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FEASIBILITY INTO PROPOSED INCUBATOR/ACCELERATOR FOR SMEs IN UGANDA

UGANDA

DFF FEASIBILITY STUDY REPORT

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ACRONYMS

Acronym	Definition
AfDB	African Development Bank
BDS	Business Development Services
BoU	Bank of Uganda
BPO	Business Process Outsourcing
BVRM	Bourse Régionale des Valeurs Mobilières
CDS	Central Depository Services
CMA-K	Capital Markets Authority of Kenya
CMA-U	Capital Markets Authority of Uganda
CMU	Capital Markets Union
CSE	Casablanca Stock Exchange
DFF	Deal Flow Facility
DFI	Development Finance Institution
EADB	East African Development Bank
EAVCA	East Africa Venture Capital Association
EED	EU Economic Diplomacy
EIB	European Investment Bank
ESG	Environmental, Social and Governance
EU	European Union
EUR	Euro
FSDA	Financial Sector Deepening Africa
FSDU	Financial Sector Deepening Uganda
GAX	Ghana Alternative Exchange
GBP	Great Britain Pound
GDP	Gross Domestic Product
GEMS	Growth Enterprise Market Segment
GP	General Partner
IFC	International Finance Corporation

Acronym	Definition
KASIB	Kenya Association of Stockbrokers and Investment Banks
LP	Limited Partner
MENA	Middle East & North Africa
MTF	Multilateral Trading Facility
MoFPED	Ministry of Finance, Planning and Economic Development
MSME	Micro, Small & Medium Enterprise
NIISP	National ICT Initiatives Support Programme
NSSF	National Social Security Fund
NSE	Nairobi Securities Exchange
PSFU	Private Sector Foundation of Uganda
RSE	Rwanda Stock Exchange
SEMDEM	Stock Exchange of Mauritius Development & Enterprise Market
SME	Small and Medium Enterprise
TA	Technical Assistance
UBA	Uganda Banker's Association
UDB	Uganda Development Bank
UDC	Uganda Development Corporation
UGX	Uganda Shilling
UNFPA	United Nations Population Fund
URBRA	Uganda Retirement Benefits Regulatory Authority
USD	United States Dollar
USE	Uganda Securities Exchange
ZAR	South African Rand

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EXECUTIVE SUMMARY

The assignment undertaken falls under the European Union's programme to improve the investment climate across partner states in Africa. In Uganda, the programme is being executed in partnership with the Private Sector Foundation of Uganda (PSFU). Specific interventions enshrined in the "Europe-Africa Alliance on Sustainable Investments and Jobs" cover:

i. Creating more fluidity in vital economic value chains and the enabling infrastructure;
ii. Improving access to finance via a combination of sub-initiatives such as the creation of an investment fund, guarantee schemes for small and medium enterprises, and the provision of blended finance;
iii. Strengthening enterprise capacity through incubators;
iv. The creation of a dialogue platform that allows for direct engagement with the private sector, policy developers and relevant regulators; and
v. Taking vital lessons from ongoing programs to further enhance the economic value proposition offered by the EU.

In 2019, the EU commissioned a research report that dug into the structural and systemic impediments affecting financial infrastructure in Uganda. Several recommendations were borne out of that research that in turn fed an action ledger comprised of three interventions among which is this feasibility study. This feasibility study was commissioned to establish whether the establishment a facility that bridges the gap between non-bank finance and small, medium and growth enterprises in Uganda is justified. I was initiated by the Capital Markets Authority in Uganda (CMA-U) The assignment in broad terms required:

i. Regional and international references of similar entities providing incubation and acceleration services for SMEs;
ii. The local dynamic from the perspective of a number of key stakeholders;
iii. Recommendations stemming from body of work in (i) and (ii) above;
iv. A key stakeholder consultation on findings incorporated in a draft report; and
v. The submission of a final report.

A top-bottom approach was used to frame the logic of the assignment in which the first aspect was to emphasize the fact that the provision of risk capital is part of a complex entrepreneurial ecosystem. For enterprise to thrive, multiple cogs have to turn at the same time. There was recognition that risk capital will always meet with entrepreneurial effort but its flow is made much easier when the right enabling infrastructure and policies are in place.

The efforts of the CMA-U in promoting alternative capital in the market is duly recognized. The CMA-U has for a number of years run several market development and investor education programmes. The CMA-U identifies Access to Finance (challenges with) as a key impediment to growth for SMEs in Uganda. Rigid forms of finance that come at a high cost and are delivered over short tenures restrict the ability for SMEs to grow in a country where approximately 90% of jobs are generated by small enterprises. In spite of the CMA-U's efforts, the capital markets still haven't taken off in Uganda: the market capitalisation of the local counters of USE is just 3.4% of GDP (the October 2019 rebasing of Uganda's economy increased GDP for the FY2018/19 by 11.6% to UGX 122.7T from the previously stated UGX 109.9T thereby pushing this ratio even further downwards). It is also important that the definition of what a small and medium enterprise means for the Uganda setting.

There is now a sense of clarity across the finance industry in Uganda on some of the issues that continue to impede the uptake of non-bank capital via the capital markets and unlisted equity. All the challenges can be mapped across the canvass of the entrepreneurial ecosystem. A key standout is the 'investment readiness' of enterprises on the back of skills deficits, a lack of governance structures or simply not being aware of options that are available in the market. On the other hand, it is noted that fund managers have to adopt and innovate and furthermore, market intermediaries and advisors require an understanding of the best way in which their skills can work in bringing transactions to closure.

The issue of balancing expectations and needs of supply and demand side of capital is unique to Uganda. The secondary research aspect of the study explored entities with similar features that have been established in other jurisdictions. The inquiry zeroed in on the IBUKA programme in Kenya, Capital SME in Ghana, ELITE in Morocco, and the ELITE Network in London. There was also a detailed assessment of the growth enterprise and SME business segments in various stock exchanges across Africa. The Nairobi Securities Exchange (NSE) -driven IBUKA program was singled out for a familiarisation visit in which the spectrum of stakeholders from the stock exchange, the capital market regulator, private equity investors, market intermediaries cohort companies were interviewed. A key learning from that experience was the fact that IBUKA required all stakeholders to agree on what made sense for their market. Another takeaway was that the initiative needs as to have as much local flair as possible.

The lessons from IBUKA set the scene for the primary interrogation on the local front. This had two aspects to it:

i. The canvass of fund managers, policy shapers and investment intermediaries which took the form of open-ended interviews; and
ii. An online survey commissioned and shared with an extensive list of businesses

The institutional stakeholders raised a number of points on impediments to progress for which some solutions require revisiting policy at government level while others are market-oriented. That there is no policy around Private Equity and Venture Capital investment in Uganda is an issue that requires addressing. The aspect of alignment between funder and potential investee ranked high as did the need for the due diligence processes to be sensitive to the business environment on one hand (funder's perspective), and the fiduciary obligations of fund managers to their investors on the other (enterprise perspective). All parties including intermediaries pointed out that businesses need guidance on matters operational and strategic.

The preceding tallied with the online survey that was commissioned. The survey was fashioned along the assignment ToRs, findings from the secondary research, and insights provided by the local institutional stakeholders.

The respondent pool was exclusively established companies within the small to medium segment. Choice in respondents and the selection thereafter were informed by a number of partner databases including PSFU, CMA, and the EU, referrals from fund managers and advisors, and the consultant's own contact list. Respondents were informed that the survey's aim was aim is to ascertain whether businesses in Uganda have appetite for an entity that improves their ability to access non-bank finance from private equity, venture capital and the capital markets.

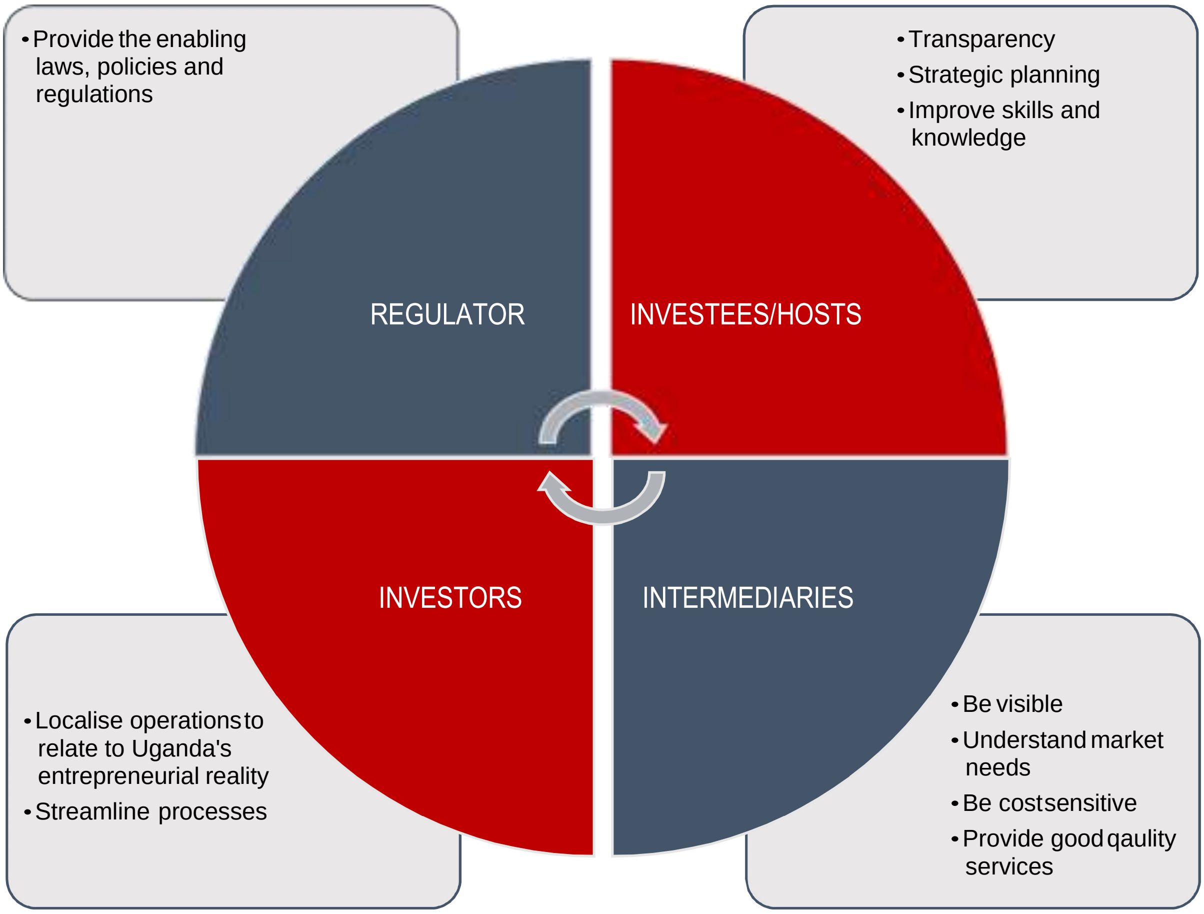
The survey run between February 11 & March 10, 2020. In total, the survey was circulated to 378 companies which triggered 168 dedicated visits to the survey online site for which 75 responses for the whole survey were registered (an additional response was completed by the consultant for testing purposes). This translates to a conversion rate of 45% for survey visits.

