact, while achieving stellar business performance. To achieve this will require access to appropriate technology as well as adequate capitalization. Impact financing can catalyze this opportunity. The significance of low cost animal feeds and its impact on BoP suppliers (through increased purchase of grains) as well as on consumer diet and lifestyle improvements (through cheaper access to healthy protein sources such as chicken meat) cannot be overemphasized.

Dairy: It is estimated that the Uganda dairy sector produces about 1.5 billion liters of milk, only 70% of which is sent from households/farms to the market. Of this marketed milk only about 15% is processed and sold through formal market channels. This formal segment is dominated by large corporation Sameer Agricultural Livestock – which controls about 70% market-share of the formal milk market. A number of SME's are however emerging within this formal milk sector including (i) JESA farm Dairy (Ii) Hillside Dairy (iii) Maama Omulungi Dairy (iv) Paramount Dairies (v) Birunga Dairy among others. The large size of the informal market presents both an opportunity and risk for investments in Dairy. Part of the reason for limited impact investments in Dairy sector is the difficulty of establishing new ground within the small "formalized milk segment". On the other hand, innovative businesses models that can tap into the opportunity presented by the informal segment can achieve significant business performance, while further benefiting the small holder farmers, and the Dairy industry generally through increased formalization of the sector.

Beef: Per capita consumption of beef is about 6.0 kg/person/year, although supply is also unable to meet current demand, with the slow growth in beef supply driven by the prevalent subsistence production systems of cattle farming. There is very limited transition to commercial production in the beef subsector. Formal meat processing is a near monopoly with single company-Quality/Fresh cuts- dominating the market for packaged retail cuts and processed beef. With a throughput of about 11 tons of fresh meat, the company covers about 85% of the Kampala processed meat market. To a lesser extent there are a few (less than 10) other small competitors in the processed meat segment including (i)Sausage King and (ii) Your Choice SME's. The majority of beef (75-80%) is sold fresh through the so called roadside butcheries. Limited opportunities are sighted here, as the demand channel for beef is likely to remain driven by roadside butcheries, rather than meat processors for the foreseeable future.

Fish: The majority of fish processing companies are tapping into the export market. Fish is currently Uganda's leading non-traditional export commodity. The bulk of the fish consumed in Uganda, is bought fresh from the markets, or brought after local preservations (smoking, and salting). Whereas, there SME processing of fish would indicate attractive business opportunities, the opportunity for social impact is also equally limited to the small body of fishermen in the country. Opportunities to scale through SME support are therefore not significant. For this reason, while businesses in this subsector can be very lucrative, this would not be a recommended sector to pursue with impact investments

Legumes: Beans are mostly a food crop and are not subjected to any meaningful kind of value addition, except for cleaning and drying to meet large buyer or export standards- which accounts for limited volumes of total consumption. The majority of beans are traded within the local markets. No impact investments opportunities sighted from this subsector

Tubers: Both cassava and Irish potatoes are being increasingly subjected to value addition through SME's. Cassava in particular is increasingly sought as a starch source in the beer brewing Industry. Additionally cassava is increasingly channeled through local mills where it is processed into cassava flour for home consumption. Irish Potatoes on the other hand are being developed into potato chips, through the efforts of a single company in the upcountry area of Kisoro and being packaging for export. Other than these initiatives, tubers are a food crop, traded in village markets with limited value addition applications.

Fruits: Several companies can be identified that are currently adding value to fruits, producing a range of products including juices, and dried and packaged fruits for the local and export markets. Untapped opportunities exist for additional value addition, such as in the production of fruit pulp for export. Fruit processing has a strong social impact, as the primary production of fruits in Uganda is primarily by small holder farmers. It therefore creates strong prospects for impact investments. One of the key challenges of the sector at the moment, is the high proliferation of small businesses all producing relatively homogeneous products for the local market, making it a currently very competitive market space.