Question themes aligned with the TORs, secondary research and interviews carried out with non-investee stakeholders are captured in the table below:

QUESTION THEME	ELABORATION	RATIONALE
1. TYPE OF SME ENTERPRISE WITHIN SUB-SEGMENTS	Different motivation for doing business among SMEs ultimately defines the sort of capital they seek. In this regard therefore, it is important to know what the business theme of the respondent SME is so as to map with funding opportunities	Research on 'The Missing Middle'. Are businesses Growth Ventures, Niche Ventures, Dynamic Enterprises, or Livelihood Sustainability Enterprises?
2. USE OF NON-BANK CAPITAL AMONG SMES IN UGANDA	Is the business exploring outside of the commercial banking space? What form of finance is it – aligned with definitions of funding instruments.	Awareness within SMEs of alternatives that are out there – feedback from stakeholders on limited knowledge
3. SOURCES OF NON-BANK CAPITAL AMONG SMES IN UGANDA	For those tapping into alternative finance – where are they deriving it from?	Spectrum of products covering equity and grant funds
4. CONSIDERATIONS IN SEEKING AN EQUITY INVESTMENT PARTNER	What should the finance provider bring to the table in addition to capital? Which aspects of strategy are most important to the SME if any? What about control? Are businesses happy to cede?	Measure of sophistication – will the enterprise need more than capital? Feedback on the aspect of ceding control as informed by market intermediaries and investors
5. CHALLENGES WHEN SEEKING EXTERNAL FUNDING	What are the hurdles in engaging with external providers of equity capital? Are the challenges external or internal? Are the advisors available and affordable?	Cross reference the DD process (lengthy duration of) and other issues raised by investors such as compliance
6. BASIC INFORMATION ABOUT THE COMPANY.	To confirm scale, years of existence and sector	Additional information to further describe the business

The survey responses reaffirmed the sentiments of the institutional inquiry. Most respondents confirmed that they would be keen to partner with investors who combined capital with strategic insights that would be useful for their business. Alongside that was the need for flexible long-term funding, and the desire to retain control. Companies thought that the due diligence and overall process to confirm investments is too time consuming, that advisors are too expensive and on self-reflection, that they needed to do some housekeeping. This tallies with the required services from advisors on compliance and governance, human resource management, understanding fundraising, and the need to develop digital strategies.

The research findings are summarized in the matrix below:



The resounding support for a facility to provide the right interventions in our market drawn from the entire spectrum of stakeholders is important. That's the validation we sought. It brings us back to the aspect of the enabling role that government has to play – in essence, there is no fluidity if the regulations do not speak to the needs of the market. To this end, there was emphasis on what structural changes are required in the market particularly on:

- ✓ Echoing global precedents where prerequisites for small, medium and growth enterprises to tap into the capital and private equity markets have been lightened;
- ✓ Other barriers such as tax policies should be removed;
- ✓ Within existing initiatives such as the Growth and Enterprise Market Segment on the Uganda Securities Exchange (USE), adjustments be made to attract companies to list;
- ✓ Creation of policies in country in order for investment funds currently domiciled offshore to register and raise funds locally; and
- ✓ Encourage the institutional investors to exercise the option to invest in private and listed- equity

IBUKA and ELITE Network from Kenya and the UK were reprised in order to understand their operational systems. The conclusion was that while they may have similar intentions and messaging, the methodology applied is different due to the unique circumstances of their environments. IBUKA champions publicity under their 'visibility' product while ELITE speaks to improved operational environment and networking.

The service scope is biased towards companies but also has offerings for intermediaries and fund managers. In summary:

QUESTION THEME	ELABORATION
1. ENTERPRISES	1. Strategy: design, alignment with financial goals, and communication of strategy. 2. Betterment with modules on growth potential, competitive position, business plan solidity, governance, organisation and management, risk profile, reporting, digitalization, sales and marketing, and funding 3. Acceleration: The fundraising process – deck preparation, DD packs, choosing the right funding mechanism, placement of debt or equity, and ongoing obligations
2. INTERMEDIARIES	1. Training on managing transactions to closure 2. Ethics 3. Ongoing obligations 4. Compliance
3. FUNDERS	1. First look service

The recommendations made in the final section of the report were framed within the objectives of the study. There is emphasis on what sustainability means for the facility and alongside that, the sequence of performance management especially in a case where a mostly tangible input in terms of financial resources for the facility is expected to arrive at intangible outputs in terms of impact. The structural, human resource, key partner, and timing parameters all stemmed from this foundation of sustainability.

There is comfort in knowing that across the world, similar initiatives mostly put impact outcomes ahead of financial because such is the nature of the intended intervention. At the centre of the facility's success will therefore be:

- ✓ Its ability to attract the right talent at executive and oversight levels;
- ✓ Should be lean and nimble structure that leverages off associations with key stakeholders;
- ✓ The smart use of digital platforms particularly the facility website for operations, client acquisition and information;
- ✓ That it is entrepreneurial in its own right – the ability to innovate within the dynamism of the local entrepreneurial landscape; and
- ✓ Does not canibalise the revenue streams of key stakeholders
- ✓ Shares material insights with decision makers on policy.

Practical aspects of the entity legal structure, personnel, location, processes, digitalization, branding, partners and revenues are tackled in detail. The funding estimate for 3 years is approximately EUR 1.3m for which the bulk will go towards the human resource element in terms of oversight and the executive team. The next stages post submission of this report entails the sanction of recommendations and commitment of resources, the design and construction of the programme, ensuring that the right people and relationships are in place, a pilot phase, and full-scale operationalization. The timeline anticipated to operationalize is a six months from sanction.

PART A:
UNPACKING THE TERMS OF REFERENCE

1 BACKGROUND

1.1 EU Investment Climate Initiative

An initiative under the EU in which a coordinated effort between the EU, the EIB, and member states with the aim of improving external policy and instruments, was recently launched in Uganda. The EED initiative focuses on adding an economic dimension to the relationship between the EU developing economies that goes beyond the traditional donor-recipient arrangement. It involves efficient capital mobilization, technical assistance on the matter of investment projects and helping to enhance the overall investment climate by tackling soft and hard impediments to the economic relationship between the EU and developing countries as well as EU investments domiciled in the same non-EU jurisdictions. Specific interventions enshrined in the Europe-Africa Alliance on Sustainable Investments and Jobs cover:

i. Creating more fluidity in vital economic value chains and the enabling infrastructure;
ii. Improving access to finance via a combination of sub-initiatives such as the creation of an investment fund, guarantee schemes for small and medium enterprises, and the provision of blended finance;
iii. Strengthening enterprise capacity through incubators;
iv. The creation of a dialogue platform that allows for direct engagement with the private sector, policy developers and relevant regulators; and
v. Taking vital lessons from ongoing programs to further enhance the economic value proposition offered by the EU.

Following a series of engagements held between the EU, the private sector, regulatory authorities and policy champions between December 2018 and June 2019 under the ***'Promoting EU and Uganda Private Sector Investments'*** program, a roadmap under the theme: ***'Sustainable Business for Africa Platform in Uganda'*** was formulated to establish the Uganda EU Private-Public Dialogue Platform. The platform will be tasked with engaging Uganda and EU private and public entities in a policy dialogue for the improvement of the investment climate and business environment and exploring possibilities of new public-private initiatives.

The ongoing work of the platform will include the strengthening of Uganda and EU investment collaborations by initiating trade and investment promotion events. In addition to the establishment and running of the platform, this assignment will aim to ensure (via the platform) the monitoring, implementation and further elaboration of a series of roadmap responses from the preceding engagements: ***Skills and Attitude, Governance***, and ***Access to Finance***.

Specific to Access to Finance, a research report entitled ***Access to Finance: Diagnosis and Prescriptions'***[1] circulated in June 2019 included a number of immediate, mid- and long-term recommendations that would address the lingering structural and systemic constraints in the financial landscape in Uganda. Included in this was a component within the capital market that the EU opted to act upon in the next phase. This intervention as originated by the CMA, stipulated the need to appraise the feasibility of a proposed Deal Flow Facility "DFF". The DFF combines incubator and accelerator services targeting established businesses with the view of preparing them for debt and equity capital through private equity and the capital markets. There terms of reference for the assignment are:

i. Carry out a study of scenarios where "Deal Flow Facility" have been used in private sector development in Uganda and similar jurisdictions in Sub Saharan Africa;

[1] D. Ofungi, AECOM, Access to Finance: Diagnosis & Prescriptions, 2019

ii. Determine and establish actual services the “Deal Flow Facility” should ideally include to represent an added value for companies and investors and an assessment of local business service providers ability to meet the demand;
iii. Carry out interviews with private companies to assess their needs for financing and with potential investors, especially private equity funds, to assess their priorities when evaluating Uganda as a potential investment destination;
iv. Conduct a cost-benefit analysis to estimate the added value of the “Deal Flow Facility” including an assessment of how best the long-term economic sustainable of the "Deal Flow Facility" can be ensured;
v. Develop the layout of a possible future “Deal Flow Facility” including how business service providers and public entities could be linked to the initiative;
vi. Propose organizational structure of the “Deal Flow Facility”, including HR needed, an appropriate body to house the facility and a proposed sustainable financial structure; and
vii. Present and discuss initial findings of the proposed layout of a “Deal Flow Facility” at a private-public consultation with selected stakeholders before the finalization of the feasibility study.

1.2 Compliance with the ToRs and key stakeholder’s feedback

The report needs to conform with and address the tasks specified in the ToRs. Included in this are the comments arising from the key stakeholder engagement in an inception meeting held on ***November 9, 2019*** in which the CMA, the EU, and FSDU were in attendance.

The adjustments in substance and sequence agreed to by the stakeholders were embedded in the proposed. In brief:

TERM	COMMENT
Carry out a study of scenarios where “Deal Flow Facility” have been used in private sector development in Uganda and similar jurisdictions in Sub Saharan Africa.	The consultant brought out the fact that secondary literature referenced facilities in Morocco, Ghana and Kenya. The investigation was aided by a CMA-U authored *“Deal Flow Facility in Uganda: pre-study and market assessment”* that narrowed-down the list to Ghana’s Capital SME and Kenya’s IBUKA programs.
Determine and establish actual services the “Deal Flow Facility” should ideally include to represent an added value for companies and investors and an assessment of local business service providers ability to meet the demand.	Included in the study – informed by a spread of consultations with important stakeholders covering policy and regulator, investors, investees, and market intermediaries. This also extends to findings from the secondary research in 1 above.
Carry out interviews with private companies to assess their needs for financing and with potential investors, especially private equity funds, to assess their priorities when evaluating Uganda as a potential investment destination.	The consultant will interrogate the demand and supply side of capital. As an addition to the ToR, the supply side will extend to Pension Funds who as the core group of institutional investors in Uganda, are mandate to deploy capital straight into enterprise as well as through listed equity via the capital markets.
Conduct a cost-benefit analysis to estimate the added value of the “Deal Flow Facility” including an assessment of how best the long-term economic sustainable of the "Deal Flow Facility" can be ensured.	The consultant weighs the costs of establishing and operating the proposed DFF with direct and indirect outcomes accruing from its operations. The definition of sustainability needs to be universally acceptable.

TERM	COMMENT
Develop the layout of a possible future “Deal Flow Facility” including how business service providers and public entities could be linked to the initiative.	The structural aspects are framed by legal considerations, stakeholder representation, cost efficiencies, capital optimization, and fluid routes to the delivery of outcomes in a manner that is, accountable, transparent, nimble and free of unnecessary bureaucracy.
Propose organizational structure of the “Deal Flow Facility”, including HR needed, an appropriate body to house the facility and a proposed sustainable financial structure.	The consultant offers options that define the right set of skills required to deliver on mandate of the DFF, vehicle construct, affiliations and partnerships among others.
Present and discuss initial findings of the proposed layout of a “Deal Flow Facility” at a private-public consultation with selected stakeholders before the finalization of the research study and the recommendations are finalized.	The consultant will share the key findings in the feasibility with a pre-identified pool of stakeholder representatives for scrutiny and feedback before the final report is sanctioned

Table 1. T0R Compliance table

Adjustments that emerged from the inception meeting that fed into the agreed workplan are:

i. Eliminating the Ghana Capital SME program and Morocco-LSE ELITE initiative from the detailed research interrogation on account of them both speaking to segments that are not in line with the expectations of the DFF. Detailed research interrogation in this case refers to in-depth consultation with stakeholders involved in the set-up, operations, and providers/recipients of services in the said facilities. Overviews on the same are nonetheless presented.
ii. Including in the primary research, a familiarization visit to Kenya’s IBUKA program to meet with various stakeholders involved in the set-up, operations, providers/recipients of services of the facilities of IBUKA.
iii. Extending the survey scope to pension funds under the URBRA ACT (2011).

1.3 The DFF from the CMA-U perspective

Since the enactment of the Capital Markets Act in 1996, the CMA-U has carried out the dual role of providing oversight to and developing the capital market in Uganda. The CMA-U has over the years provided a number of investor education initiatives to further entrench in the capital markets as an investment option for both institutional and retail investors.

A recent campaign to drive awareness of the investment options promoted by the CMA-U involved the recruitment of resources persons drawn from current and former licensed and recognized investment advisors who were tasked with reaching out to groups of people across the country. The initiative reached out to over 15,000 people between 2014 and 2016 with positive results which translated into accounts being opened with brokers and CDS. A similar campaign targeting potential issuers in which a selection of ***Issuer Resource Persons****,* again drawn from experienced professional investment advisors, was initiated. This particular initiative targeted companies, institutions, organisations that would benefit from the issuance of shares and debt in the capital market.

The CMA-U identifies Access to Finance (challenges with) as a key impediment to growth for SMEs in Uganda. Rigid forms of finance that come at a high cost and are delivered over short tenures restrict the ability for SMEs to grow in a country where approximately 90% of jobs are generated by small enterprises. This thesis is in agreement with the findings of the June 2019 report. There is however an emerging consensus that the challenge goes beyond merely accessing finance attributed to the supply side of capital. Indeed, there are mechanisms that allow for businesses of all sizes to tap into flexible capital over longer tenures than bank finance via the capital market and PE. Still, the limited uptake of these alternative options is negligible at best; the market capitalisation of the local counters of USE is just 3.4% of GDP (the October 2019 rebasing of Uganda's economy increased GDP for the FY2018/19 by 11.6% to UGX 122.7T from the previously stated UGX 109.9T drove this metric even lower from the previous estimate of 6%)[2].

The demand side constraint and means to address it has become a central focus of financial sector regulators and development partners alike. Key to this is the need to enhance the sophistication of business owners with first of all increasing their knowledge of funding options outside of bank debt particularly debt and equity from the capital markets and Private Equity. Alongside this in multiple cases is the need to professionalise businesses though increased governance and transparency, improving management skills, and strategic planning and its execution.

The proposed Deal Flow Facility is a combination of an incubator and an accelerator. The former is anticipated to address the 'advisory' aspects where businesses are molded into 'investment ready' status through the provision of technical services that address strategy, governance, business operational aspects like Human Resource capacity, compliance on tax, environmental and social, and balance sheet efficiency that on a net basis help companies to succeed. The typical business incubator as defined from a universal perspective is associated with start-up or early stage businesses. Indeed, as is shown in this report, a number of seed- and early stage incubators are already operating in Uganda. It is however not unusual in emerging markets for businesses that have been in operation for longer to be 'incubated'.

Acceleration on the other hand, is more transactional – a stage up from incubation where businesses are raised to a platform where investors take comfort in the knowledge that the operating environment and strategic path of incubator graduates have been cleaned up and well-designed respectively.

The accelerator puts cohorts in front of potential investors for outside debt and equity capital to be injected into the businesses. The investors take comfort in knowing that the companies they explore have gone through a robust process of refinement to make them more receptive to outside capital.

[2] World Bank Group, *The World Bank in Uganda: Economic Overview*. https://www.worldbank.org/en/country/uganda/overview, 2019

PART B:
SECONDARY INQUIRY

2 UNPACKING THE ENTREPRENEURAL ECOSYSTEM

According to the Global Entrepreneurship Index[3], there are 14 components that are important ingredients in forging a vibrant entrepreneurial ecosystem. The system collates data to score countries using overall, individual and institutional, and pillar level scores. There is emphasis in their definition of an ecosystem, on the need for several subsystems that interact together in order to achieve some purpose. The ecosystem is ‘a purposeful collaborating network of dynamic interacting systems and subsystems that have an ever-changing set of dependencies within a given context’. An abundance of resources is not necessarily the key to charting a country’s economic f0rtunes (for example in the DR Congo) but the manner in which the economic activity is configured within a country and how entrepreneurs contribute to bringing it to life certainly is (for example in Singapore).

At the core of the ecosystem are the entrepreneurs themselves – the agents. These individuals, carved out of as section of the population, channel resources into some productive enterprise where ideally there is growth which in turn should generate employment and overall economic growth. After agency are systems – finance, legal encompassing the rule of law, property rights and the like, education, the enabling infrastructure, prioritization of research and development, policy at government that includes a balance between employee and labour rights, restrictions or flexibility on certain sectors, tax policy and overall incentives that are meant to attract entrepreneurs and capital. Third is the system itself i.e. the interactions between different systems in a symphony that enables enterprise to thrive.

The pillars that converge to determine whether an entrepreneurial system thrives or not include the opportunity perception, start-up skills, attitude towards risk, linkages and networking, cultural support, opportunity perception, technology absorption within the business sector, education levels and training in business, competitiveness, product and service innovation, the possibility of growth, process innovation, internationalization – will the product soar to regional or global heights?, and risk capital – is there capital linked to the early stages in the cycle of entrepreneurship and beyond?. The 14 pillars are compartmentalized into three groups – attitudes, abilities, and aspirations.

Attitudes: A country’s approach towards entrepreneurship – includes opportunity perception, education, risk, networking and a general culture of support that includes transparency and requisite infrastructure (electricity, fast internet etc)

Abilities: Can it be done? – Human capital and development, competitive landscape, technology absorption, incentive regime such as tax exemptions, work permits etc

Aspiration: How far can one go? Unique products and processes, high growth, export potential of goods and services, and flexible capital particularly early stage and the capital market.

[3]Acs, Szerb, Lafuente & Markus, The Global Entrepreneurship and Development Institute (GEDI), *Global Entrepreneurship Index 2019*

GLOBAL ENTREPRENEURIAL INDEX	**ATTITUDES**	Opportunity Perception
		Startup skills
		Risk Acceptance
		Networking
		Cultural Support
	ABILITIES	Opportunity Startup
		Technology Absorption
		Human Capital
		Competition
	ASPIRATION	Product Innovation
		Process Innovation
		High Growth
		Internationalisation
		Risk Capital

Table 2. 14 Pillars of Entrepreneurship

In looking at the financial sector, access to funding, and specific to this assignment, enhancing investibility of SMEs in Uganda, the context of the ecosystem is important as there is the tendency for one to look at these components in silos. As such, while Uganda is often listed as the leading entrepreneurial country in the world by the GEI, the metrics on sustainability are not attractive. Deeper interrogation reveals shortcoming on several of the preceding pillars: does the legal system deliver fair and timely judgment? Are entrepreneurs sufficiently educated and trained, is there the right cultural support? And does the financial system have mechanisms to carry ideas from concept to fruition? Finance itself is a sub-system where adjustments in policy and regulation, training, the banking system, capital markets and private equity, and more converge to deliver support to enterprise.

The preceding is important because the respondents canvassed in the primary inquiry didn’t dwell too much on the cost and access of finance per se but rather, on other components of the ecosystem as will be shown in the presentation of the results of the survey.

3 SITUATION ANALYSIS

3.1 What is an SME?

SMEs have no universal definition due to the simple fact that economies vary in size. The US defines small businesses on the basis of employees – less than 100 for small, and between 100 and 500 for medium. In the era of increased automation, outsourcing, and AI, the employee metric may not stand well. Under the JOBS ACT (2012)[4] elaborated upon further in this report, companies with a turnover of USD 1.0b and less were classed as 'growth' companies. The European growth segments classes companies with a market capitalisation of less than EUR200.0m as falling in the SME segment[5].

Across Africa where the capital markets aren't quite as developed, there continue be differences based on local parameters. Uganda uses asset value (maxed at USD 30,000), turnover (between USD 6,000 and USD 30,000) and number of employees (capped at 50) to define a small business. Over 50 to 100 employees is classed as a medium-sized business[6].

Definitions aside, the constant is that economies across the size spectrum recognize the importance of SMEs be they formal or informal, driven by skilled or unskilled entrepreneurs, riding on cutting edge technology or basic artisan, domestic- or export-market oriented, start-up or established, in economic growth and job creation. Over 99% of all enterprises in South Korea are SMEs. They feed into the wide supply chains and secondary dependencies of well-known conglomerates (*chaebols)* such as Hyundai and Samsung.

The US relies on SMEs for 67% of its employment – the so called 'main street'. In Nigerian SMEs are responsible for 70% of jobs while in Uganda, they account for 90% of the same metric.

3.2 SME funding – global perspective

The challenge with respect to funding for SMEs via the capital market and private equity is not unique to Uganda. More advanced economies have for long identified the problem and sought devised means to address the issue. The necessary disclaimer however is that the definition of SMEs varies from jurisdiction to jurisdiction as articulated in the previous section, and there are cultural nuances that feed into the likelihood of enterprises actively seeking outside capital. What is universally accepted is that SMEs are important contributors to economic growth and development. This applies as much to developed economies as it does to emerging and frontier markets.

SMEs were particularly hard hit following the Global Economic Crisis of 2007 and 2008. The so called credit crunch hit smaller businesses more because of their lack of reserves and higher dependency on bank debt to fund their operations. The aftermath of this was more thought was given to increasing accessibility to not just bank finance but also, developing alternative sources of funding for businesses particularly from the capital markets.

In a recent report[7] in which they looked at a global perspective on SME finance through the capital market, the World Bank stated that there are approximately 162m formal MSMEs in developing countries. The majority of these are in China, Brazil and Nigeria. They further estimate that roughly 42% of the financing demand for MSMEs is met: just USD3.7t out of a total USD8.9t requirement. This gap represents 19 percent of developing countries'

[4] US Congress, Jumpstart our Business Startup ACT, 2012
[5] European Union, https://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en
[6] E Turyahikayo, Challenges Faced by Small and Medium Enterprises in Raising Finance in Uganda, 2013
[7] The World Bank Group, Capital Markets and SMEs in Emerging Markets & Developing Economies: Can They Go The Distance?, 2020

cumulative gross domestic product. In lower-middle-income and high-income countries, this indicator is 20–21%. In upper-middle-income countries it is 18%, and in low-income countries it is 15%. They further add that the highest proportion the finance gap as a proportion of potential demand is the highest in the low-income and lower-middle-income countries, with 80% in comparison with a total of 59%.

The study indicates that across the board, banks are the main providers of finance to SMEs but this most likely speaks to a strong skew towards developed countries. As a low-income country, Uganda's funding challenge in terms of formal finance to SMEs remains. PSC as a percentage of GDP over the past 5 years is at 13.5 according to the central bank8. In the 2013 World Bank Enterprise Report9, just 9.7% of businesses in Uganda had access to a formal bank loan or line of credit. This is pale in comparison to the Sub-Saharan average of 31%. Moreover the bulk of the credit is afforded to large enterprise given that almost 90% of businesses fall within the MSME category.

i. *US market*

The US focused on creating an environment to facilitate an easier path for SMEs to the capital market. The justification for catalyzing the market stressed the importance of SMEs as a key driver of growth and job creation with specific reference to the US dominance in the technology sector. The US had the benefit of historical precedents to draw from. There was mention of the acceleratory effect on business growth of IPOs whereby on analysis of the important metric of jobs, 92% of employment created happens post-IPO. The most important intervention pertinent to the matter of this this study is the passing of the Jumpstart Our Business Startups JOBS ACT of 2012 in which issuers with revenue of less than USD 1.0b were exempted form a number of compliance requirements on accounting and audit for a 5-year period after listing. The increased use of technology to mobilise capital also prompted the US authorities to embed within the JOBS ACT, exemptions for certain types of offerings of equity from SEC registration. This allowed for online portals to raise equity although caps on amounts that retail investors could invest in any one issue were instituted. This segment, more widely known as equity crowdfunding, grew significantly after the ACT was passed.

ii. *EU market*

The European market under the joint regulatory association, the CMU, faced a similar conundrum after the economic crisis that prompted the regulator to revisit the capital market as a source for funding for SMEs outside of bank finance. Their arguments also laid emphasis on the importance of SMEs on economic growth and job creation. They identified supply and demand side challenges covering costs, awareness, and procedure that needed to be addressed. They point out that:

> *"Companies established in the Union that seek to raise capital on trading venues are facing high one-off and ongoing disclosure and compliance costs which can deter them from seeking an admission to trading on Union trading venues in the first place. In addition, shares issued by SMEs on Union trading venues tend to suffer from lower levels of liquidity and higher volatility, which increases the cost of capital, making this source of funding too onerous. A horizontal Union policy for SMEs is therefore essential. Such policy needs to be inclusive, coherent and effective, and must take into account the various subgroups of SMEs and their different needs."*[10]

[8] 15 theglobaleconomy.com (source: The World Bank), *The Global Economy: Rankings of Private Sector Credit, 2016* https://www.theglobaleconomy.com/rankings/domestic_credit_private_sector/Africa/
[9] World Bank Group, *Enterprise Surveys: What Businesses Experience Uganda (2013), February 21, 2014,* http://www.enterprisesurveys.org/data/exploreeconomies/2013/uganda#finance
[10] The European Union, *https://www.europarl.europa.eu/doceo/document/TA-8-2019-0439_EN.html, 2019*

To this end, the CMU instigated measures that created flexibility in the regulatory environment for SMEs looking to raise capital from the public markets, removed barriers on the investment side that made it hard for retail investors to access public offerings, investor and issuer educational programs, and putting in place tax incentives to favour equity over debt investment over the long-term. Europe also adopted MTFs for SMEs. MTFs are platforms outside of the traditional regulated stock exchanges that allow multiple parties to exchange financial instruments such as equities. The market operator in effect sets the parameters for listing and manages compliance of the participants. For the SME growth market, the regulator placed high level parameters but left it to the operator to determine details such as free float, liquidity, and the details required in offer documents. The regulator was clear on the fact that the rules needed to focus on SMEs as the ultimate beneficiaries of the regulation: "cutting red tape is a vital part of the process". The flow of information directly available to SMEs about the funding options available to them was also listed as critical. It is also noteworthy that the metric of success is not necessarily an increase in the number of listings per se but rather, the rate of growth achieved by those listed companies. The need for financial market education for both investors and potential issuers as well as lower listing costs resonates with other jurisdictions.

iii. <u>Africa SME board market</u>

The AltX in South Africa was the first exchange in Africa that was set up to be dedicated to SMEs. A cautionary is required however because the average size of an SME in South Africa is larger relative to the rest of Sub-Saharan Africa. The AltX was set up to encourage entrepreneurship particularly in the post-Apartheid dispensation for which more black businesses were actively encouraged to list. The AltX replaced the failed Venture Capital board that was set up in the 1980's. The AltX listing requirements are light relative to the JSE. The listed company needs to have assets of at least ZAR 2.0m, offer 10% of equity to the public for which the minimum onboarded number of shareholders is 100[11]. From a reporting perspective, companies need to only need to present a forecast for the remainder of the financial year in which it intends to list and a full year after. A fee of ZAR 20,000 is levied for listing and the same amount is the maximum that the AltX charges for annual fees.

Botswana and Ghana have bourses dedicated to start-ups with only 4 and 2 listings respectively. The North African powerhouses of Egypt and Morocco both cater to SME businesses but there are geographic restrictions – MENA for the Nile Stock Exchange, and Morocco and West Africa for the Casablanca Stock Exchange. Kenya and Uganda have similar boards under the Growth Enterprise Market Segments. In Kenya's case, there is a definition of SME by the metric of turnover and employee size whereas in Uganda, the GEMS segment is defined by core capital. The Uganda equivalent is yet to post a listing. Mauritius under their SEMDEM market has enjoyed relative success trailing only South Africa in the number of listings posted – this comes as no surprise given their deliberate strategy to position themselves as an investment gateway into Africa and an all-round world class financial centre. Rwanda is a relatively young capital market; the RSE has implemented a generous allowance for local SMEs to list by reducing disclosure requirements – much akin to what was done in Europe and the US after the financial crisis. Still, no companies have taken advantage of the opportunity todate.

[11] The Department of Trade and Industry South Africa, *Alternative Exchange Listing Requirements, 2019*

The USE explicitly mentions SMEs as their motivation behind the launch of GEMS; 'as a major driver of our Uganda's economy and ultimately the overall financial system of Uganda.' The GEMS was designed to enable SMEs to raise substantial initial and ongoing capital, while benefiting from increased profile and liquidity within a regulatory environment designed specifically to meet their needs. GEMS allows for companies that have been incorporated for under a year to list albeit only being able to place their shares with professional investors. GEMS in Uganda is yet to record a listing. In the CMA-U ***Uganda's Capital Markets Development Masterplan 2016/17 – 2026/27***[12], technical barriers that have stifled GEMS include limitations on companies to raise growth capital, restrictions on disposals, and too much responsibility placed at the door of market intermediaries. The restriction on only professional investors being able to invest in companies of a year of less is another challenge.

COUNTRY	SME EXCHANGE	LISTED COMPANIES
Botswana	BSE venture capital*	2
Egypt	Nile Stock Exchange**	33
Ghana	Ghana Alternative Market***	4
Kenya	Growth Enterprise Market Segment	4
Malawi	MSE AltX	0
Mauritius	Development Enterprise Market Segment	46
Morocco	Casablanca Stock Exchange	No Separate Board
Nigeria	Alternative Securities Market	9
Rwanda	Rwanda Stock Exchange	No separate board
South Africa	AltX	56 – 16 suspensions
Tanzania	Enterprise Growth Market	5
Tunisia	Tunis Stock Exchange	12
Uganda	Growth Enterprise Market Segment	0
Zambia	Lusaka Stock Exchange	0
Zimbabwe	Zimbabwe Stock Exchange	0

Table 3. List of SME-focused segments on stock exchanges across Africa (Consultant's Research)

The preceding begs the question about whether there are some other limiting factors that impede the off takers particularly in those countries where the incentive regime is sufficiently compelling. The imperative is to explore the dynamic around private equity and venture capital investment where stringency is applied in appraising businesses and compliance is expected but the investment is effected without public scrutiny.

3.3 Venture Capital and Private Equity

Venture Capital as a form of equity capital is more suited for early stage than mature SMEs. Furthermore, Venture Capital is mostly associated with businesses that ride on high innovation and appear to have strong growth trajectories. Venture Capital stems from a variety of sources. Lately, Venture Capital is increasingly driven by governments who view it as a strong stimulant for economic growth and overall competitiveness. Governments across the globe have realized the need for Venture Capital infrastructure that is aimed towards fostering growth of start-ups with biases towards sectors deemed as strategic to their economies. Most are high tech in nature.

[12] Capital market Authority Uganda, Uganda's Capital Markets Development Masterplan 2016/17 – 2026/27, 2016

The 2018 Global Entrepreneurial Index[13] identifies the provision of risk capital as an important requisite in fostering an entrepreneurship ecosystem. It is pointed out that the availability of risk capital from individual and institutional investors requires policy makers to reduce barriers to providing Venture Capital and Private Equity, support from existing corporates and philanthropic institutions, and other entrepreneurs in general. Venture Capital should be one element in an overall 'start-up bundle' that includes favourable regulatory regimes, governance, access to skilled personnel, an innovation ecosystem on both product and processes, enabling infrastructure in ICT and finance, and cultural support in terms of eliminating corruption, rule of law and more.

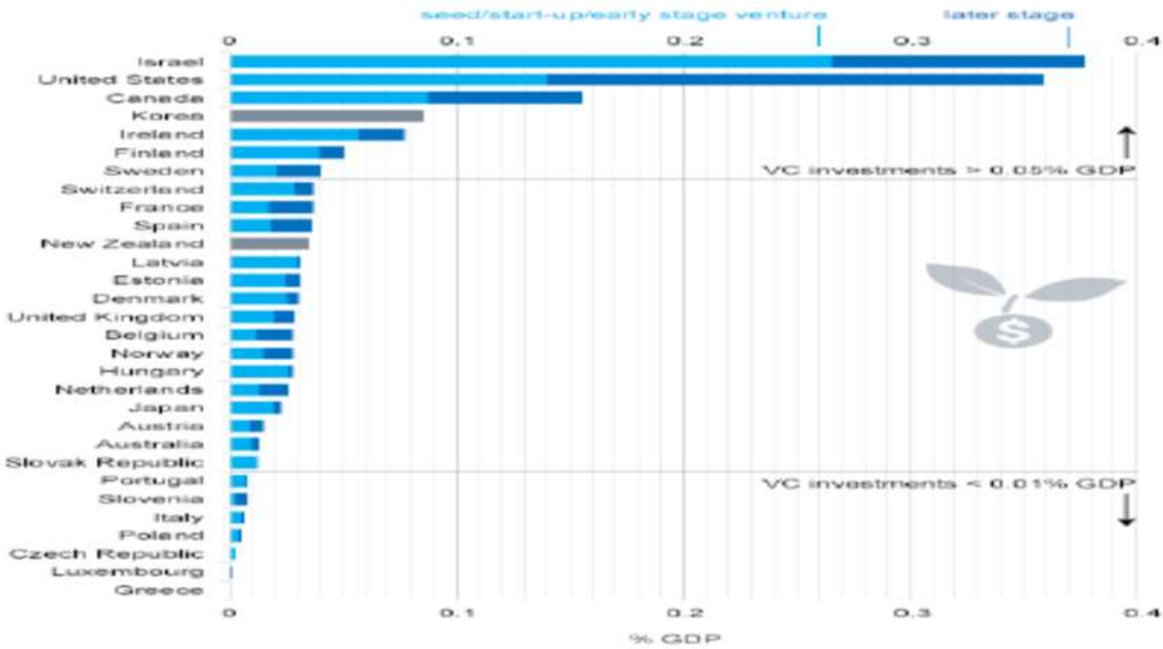


Figure 1.Private Equity Investment relative to GDP – OECD Countries (Source: OECD 2017 Report)

Private Equity speaks to a wider landscape of businesses along parameters such as size, sector, geography, social and environmental credentials of investees, macro-economic factors, cultural and ethical sensitivities and more. The capital tends to seek out opportunities with more operational experience than Venture Capital which on paper, speak to a large pool of enterprises across Africa including in Uganda.

The EAVCA in their 2019 report on deal activity in the region put the value of Private Equity backed transactions in the region at USD 2.7b between 2007 and 2018[14]. This gross transaction value stemmed from 190 deals. Just under half of those deals by value were closed in the 2-year period preceding the report's publication thereby pointing towards more transaction activity in the back end of the period under scrutiny.

3.4 Venture Capital and Private Equity in Uganda

Uganda has more than a dozen PE funds with an in-country presence whose focus is spread across a number of different sectors. Most locally domiciled PE funds are focused on impact areas explicitly or if not, require that the investee ESG credentials be at a standard that is acceptable.

[13] Acs, Szerb, Lafuente & Markus, The Global Entrepreneurship and Development Institute (GEDI), *Global Entrepreneurship Index 2018*
[14] KPMG & EAVCA, Private Equity Sector Survey of East Africa for the Period 2017 to 2018, 2019

The challenge with impact is that most businesses in that space are not stringent on formal structures on one hand or are recently established on the other. Furthermore, there is competing capital in the form of grants that have no investment return hurdles embedded in them. These come from philanthropic organisations, NGOs, DFIs, and the national government. The list and focus of funds with local Uganda presence and registration follows below:

FUND	FOCUS
Aga Khan Foundation	Multi-sector/large scale
Agdevco	Agribusiness
Ascent Capital	Regional sector agnostic except Real Estate
Business Partners International	Debt, mezzanine and equity for SMEs
Engineers Without Borders Ventures	Innovative start-up businesses
Finca	Impact investment
Grameen	Impact investment
Grofin	Debt, mezzanine and equity for SMEs
Icco	Agribusiness / impact
Investq Capital	Venture Capital
Mango Fund	Manufacturing, agro-processing and technical farming
Mercy Corps Social Venture Fund	Impact
Oiko Credit	Multi-sectoral with impact
Pearl Capital	Impact – manages EU Yield Fund that has an agribusiness bias
oot Capital	Impact
Venture South	Impact
XSML	Frontier markets in East and Central Africa
Yunus Social Business	Impact with focus on healthcare, education, housing and agriculture

Table 4. Uganda Private Equity Funds (EAVCA, CMA-U, Consultant research)

The EADB Private Equity Fund is no longer in operation and there is no public record of any investment that they may have made. UDC, the equity investment arm of government has recently been re-capitalised and has active investments in key strategic sectors. Their equity injections are in line with sectors that are deemed strategic as per the National Development Agenda of the country (Vision 2040)[15]. Thus far UDC has invested in agribusinesses in the sugar and juice processing value chains. UDB is also in the process of establishing an in-house equity investment arm that will deploy capital as per the development agenda of the country.