Other Sectors of Interest:

Energy: Solar Power Solutions: The experiences of solar companies such as Solar Now and Barefoot power, both of which have secured impact investor funding, demonstrate the significance of the opportunity in the provision of solar solutions. These solutions are not only profitable but satisfy a key need of consumers at the bottom of the pyramid for clean energy sources. The increased success of tailor made solar products is accelerating the demand for these products, and impact investments are important if growth in demand is to be matched with supply.

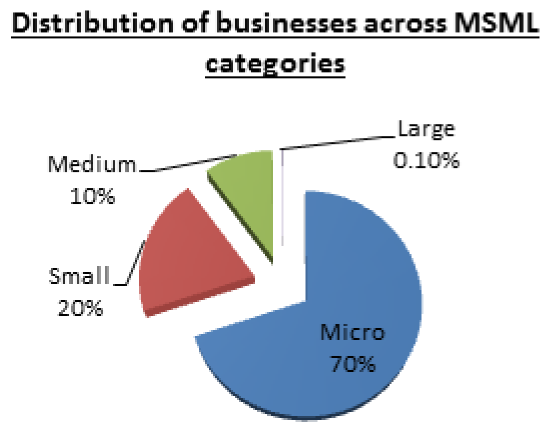
Menstrual Hygiene Solutions: Leading local companies in the supply of menstrual hygiene solutions such as Capstone- supplier of the Secrets brand of sanitaries- are convinced that there is significant untapped opportunity for growth of this sector among the lower income communities in Uganda. Current disposable products are priced above the ability of most rural and urban poor to afford. Achieving lower price points (about 1,000 shs per pack of 8 versus current cost in the range of 2,500 to 4,000) which are feasible according to industry experts, will unlock the latent demand from low income women and school going girls.

SME's in Uganda

This section quantifies the actual size of the SME sector based on recent national statistics.

Size of the SME Sector

The SME sector as stated in the Uganda SME policy comprises about 1,100,000 enterprises, employing about 2.5 million people of the total of 34.9 million and contributing about 75% of the country's total GDP. The Census of Business Establishments (COBE) (UBOS 2010-11) however reveals the existence of only 458,106 formally registered enterprises highlighting the considerable size of the informal business sector. Of the formally registered businesses, the majority are micro enterprises



Analysis of Agribusiness as per the COBE

Industry sector	Businesses
Agriculture	4,985
Forestry	54
Fishing	3,146
Mining & Quarrying	713
Food Processing	5,966
Other Manufacturing	25,791
Utilities	134
Construction	653
Trade	279,715
Transport & Storage	1,594
Accommodation & Food Services	64,602
Information & Communication	4,109
Financial & Insurance Services	3,340
Real Estate & Business Services	10,945
Education, Health & Social Work	10,593
Recreation & Personal Services	41,766
Total	**458,106**

Inclusive Agribusinesses – those seeking to purposely include smallholders as strategic partners into their supply chains are identified mostly within the agribusiness and food-based manufacturing sector.

Agriculture sector which comprises 4,985 enterprises relates mostly to primary production. Businesses at this level are increasingly including large scale mechanized farms that would be suitable, and attractive for impact investments (typical example Northern Uganda Agricultural Ltd-NUAC in Gulu)

The food processing sector, accounts for 18% (about 5,966 SME's by 2010-11) of total manufacturing business, generating however up to 60% of total manufacturing activity. . (COBE 2010-11). There is a significant size of businesses in food processing from which good prospects for impact investments can be identified.

These statistics are important. Their key message is that there are SMEs in Uganda that are formalized, registered, that are catalyzing BoP inclusion. By being registered they can be located. This information provides a good platform for further prospects for impact investments to be identified.