3.5 Challenges facing Private Equity absorption in frontier markets

The IFC identifies a number of challenges at different stages of the process in their report on PE in frontier markets[16]. The main stages and challenges are indicated in the figure below.

[15] National Planning Authority, Ministry of Finance, Planning & Economic Development of Uganda, *Uganda Vision 2040*, 2007
[16] IFC, 2018, IFC SME VENTURE: Investing in Private Equity in Sub-Sahara African Fragile and Conflict Situations

ORIGINATION	INVESTMENT	MANAGEMENT	EXIT
• limited quality pipeline • High transaction costs • Information scarcity • Informal structures of businesses	• Lack of knowledge of PE • Rigid banking infrastructure • Culture of business • Valuation challenges • Quality challenges with market intermediaries	• Professional management scarcity	• challenges with the secondary market • Illiquid capital markets

Figure 2. Challenges for Private Equity in frontier markets (IFC)

The broader challenges are associated with:

i. Policy and regulations covering Private Equity are nascent in most jurisdictions that result in less than ideal tax statuses for investors and investees;
ii. Deal flow is smaller than would be typical in developed markets due to a combination of factors – scale and sophistication of businesses being most notable. To this end, there are often requirements for Business Development Services to enhance the skill set of investees where Private Equity investors have the funds and patience to deploy such;
iii. Mismatch between the expectations of the investment funds and operating entities on the ground is often a reason for the failure of deals to progress. This because fund General Partners who raise money and are domiciled offshore tend to apply lofty and unrealistic expectations in their partnership deeds and preceding that, pitches to potential Limited Partners; and
iv. The transaction costs relative to deal sizes are high thereby reducing return metrics.

4 LANDSCAPE OF ACCELERATORS AND INCUBATORS

Given the preceding background, it is unsurprising that most incubators and accelerators in Uganda have a focus on start-up enterprises. The main categories of incubators are those linked to government, university-based, and private sector. A selection of the better known incubators follows.

- ✓ ***Consortium for Enhancing University Responsiveness to Agribusiness Development (CURAD)*** is a joint initiative between Makerere University and NARO with a focus on agribusinesses. Provides linkage to VC – no VC in residence.

- ✓ ***Makerere Renewable Energy incubator –*** focus on renewable energy with support from Nordic Climate Facility Project.

- ✓ ***Outbox*** – focus on tech innovations in Kampala. Provides business incubation, co-working space, and technical training. Outbox has multiple global and local partners including Google, MTN, UNFPA, and STRIPE.

- ✓ ***Innovation Village*** – provides a 360 degree solution of developing an ecosystem that assists innovators get product to market and growth.

- ✓ ***Hive Colab*** – an innovating working space and incubator focusing on tech.

- ✓ ***StartHub Uganda*** – Building an entrepreneurship ecosystem that provides a network for growth, networking, mentorship and training. Linked to 4 universities around Kampala to address the graduation of university students from academia to enterprise.

- ✓ ***Stanbic Business Incubator*** – an initiative by Uganda's largest commercial bank that provides training, mentorship and business skills development. The incubator has a strong bias towards local content in oil and gas but is expanding coverage to agriculture.

Notable accelerator programs in and/or with operations in Uganda are:

- ✓ ***Growth Africa*** – focus on post-revenue enterprises. Sector agnostic but portfolio has a strong bias towards technology.

- ✓ ***Inncelerate*** –geared exclusively towards start-ups.

- ✓ ***IMUKA Ventures*** – a social enterprise accelerator that focuses more on mentorship than linkage to finance.

- ✓ ***Unreasonable East Africa*** – sector agnostic with focus on operating entities rather than ideation. There are different incubators within tertiary institutions, non-profits and government departments and ministries that cater mostly to the start-up ecosystem. The most notable ones are NSSF's Hi-Innovator, Ministry of ICT and National Guidance's NIIPS, and the recently launched Ministry of Science, Technology and Innovation's ***National Research and Innovation Progamme*** that includes an incubator and accelerator for Science, Technology and Innovation-oriented businesses.

5 FURTHER SEGMENTATION OF SMES

It goes without saying that the parameters used to define SMEs borne out of the size of a given economy as the main point of reference is important. However, the tendency to place SMEs under a blanket 'one-size-fits-all' label requires a cautionary. Categorizing businesses as small and medium - even if in the same economy, isn't sufficient as the motivations behind why entrepreneurs start and/or run them are different. There is therefore further segmentation within the SME category itself. Among other key metrics is one that centres around the type of funding that they are able attract notwithstanding the fact that the options available in their capital landscape differs from one economy to another.

According to the IFC[17], small and medium enterprises in low- and lower-middle income-countries like Uganda face a USD 930b financing gap. Some may be merely at ideation stage while others might have a significant body of market experience behind them. Early stage enterprises tend not to be attractive to the conventional forms of funding that exist in markets such as Uganda.

Collateral as a requirement for both banks and informal lenders on one hand, and the need for transaction history on the other, are but two of several stumbling blocks. Even for the more mature SMEs, challenges are abound as was explored in detail in the Access to Finance: Diagnosis and Prescriptions Report of June 2019[18]. They may be able to post collateral but the tenure of finance is often shorter than the timeframe required to monetize the operating asset that the facility funded. Public and private market equity with its relatively higher risk tolerance is promoted as a means to offer meaning long-term finance to enterprise.

[17] IFC Ventures, Investing in Private Equity in Sub-Saharan Africa Fragile and Conflict Affected Situations, 2018
[18] D. Ofungi, AECOM, Access to Finance: Diagnosis & Prescriptions, 2019

6 FINANCE STRUCTURES

The operating label may carry the word 'equity' but it is worth noting that there is a broad spectrum of structures that PE funds use to invest. The form applied is a function of the market environment and corresponding opportunities and risk premiums there-in. In essence, investment must be nuanced. Debt or debt-like instruments are increasingly becoming the preferred form of capital for the SME segment in frontier markets like Uganda where scale and sophistication challenges among businesses remain. The rationale behind this preference is presented in the opinions extracted from fund managers and market intermediaries shared later. Debt has a time horizon that can be as short as one day for 'mom and pop' shops that sometimes get goods from a supplier in the morning and settle their debt in the evening, or as long as 100 years for some projects in the forestry sector for example. The typical PE investment is held for a period of between 5 and 7 years. Some investment vehicles prefer to hold their assets for as long as they possibly can. Mezzanine finance is a hybrid of debt and equity where funders provide a debt-type instrument that has the some of the flexibility that comes with equity.

Within the sphere of debt are:

1. ***Asset-based lending***: any form of lending that is secured by a non-current asset that's either operating or non-operating.

2. ***Leasing / pay-as-you-go***: an agreement whereby the owner of the asset (lessor) provides a customer (lessee) with the right to use the asset for a specified period of time in exchange for a series of payments. Leasing is split between operating and capital leases.

3. ***Trade finance:*** a short-term instrument involving a lender, buyer, and seller that is issued in financing trade flows between a buyer, who wants to ensure he or she is buying the correct good, and a seller, who wants to make sure he or she is paid as per the agreement. In this are instruments such as Letters of Credit (LCs) issued by banks and other financial institutions.

4. ***Cash-flow-based lending***: a loan that is backed by the recipient's business cash flows (e.g., factoring, warehouse receipts, purchase order finance)

5. ***Working capital***: a credit facility made available to a borrower that can be tapped at the borrower's discretion and according to set rules governing the facility (e.g., overdraft protection, demand loans, and revolving credit lines)

Mezzanine includes:

- ***Partially unsecured / junior loan:*** a loan with tailored repayment structure and flexibility regarding collateralization requirements

- ***Royalty-based lending:*** a loan that provides the investor with a base interest plus royalties, which are payments that depend on the performance of the company—usually a percentage of revenue of EBIT or EBITDA.

- ***Convertible loan:*** typically a loan with a maturity date and a regular payment schedule, as well as an option to convert the loan into shares

- ***Preference shares:*** shares that are given preference over ordinary shares, including priority in receipt of dividends and upon liquidation, often with a fixed annual dividend.

Preference shares lie somewhere in between pure debt and pure equity in the simple hierarchy of capital.

- ***Redeemable equity:*** largely similar to ordinary shares, but with a right to sell the shares back to the entrepreneur (put option), typically using a predetermined price or a formula

Equity:

- ***Common shares:*** shares of common stock provide an ownership interest in the company, along with voting rights and possible dividends; dividends are not guarantees and may be suspended if the company struggles financially; holders of common stock are the last to be paid if the company liquidates

Grants:

- ***Convertible grant:*** a grant that is provided to an investee that can be converted into debt or equity based upon success
- ***Unrestricted vs. restricted grant / TA:*** the distinction between a grant that can be used for general use free from external restrictions (unrestricted) and one that comes with stipulations or requirements (restricted)
- ***Refundable vs. non-refundable grant / TA:*** the distinction between a grant that can be paid back to the original provider of the grant (refundable) and one that cannot be paid back (non-refundable)

Commercial risk mitigation instruments:

- ***Insurance:*** a contract, represented by a policy, in which an entity receives financial protection or reimbursement from an insurance company against losses (e.g., weather, political risk, etc.)
- ***Guarantee:*** a non-cancellable indemnity bond backed by an insurer to guarantee investors that principal and interest payments will be made.
- ***Currency hedging:*** a contract that protects against unexpected, expected, or anticipated changes in currency exchange rates

Blended finance instruments:

- ***Concessional loan:*** a loan that is provided on more favorable terms than the borrower could obtain in the marketplace
- ***Development impact bond*:** an outcome-based contract whereby private investors provide upfront funding for social development interventions and are remunerated by public sector agencies at a commercial rate of return if evidence shows that the intended outcomes were achieved
- ***Risk-sharing facility:*** a loss-sharing agreement between an entity (typically a multilateral development bank) and an originator of assets in which the multilateral development bank reimburses the originator for a portion of the principal losses incurred on a portfolio of eligible assets

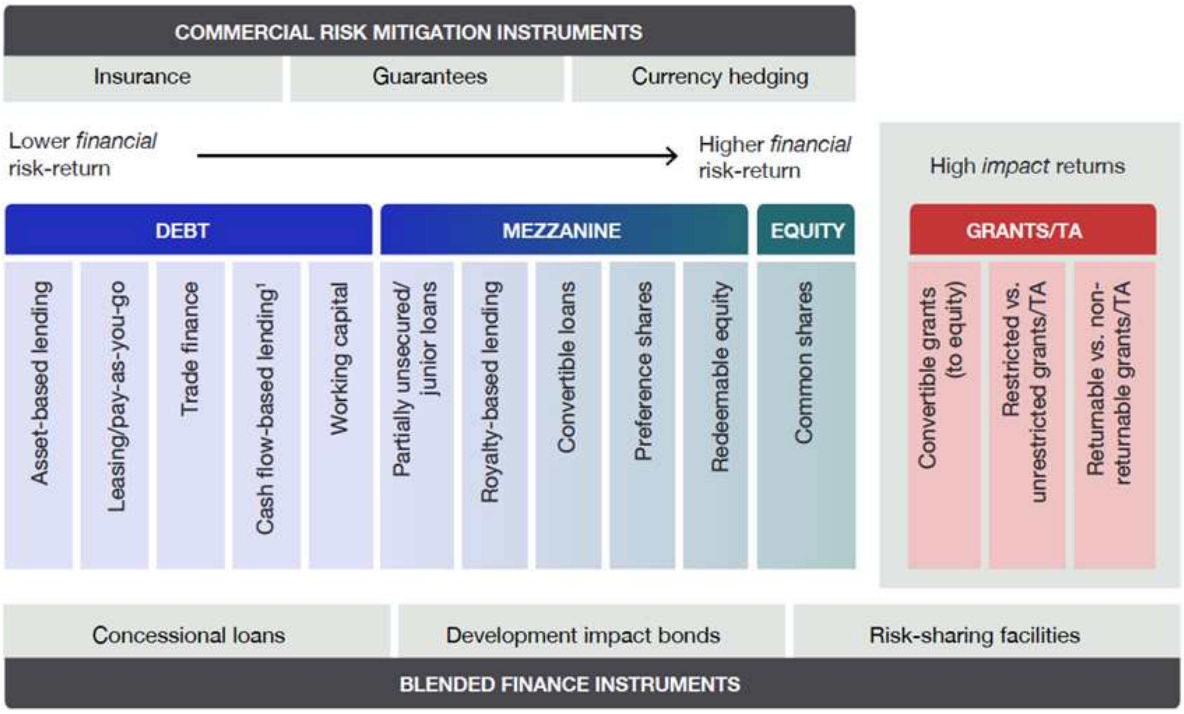


Figure 3. Spread of capital structures and risk mitigation instruments (Collaborative for Frontier Finance)

A 2019 Collaborative for Frontier Finance[19] report focused on the so-called 'missing middle' of enterprises. These are entities that are 'too big for microfinance, too small or risky for traditional bank lending, and lack the growth, return, and exit potential sought by venture capitalists. Such businesses often face a fundamental mismatch between available financing and their specific needs'. The segmentation of businesses (which went on to inform our own primary inquiries to SMEs in an online survey) in their analysis used three distinct categories to come up with the segmentation:

- ***Growth and potential to scale*** – prospects for future growth, potential to reach significant scale, and the pace of growth;
- ***Product/Service innovation profile*** – desire of an enterprise to innovate with the view of disrupting an existing market or forming an entirely new one; and
- ***Entrepreneurial behavioral profile*** – attitude on the matter of tolerating risk, rationale behind their decision to get into business and more.

The preceding sits on a foundation of inputs that combine culture, market size, regulation and policy, the education system and more that combine to give countries a specific entrepreneurial identity. This so-called 'entrepreneurial ecosystem' is a complex socio-economic structure that is typically formulated at national, state/province or city level. It combines both organic and inorganic aspects as is typical of any ecosystem.

[19] Collaborative for Frontier Finance, The Missing Middles: Segmenting Enterprises to Better Understand Their Financial Needs, 2019

The sub-segments of SMEs identified by the Collaborative for Frontier Finance are high ***Growth Ventures, Niche Ventures, Dynamic Enterprises***, and ***Livelihood Sustainability Enterprises***. It is important to recall that they are framed within country parameters of what SMEs are by way of revenue, employees, assets or whatever category makes sense. That said, these parameters tend to average the same in frontier markets. The segments elaborated:

i. ***High Growth Ventures*** as the name suggests seek to be disruptive, and have potential to grow rapidly. Their founders tend to be highly averse to risk;

ii. ***Niche Ventures*** identify and focus on a particular customer segment – growth is not as important as becoming the go-to option for their market base;

iii. ***Dynamic Enterprises*** are in existing so-called 'bread and butter' segments. They seek no wheel reinvention – their focus is on everyday products and proven business models; and

iv. ***Livelihood Sustainability Enterprises*** are mostly set up for purposes of providing a family unit everyday sustainability income. They have limited growth ambitions if any at all, tend to be informal for the most part and serve local markets or value chains

Each have a different prescription when it comes to the type of funding required. In Uganda, the nascent equity market tends to focus on apparent 'highly innovative' ventures which for the most part are start-ups or early stage businesses, and then stable traditional businesses "Dynamic Enterprises" that are tied to everyday consumer patterns. The former speak more to emerging VC funders and the grant space, the latter have may have formal and informal lending agreements and when they do interact with PE, have a preference for debt and mezzanine structures as opposed to relinquishing equity even if minority. As will be pointed out later, it became apparent in the primary research during which interviews were carried out with a number of PE investors that funds operating in Uganda are customizing their service offering to fit within the sub-segments underneath the blanket SME label.

Banks and PE funds are both adjusting their models to address the financing needs of dynamic enterprises though they occupy most space in the 'missing middle'. PSC in Uganda as a percentage of GDP for the period between 2012 and 2018 averaged 13.2%. This was pale in comparison to the global average of 58.8% according to the World Bank[20]. The missing middle is populated by SMEs that require finance for working capital, factoring and invoice discounting, capital expenditure and where they have overseas trade partners, instruments issued by finance institutions that bridge the trust divide between supplier and buyer. They are often open to external equity providers but don't necessarily understand the responsibilities that come with onboarding new investors. To this end, PE funds are structuring more palatable mechanisms that blend both debt and equity features such as mezzanine funds, structures where return on capital provided is linked to revenue increases and more from a variety of instruments. Most dynamic enterprises falls in the grey area between MFIs and conventional commercial banks thus providing an opportunity for creative structures to capitalize on the funding gaps. The Collaborative for Frontier Finance identifies five interventions to help fill the finance gaps (comprising working capital, capital expenditure and trade finance) facing dynamic enterprises. These are:

- ✓ Financial support that help the enterprises develop models that give them a strong foundation in new markets;

[20] theglobaleconomy.com (source: The World Bank), *The Global Economy: Rankings of Private Sector Credit, 2016* https://www.theglobaleconomy.com/rankings/domestic_credit_private_sector/Africa/

- ✓ Friendlier regulations on the tax front;
- ✓ Encourage local commercial banks to develop new products that speak to the needs of this segment;
- ✓ Blended finance models that provide technical assistance; and
- ✓ Encourage use of technology in finance to hasten processes.

Needless to say, the primary inquiry we carried out unearthed more suggestions that speak specifically to the operating environment in Uganda, some of which have been adopted by investment funds that have deployed capital in the SME segment.

7 TECHNICAL ASSISTANCE

A number of the interventions that will likely feature in the proposed facility are currently available with some funds under the moniker 'Technical Assistance'. The objective of TA is to assist investees and potential investees with compliance against a base set of standards on matters ESG. TA also comes in when specialist expertise is required to apply deeper scrutiny in the investees sector, intended geography, product/service segment or general operating environment with the goal of driving revenue and containing costs. TA mostly comes into the picture when there is a presence of a DFI in the LP pool. DFIs would generally fork out for the bulk of TA with the remaining obligation of about 15% on average being the responsibility of the investee.

TA is often used in enhancing operational aspects in accounting and related reporting, adopting of IT services for purposes of efficiency, management and HR, and board compliance. The other part of it is making sure that compliance with environmental standards and positive impact in relation to job creation is delivered.

SME focused funds that might not have DFI linked TA funding encounter scale issues when it comes to TA. Costs and capacity issues arise when TA is required to be deployed across multiple companies. One innovation applied by a fund we engaged with was to create a separate vehicle to provide pre-investment TA, the services for which are only be paid when an investment is closes.

The IFC report on Frontier Funds makes the argument that deploying TA via independent platforms is more efficient that tying it to individual funds. A platform that is all-inclusive would in effect, provide a hedge against individual biases that may come from a fund with accessorized TA. The added benefit of platforms is that the companies benefit from lessons learned across material business practices while also enhancing the quality of pipeline. The IFC also argues that back office 'operational systems' TA is good but not enough. There has to be a deliberate strategy to use TA to drive top-line revenue. This for example would include management training, industry expertise, marketing skills, new product and service development and more.

Important for purposes of sustainability is that the investees need to fork out for part of the costs of TA. The pricing model varies depending on service but an approximate 15% of costs is a start point, with the potential to increase over time. It is worth noting that in taking a long-term view, the advisor pool should also be willing to apply some level of flexibility around their fee structure.

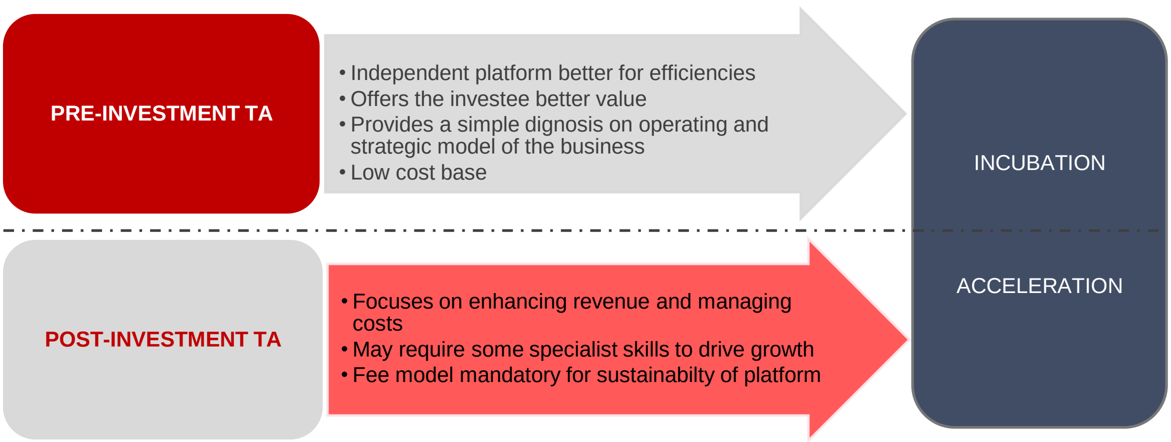


Figure 4. Technical Assistance

8 THE POLICY, LEGAL AND INSTITUTIONAL FRAMEWORK IN UGANDA

8.1 Vision 2040 and NDP III

Uganda's all-encompassing development strategy is enshrined in the Vision 2040 masterplan[21]. Vision 2040 is broken down into six (6) five-year series tasked with guiding delivery of the stipulated objectives. The National Planning Authority (NPA) is in the process of formulating the Third National Development Plan (NDP III) 2019/20-2024/25 to succeed the Second National Development Plan (NDP II) which expires in June 2020. The preparation of the NDPIII is being informed by the Uganda Vision 2040 and the results of the end-term review of NDP I and the mid-term review of NDP II. The Goal of the plan is to increase household income and improve the quality of life of Ugandans. It is envisaged that this will be achieved through sustainable industrialization for inclusive growth, employment and wealth creation. There is emphasis on the strengthening of the private sector in order to drive sustainable inclusive growth. NDP III also looks to enhance the range and scale of Uganda's manufacturing industry. National Planning Authority (NPA) admits that the country has limited options for long-term finance on account of low savings, underdeveloped capital markets, and the undercapitalization of state-owned development finance institutions.

8.2 The Financial Sector Development Strategy

Under the MoFPED, Uganda has identified four strategic interventions critical to develop the financial sector and its infrastructure. The Financial Sector Development Strategy (FSDS) is set to:

i. Increase access to and use of finance;

ii. Increasing access to long-term finance, as a way of mobilizing savings and channeling them to areas where they are most needed – mention of developing the capital market further is made;

iii. Strengthening innovation and supporting infrastructure by supporting and fostering innovations in the financial sector as well as the financial markets infrastructure development; and

iv. Strengthening financial stability and integrity through better supervision and regulation that enables rather than impedes growth

8.3 The CMA and URBRA

A framework governing the Uganda capital market has been in place since 1996 when the Capital Markets Authority Act, Cap 84 was enacted. The Capital Markets Authority (CMA) is tasked with the development of all aspects of the capital markets with emphasis on the removal of impediments to, and the creation of incentives for long-term investments in productive enterprise. The other aspects of their mandate entail regulatory oversight of listed instruments, and providing investor protection using among others, the Investor Compensation Fund (ICF).

[21] National Planning Authority, Ministry of Finance, Planning & Economic Development of Uganda, *Uganda Vision 2040*, 2007

The retirement benefits sector in Uganda is comprised of government funded schemes, mandatory contributory schemes and supplementary occupation-based schemes what are voluntary24. The Employee Benefits regulator was established in 2011 following the enactment of the URBRA ACT22 earlier in the same year. URBRA is tasked with licensing and regulating benefit schemes and the ecosystem of service providers. Within the pension environment are two distinct schemes; the public service pension scheme that is structured as a defined benefit scheme for civil servants, and the mandatory schemes consolidated under the National Social Security Fund (NSSF).