Key Conclusions

1) **Substantial opportunities are available for Impact Investments** in Agribusiness SMEs. Sector analyses above have adequately highlighted high numbers of impact investment prospects. Equally however, based on the supply challenges in accessing financial services, Business Development Assistance, remains a necessary service to transform many of these prospects into investable businesses

2) **Critical role to fill the financing gap:** Role of Impact investment will be critical in accelerating the growth of SMEs and catalyzing Inclusive business, especially as most emerging SMEs will continue to be perceived as high risk or relatively small sized investments for banks in the short and medium term.

3) **Relevance for Ugandan SMEs means lowering threshold:** The provision of impact financing for SME's with smaller financing needs is critical. SME's are positioned at high financing ranges, but the vast majority of SME finance needs are in the lower ranges. Funds need to address the challenges of investing to smaller SMEs so as to become more relevant, and quickly build pipeline.

Appendix: Analysis of Impact Investment Funds active in Uganda

	Organization/Program	Fund Size & Presence	Geographies	Sector focus and Funding Requirements	Typical Investment Size/Funding Amount	Investments in Uganda
1	**Pearl Capital Partners:** A Specialist agriculture investment firm that has been investing in small and medium sized East African agribusinesses since 2006. The funds managed by the company were set up to address the 'funding gap'- lack of small business finance holding back large numbers of potential enterprises in Africa. http://pearlcapital.net	Manage 2 funds: ➢ **$25**m African Agricultural Capital Fund and ➢ **$12**mAfrican Seed investment fund	Present in 1) Kampala 2) Nairobi	Fund invests across all areas of the Agricultural sector on Agribusinesses and across all segments of the value chain- including primary production.	$250,000 to $2,500,000	1) Bee Natural Uganda 2008 2) NASECO (2010) 3) Farm Input Care centre (FICA) -2010 4) Northern Uganda Agricultural Centre (NUAC)-2012 5) Biyinzika Poultry International Ltd -2013 6) KK Foods -2104
2	**Voxtra East Africa Agribusiness Fund**: Invests in capital constrained agribusinesses that play a pivotal role in improving livelihoods of smallholder farmers Institutional investors include Norfund as the anchor investor http://voxtra.org http://www.norfund.no/easter	**$18m**	Focus areas 1) Uganda 2) Kenya 3) Tanzania Other areas that will be considered to include: 4) Burundi, Ethiopia, Mozambique &Zambia	Fund invests in all segments within agriculture, aquaculture and forestry, and across all segments of the value chain.	$500,000 to $2,000,000	1) Biyinzika Enterprises Ltd -2010
3	**Acumen Fund** The impact investment fund has been investing in East Africa since 2001, and the East African portfolio is one of its largest under management. Investments span across several sectors, and across East African countries.	**$103m** **Total assets under management as at Dec 2012.**	Present in 1) East Africa (Kenya, Uganda & Tanzania & Rwanda) 2) West Africa 3) India 4) Pakistan	Not restricted to sector, but rather focuses where Investments will generate significant social either through market access for BoP suppliers or access to products and services for BoP consumers		1) Gulu Agricultural Development Company 2) Solar Now