The Capital Market Development Masterplan for Uganda - - 2016/17 – 2026/27 sets out a ten-year framework consisting of structural reforms and 27 general recommendations. The masterplan's primary objective is to position Uganda's capital markets within the frontier market category of the Morgan Stanley Composite Index for Equities and Bonds respectively as a way of attracting more international capital to meet the financing needs for both the government and private sectors.

There is specific mention of PE and VC on the complement it provides to capital market finance. PE and VC are described as important conduits via which the capital market as a whole can be developed. The masterplan recognizes that the Collective Investment Schemes Act 2003 (CIIIS), as well as the regulations are restrictive "due to the narrow range of permitted investments (such as traded shares and bonds), and excludes investments better suited to markets such as Uganda, including venture capital, or infrastructure projects, and the structures of funds typically used for investment in small companies, venture capital or private equity. The report recommends that a vibrant PE and VC market needs to be developed but falls short of providing ideas around structure and policy.

Tax disincentives in the capital market need to addressed. Suggestions raised by the CMA include:

i. Lowering the withholding tax on dividend payments (10% in Kenya,15% in Uganda);

ii. The granting of a three year tax amnesty to companies following a material restatement of financials for companies that choose to list, issue debt, and secure PE funding;

iii. Amend the Income Tax Act to provide clarity on waiver of capital gains tax on gains realised by those selling shares in private companies when such companies become public;

iv. Introduce preferential corporation tax for companies that go public;

v. Undertake a comprehensive study on tax policy in relation to capital markets development; and

vi. Eliminate tax and other constraints to investment of collective savings such as those mobilized through savings groups.

8.4 The Financial Markets Development Committee

Financial Markets Development Committee (FMDC), a secretariat housed at the bank of Uganda brings together policy makers and regulators in the financial sector to better coordinate the market developments in the sector. Membership includes all CEOs of finance regulators including the CMA, IRA, URBRA, representative from the development partners (FSDU) and the MoFPED.

[22] Parliament of Uganda, Uganda Retirement Benefits Regulatory Authority ACT (2011), 2011

9 APPROACH TO THE ASSIGNMENT

The assignment has undergone a multi-pronged approach. The interrogation revolves around a number of key stakeholders sectioned as follows:

- ***Investees*** – SMEs and other companies that are likely to benefit from the services typical of an incubator/accelerator facility for which growth and the absorption of outside capital are primers.
- ***Investors*** – Private Equity and Pension Fund investors whose mandates allow for the deployment of capital in listed and unlisted capital. Institutional investors are complemented by semi-formal retail investment groups
- ***Policy and Regulatory Authorities*** – tasked with oversight and creating the enabling environment that would benefit a vibrant public and private equity placement market. The scope of authorities includes primary ones that have direct oversight such as the CMA-U and secondary enablers such as the URA.
- ***Market intermediaries and interested parties*** – who serve as advisors to both the demand and supply side of capital thereby providing fluidity between the two. This includes financial advisors, legal, social, environmental and accounting practitioners.

Phase 1. Identification and mapping of relevant stakeholders. Multiple sessions held with them to understand the current environment of private equity and the capital markets in Uganda. The initial phase focuses on a primary pool of stakeholders particularly the direct regulator, the stock exchange, active incubators in Uganda, investment advisors, fund managers, and investee companies. The first line of queries are to understand whether there are gaps in the workplan and to refresh the consultant's knowledge of the current environment.

It also served to set and manage expectations, existing biases, and put boundaries around the recommendations that will result out of the engagement. It also helped to frame an understanding of initiatives that are being or in the process of being implemented that will very likely converge with the expected outputs of the engagement.

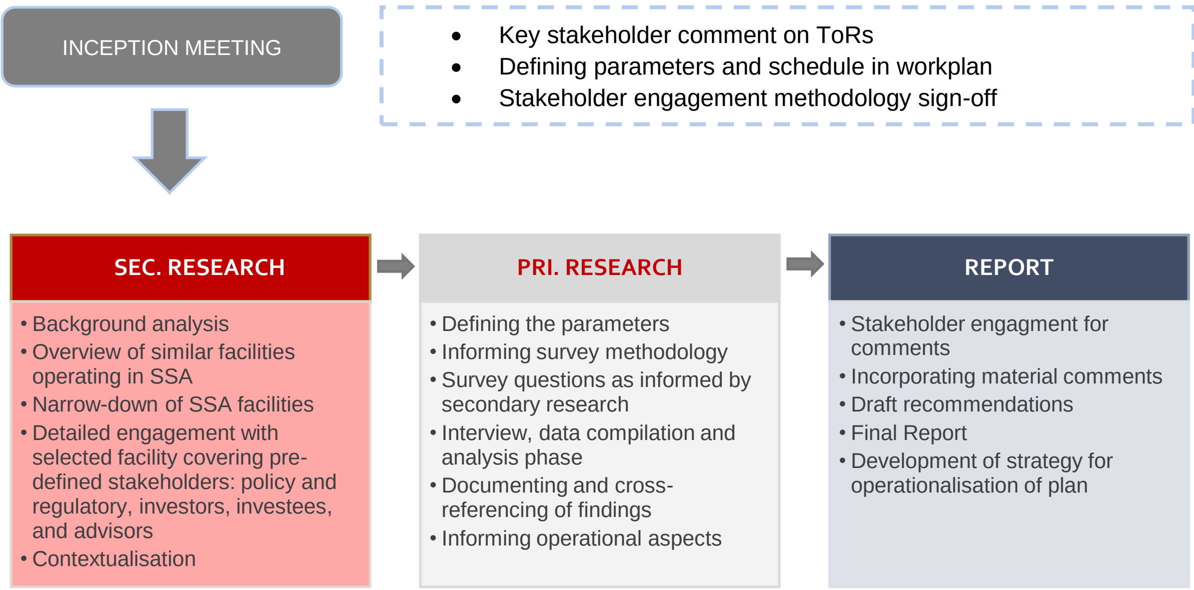


Figure 5. Research sequence

CATEGORY	STAKEHOLDER
✓ **Government Line Ministry**	• Ministry of Finance, Planning and Economic Development (MoFPED)
✓ **Conveners**	• European Union (EU) • Private Sector Foundation Uganda (PSFU)
✓ **Regulatory Authorities**	• Capital Markets Authority (CMA)
	• Uganda Retirement Benefits Regulatory Authority (URBRA)
	• Bank of Uganda – Financial Markets Development Committee (FMDC)
✓ **Stock Exchanges**	• Uganda Securities Exchange
✓ **Investors**	• National Social Security Fund (NSSF) • Pearl Capital Partners • East Africa Venture Capital Association (EAVCA) • Ascent Capital • XSML Capital • Investment Club Association Representative
✓ **Market Intermediaries**	• SBG Securities • UAP-Old Mutual • Grant Thornton • Open Capital • KPMG • PwC
✓ **Development Partners**	• Financial Sector Deepening Uganda (FSDU) • International Finance Corporation (IFC)

Table 5. Key stakeholders

It goes without saying that different stakeholders have varying interests for which conflict in expectations is understandable. It is also important to restrict the stakeholder engagement to a primary line of interests so as not to dilute the inquiry because of the knowledge gap between what should inform the outcomes and an outer ring of respondents. It is however noted that on matters of policy adjustment, there will be a need to engage with a broader spectrum of stakeholders. This however, doesn't fit with the scope of the current engagement. An analysis framework along key criteria to measure stakeholders follows below.

CRITERIA	CATEGORY							
	Alignment with Objective	More active than passive	Has an institutional mandate	Resource Provider	Infrastructure Support	Valuable Experience	Overall Validation	**TOTAL**
WEIGHT	20%	5%	10%	20%	15%	10%	20%	**100%**

Table 6. Stakeholder evaluation criteria

PARAMETER	DEFINITION
i. Alignment with the objective	✓ Has an existing mandate of running program that speaks to the development of non-bank capital in Uganda
ii. Active rather than Passive	✓ Has direct involvement and interest in the engagement
iii. Has institutional mandate	✓ Has authority at national level as enshrined by law to provide support to the capital markets directly or indirectly through market development. The same applies to institutions outside of government structures
iv. Resource Provider	✓ Has the capability to provide or mobilise resources be they financial, human or other pertinent to the extent that the recommendations are agreeable
v. Infrastructure Support	✓ Is well positioned to provide or mobilise infrastructure like knowledge, systems, relationships, communication and PR and more
vi. Valuable Experience	✓ From their operating experience, have a body of experience that will do well to serve the inquiry of the engagement and the eventual outcomes
vii. Overall Validation	✓ Bring credibility when presented to an outer ring of stakeholders

Table 7. Definitions on ranking system

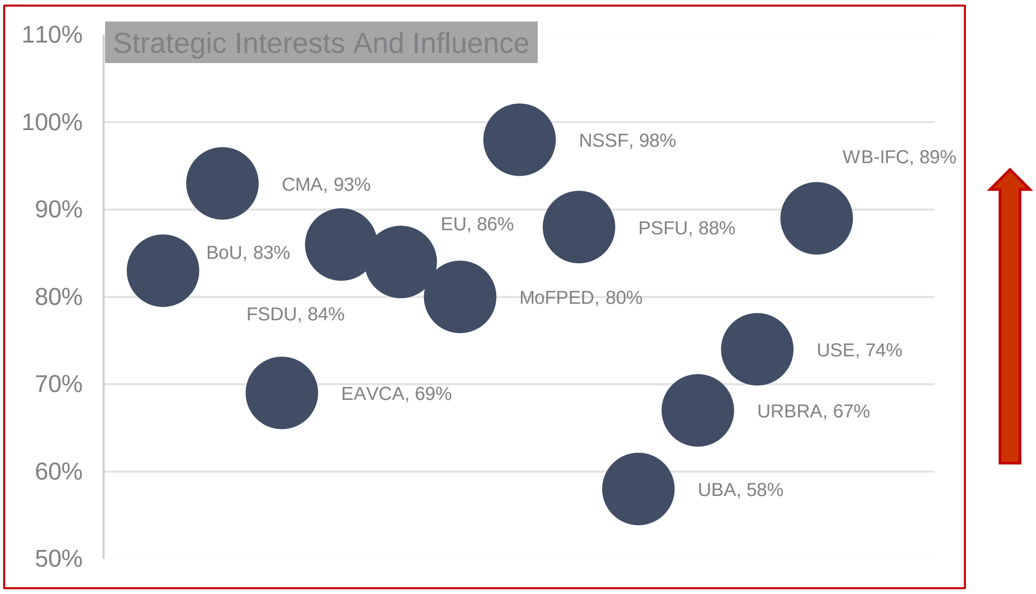


Figure 6. Plot of key stakeholder influence

It is worth noting that the preceding is not scientific and interpretation of stakeholder weights will differ from party to party.

10 SIMILAR FACILITIES IN SELECT JURISDICTIONS

The preliminary secondary analysis executed by CMA-U's research department *"Deal Flow Facility in Uganda: pre-study and market assessment"*[23] touched on the landscape of facilities across the continent that have constructs similar to what is intended for Uganda. The study covered the LSE ELITE Program, Ghana's Capital SME initiative, and the IBUKA Program in Kenya. Brief elaborations on the same follow below.

10.1 LSE Elite Programme

The LSE Group describes its ELITE Program[24] as an international business support and capital raising program for ambitious and fast-growing programs. Elite was developed by the LSE Group and implemented for the first time in 2012 by its subsidiary ***Borsa Italiana***. It was adapted and implemented in the UK in 2014 and then a number of European countries. The first ELITE programme launched outside of Europe was Morocco in 2016.

ELITE is in effect, an incubator and accelerator programme targeting global businesses with the view of getting them to raise capital through the LSE's main board. It also offers a myriad of networking opportunities for member companies. They have on-boarded more than 1300 companies from 44 countries across 36 sectors. The aggregate revenues of companies on the programme exceeds GBP 92b. They employ over 500,000 personnel in total.