	Organization/Program	Fund Size & Presence	Geographies	Sector focus and Funding Requirements	Typical Investment Size/Funding Amount	Investments in Uganda
4	**GroFin** A pioneering SME development financier specialized in financing and supporting small and growing businesses, leveraging patient capital and specialized business support. Grofin specifically seeks to generate, employment, strengthen value chains and build markets- thereby catalyzing Inclusive growth and improved livelihoods through its investments www.grofin.com	>$320m in committed capital Grofin manages 7 funds on behalf of 24 international investors	Present in 12 countries including 1) Uganda 2) Kenya 3) Tanzania 4) Rwanda	Grofin supports local owned and managed businesses across a range of sectors and business stages, but does not invest in primary agriculture.	$50,000 to $1,500,000 USD	1) Real task Agencies 2) Chims- a mobile money company
5	**DoB Equity** DOB Equity invests in companies that will positively contribute to a more social and sustainable society and deliver long term profitability. The firm, set up by a Dutch entrepreneurial family, who are its only source of capital, is an evergreen fund, with all proceeds from investments reinvested into the fund.	Not specified	DOB is an East African focused fund, it currently has investments in 1) Uganda 2) Kenya 3) Tanzania 4) Burundi	DOB is particularly interested in companies in: • Agribusiness and food • Natural resources • Retail and distribution • Waste • Mobile technology enabled services • Clean energy	€250,000 to € 2,000,000	1) Joseph Initiative 2) BareFoot power
6	**Root capital:** A non-profit social investment fund that grows rural prosperity in poor, environmentally vulnerable places in Africa, by lending capital, delivering financial training, and strengthening market connections for small and growing agricultural businesses	$88m in invested capital	Global Footprint present in 1) East Africa 2) West Africa 3) South America 4) Central America 5) Mexico & Caribbean	Root Capital works primarily small agribusinesses, and farmer associations. Most common form of financing is trade credit	$50,000 to $2,000,000	Several clients supported with short term trade credit facilities
7	**ONII** A new fund set up by Oxfam to provide financing to Inclusive businesses profitably and sustainably catalyzing social impact	Not specified	Present in 1) Uganda 2) Nigeria 3) Vietnam	• Not sector specific but welcomes SME's with a clear social impact.	€100,000 to €500,000	Sourcing pipeline currently

	Organization/Program	Fund Size & Presence	Geographies	Sector focus and Funding Requirements	Typical Investment Size/Funding Amount	Investments in Uganda
8	**ICCO** ICCO Investments targets high impact SME's that are not able to attract capital for their businesses at affordable conditions mostly because their risk profile. http://icco-investments.org	Not specified	Focus areas in East Africa include 1) Uganda 2) Kenya 3) Ethiopia 5) Rwanda Other areas include ICCO regional offices in South & Central America, West Africa, Southern Africa and Asia.	• It invests in social businesses that have a clear positive social and or environmental impact combined with feasible commercial strategy towards financial stability and independence	€ 200,000 to - €800,000	Sourcing pipeline currently
9	**Yunus Business Fund** Yunus social business invests in companies addressing social problems in their communities, and supports these businesses to do so in a financially sustainable way. Pioneered by Muhammad Yunus and headquartered in Germany, the company started operations in Uganda in November 2013	Not specified	Present in Uganda, and other countries including: 1) Albania 2) Brazil, 3) Haiti 4) Colombia 5) India	• Targets Social businesses-SME's that are addressing social ills in society.	<=$50,000	Sourcing pipeline currently
10	**Small and Medium Agribusiness Fund** Is a new fund only commissioned in August 29014, between EU and Government of Uganda, that will focus on Agribusiness SME's	€ 35m	Only for Uganda	• Agribusiness SME's	tbc	Currently sourcing fund manager, and partner funders.
11	Youth Venture Capital Fund		Government of Uganda UGX 25 billion venture capital fund for supporting growth of viable and sustainable SMEs by the youth in the private sector.	• Business must have been in operation more than 3 months • Target youths aged 18-35 • Eligible sectors include: manufacturing, agro-processing, primary agriculture, fisheries, livestock, health, transport, education, ICT, tourism, construction, printing and service contractors among others.	UGX 100,000 to 500,000	http://www.finance.go.

	Organization/Program	Fund Size & Presence	Geographies	Sector focus and Funding Requirements	Typical Investment Size/Funding Amount	Investments in Uganda
12	**Abraaj** The Abraaj group is a leading investor in growth markets, managing $7.5billion in assets, and present in over 25 offices in Asia, Africa, Latin America and the middle East.	$7.5billion	Global	Not specific		3) Vine Pharmaceuticals 2012 4) UAP insurance 2012
13	**Actis** A private equity firm investing exclusively in Africa, Asia and Latin America	**$6.5bn**	Global	Not specific		1) UMEME
14	**TBL Mirror Fund**		Global	Not specific		1) International Medical Group.