The entry requirement is for businesses with revenues of USD 5.0m and above. They should have a strong management team that is desirous of raising more capital in either debt, equity, or a combination of both from private equity or a market listing. The ELITE programme uses local partners, desk research and other investigative tools to identify potential cohorts. Once on-boarded, ELITE partners are linked to a dedicated relationship manager before going through an assessment known as the ELITE Growth Compass.

Under the ELITE Growth Compass tool, companies are assessed over ten key metrics that are viewed as most critical aspects for businesses to scale. The assessment covers growth potential, competitive position, business plan solidity, governance, organisation and management, risk profile, reporting, digitalization, sales and marketing, and funding.

The ELITE programme has specially designed engagements with cohorts first of all on the matter of strategy in which a structured framework is used to develop a company's strategic path and then linking it to its financial and fundraising goals. This phase covers three parts on the matters of:

i. Creation of a framework structured in which a company's strategy is defined;

ii. Link the company core strategic objectives with financial models with an embedded means of defining organic and inorganic paths to achieving the said strategy; and

iii. Developing the right communication skills required to articulate the emergent strategy to an audience of potential funders

ELITE has a growth lab segment in which companies can dive deeper into the pointers raised during the Compass assessment. All in, the programme is for up to 24 months.

[23] Capital Markets Authority Uganda, Deal Flow Facility in Uganda: pre-study and market assessment, 2019
[24] The London Stock Exchange Group, *Elite Network* https://www.elite-network.com/, 2019

The ELITE programme's published successes highlight:

i. 833 corporate transactions involving 321 companies;

ii. 30% of companies in their stable have completed transactions;

iii. Total transaction value amounting to USD 12.0b executed;

iv. 725 Joint Venture and M&A deals involving ELITE companies;

v. 188 Private Equity Transactions involving 117 ELITE companies have been concluded;

vi. 45 ELITE companies have issued corporate bonds of USD 1.ob; and

vii. 24 ELITE companies have listed publically, raising $1.6b

Figure 7. ELITE program performance summary (LSE)

10.1.1 Elite in Africa

ELITE was launched in Morocco in 2016 under a collaboration between the LSE and the CSE. They enrolled 12 companies that same year and have to-date doubled the companies in the program.

The companies are drawn from a diversity of sectors including retail, IT, energy, and hospitality. ELITE Morocco also has on board 22 partners and investors actively incubating and on the ready to invest in the cohort companies. In March 2017, the CSE in line with their ambitions to build their enterprise into a multi-country stock exchange group, extended the ELITE program to West Africa in partnership with the West African Regional Stock Exchange BRVM.

ELITE also launched an East Africa partnership with the NSE in 2017 with designs similar to what was signed in Morocco. A renewable energy developer from Kenya, Olsuswa Energy, joined the program.

A number of companies from the 7th cohort in 2019 are listed below.

COMPANY	SECTOR	INFO
BRICOMA	DIY STORES – RETAIL	Largest chain in Morocco with 15 stores in across Morocco
ENERGY TRANSFO	ENERGY MANUFACTURER	Designs and manufactures transformers, distribution boards and circuit breakers
KITEA	FURNITURE RETAIL	17 outlets across the country with over 1,000 employees
MEDAFRICA SYSTEMS	IT	Provides a range of software and hardware systems in Morocco in partnership with global giants like IBM, CISCO and LENOVO.
OUTSOURCIA	IT SERVICES	Is a BPO service provider that provides back office outsourcing, contact centres, IT sourcing and other services to multinationals like Carrefour of France
MAYMANA	FOOD	Leading bakery business with six stores including one in Toulouse, France. Recently onboarded a PE investor, CDG Capital
LOCAMED	HEALTH	Provider of medical equipment covering diagnostic equipment, mobility, orthopedic, sports, medical cabinets and other hospital equipment
MESKA	FOOD	Meska is a sweet manufacturer and confectionary business that takes its name from gum Arabica.
TOP CHEF	FOOD	A leading confectionary business
FEDRAVET	VETERINARY SERVICES	Runs a number of veterinary outlets across the country
ERI SER	AGRICULTURE	Provides irrigation services and infrastructure to the agricultural sector
IWACO	IT	Computer hardware sales
GPC CARTONS	MANUFACTURING	Has been in the carton manufacturing business since 1992. Employs 500 people and has an annual capacity of 150,000 tons
DAMANDIS	FOOD DISTRIBUTION	A leading distributor of food – founded in 1991 and employs 500 people
AMA DETERGENTS	DETERGENTS	Is a leading manufacturer of detergents in Morocco. Launched in 2009 with the IMO brand. Employs 254
10 RAJEB	FURNITURE	Manufactures wood and metal doors in a 40,000m2 facility located at an industrial park. Employs more than 400 staff
SOREMAR GROUP	MARINE EQUIPMENT	Sale and maintenance of boats for leisure and commerce – they provide products for boats including telecoms, safety and navigation

Table 8. Company summary Morocco Elite (CSE, Consultant research

10.2 Ghana SME Program

Ghana's Capital SME program is much more subtle. The main focus is to facilitate SMEs to list on the GAX. Launched in 2016, the Capital SME program was launched by the British High Commission in Ghana with the aim of boosting capital market activity in Ghana. Their target at launch was to facilitate the listing of 5 SMEs on the GAX within a year. The GAX had been established in 2012 to allow for smaller businesses to raise equity capital through the public markets.

Capital SME was successful in getting 5 companies to market but also used the benefit of operating experience to reconfigure the program to allow for non-public equity in the form of Venture Capital be included as an option for companies that do not want to go the listing route. The program also realized that incubation was important in preparing the companies to be 'investment ready'. To this end, the usual features of an incubator mentioned in other sections of this study were embedded with emphasis on management skills, governance, business planning and communication of business cases to outside investors.

Capital SME provides an outside consultant to assist in due diligence preparation at no cost to the companies. The company currently has 9 companies in the program but is yet to register an equity close.

10.2.1 GAX-listed companies

The descriptions below are of the five SMEs listed on the GAX. They cover a diversity of sectors such as food and beverages, education, advertising and manufacturing. The market capitalisation is modest; between the range of USD 550,000 and USD 2.3m (Market Capitalisation quoted reflect end of day trading price and GHC-USD exchange rates of 19.December. 2019).

Meridian-Marshalls Holdings (MMH) is a diversified provider of career-oriented, post-secondary school education in Ghana incorporated under the Companies Code, 1963 (Act 179) as a public limited liability company. As part of their pursuit to become an Ivy League university in the next 10 years, three educational institutions (Meridian Pre-University, Marshalls, and High Point Academy) grouped under the umbrella of Meridian-Marshalls Holding (MMH) to create a dominant and ideal educational synergy. Marshalls had accreditation from the National Accreditation Board to operate as a tertiary institution in 2012 and currently has four schools: J. S. Addo Business School, School of Modern Languages, School of Arts and Social Sciences, and Marshalls School of Technology. It is affiliated to the University of Cape Coast, Ghana and Microsoft Technology Academy.

Market Cap: US. 1.8M

DigiCut Production & Advertising Limited (DIGICUT) established in October 2014, is a full service advertising agency and public relations consultancy firm. History of the company dates back to 2010 when it started operations as part of the former Ghana Media Group until October 1, 2014 when it was re-strategized as an unaffiliated entity. Since then DigiCut has conceptualized, designed, and mounted about 500 billboards, office and directional signs for its many clients in Ghana, Togo, and Liberia. The company's primary areas of business are advertising, production, public relations, and outdoor advertising through which it aims to increase sales both in the domestic and export market. DigiCut has consistently been profitable since it began. Its main competitors in Ghana are video producers such as Farmhouse Productions Limited, The AdVantage Group, and outdoor advertising companies such as DDP Outdoor Limited, all of which are unlisted.

Market Cap: 1.5m

Hords Limited (HORDS) is an agro-processing company involved in research and development of agricultural products and the production and sales of food and household products in Ghana. The company adds value to raw material such as cocoa, soya and herbs to produce a range of food supplements, breakfast cereals, detergents, disinfectants and laundry starch.

Market Cap: 2.0m

Samba Foods Limited (SAMBA) is a wholly Ghanaian-owned indigenous food processing and preservation business specializing in the condiments and seasoning market. The company, which started as a micro-enterprise initiative, was incorporated in 1993 and commenced business the following year. Since then, it has developed into a major player in the processed foods industry with a broad range of high quality food products to its name with focus on the production of ready-to-eat convenience foods of Ghanaian origin, notably being the first to commercialize the production and distribution of the local traditional pepper sauce known as "shito." By a special resolution in October 2014, the company was converted from a private to a public limited liability company.

Market Cap: USD 570,000

Intravenous Infusions Limited (IIL) is a Ghanaian pharmaceutical company and the market leader in the manufacture of intravenous infusions in the country. IIL was incorporated in 1969 and began operations in 1974 as the first pharmaceutical company producing intravenous infusions in Ghana. The company was set up to take advantage of the total lack of local production of infusions and the country's dependence on imports. Since then, IIL has grown to become the dominating market leader with a market share of about 50% in the country. The company also exports its products to the immediate neighboring countries, namely, Ivory Coast, Burkina Faso, and Togo. Intravenous Infusions Limited listed on the Ghana Alternative Market in December 2015.

Market Cap: USD 2.3m

10.2.2 Brief analysis of SAMBA

Special focus on the lowest market cap company listed on the GAX, SAMBA, reveals some useful information for the purpose of this study. SAMBA’s latest publically available audited financial statements are from 2017. They first of all reveal that the company is a family run business with 5 of 8 registered directors carrying the same surname. Further inquiry confirmed the same. A number of accounting issues were raised by the auditor but these weren’t sufficient to qualify the numbers.

The total balance sheet amounts to GHC 4.2m (USD 737,000) with low debt to equity ratio. The balance sheet size is well within the range of similar companies in the Ugandan market. SAMBA posted a loss of GHC 252,299, down from GHC 396,432 in 2016. These numbers may put off the casual investor but what’s noteworthy is that the revenues doubled from GHC 207, 121 in 2016 to GHC 444,044 in 2017 against the same expense base. This speaks to the spirit of ‘growth’ segments where capital is required for growth of business as a priority. It provides a number of lessons that would be useful in the approach that needs to be applied in the Uganda market. The share price performance however, is does not reflect the improved performance of the business. This may be a function of other factors at play at macro- or sectoral level that are not necessarily the purpose of this inquiry.

10.3 Kenya IBUKA

10.3.1 Preamble

A familiarisation visit to the KENYA IBUKA Programme was carried out between the ***8th and 11th of December 2019*** by the consultant and a representative from the EU. The IBUKA program in the consultant’s opinion after digesting publically available material warranted deeper scrutiny on account of the following:

- IBUKA has a combined incubator and accelerator features;

- Their target segment is more mature and established businesses that have operations in place;
- Even though IBUKA is hosted at the NSE, they are agnostic to the form of capital that a *hostee* opts to onboard – either listing, private equity, bank debt or other finance form;
- Are sector agnostic;
- Kenyan market has similar features to and challenges with Uganda;
- The scope of stakeholders mirror Uganda’s;
- The above stakeholders were willing to engage with the consultant; and
- Detailed knowledge of IBUKA would help shape the primary inquiry in Uganda in the next phase of the engagement.

10.3.2 Operating History of IBUKA

The capital market in Kenya like Uganda, has had a challenging environment in recent history with a deficit of companies willing to list. The reasons behind this drought are by not necessarily the same but there are indeed a number of common factors. The IBUKA program was launched off the heels of the MoU signed between the LSE ELITE program and the NSE that resulted in a few Kenyan companies joining the London-driven initiative. However the revenue threshold left out a number of companies that would likely benefit from a similar programme on the local front.

IBUKA combines an incubator and an accelerator for which the first phase is much on the advisory side followed thereafter by the second transactional stage. There is however no prescription that an applicant ‘*hostee*’ or *‘ibukee’* begins with incubation. An initial appraisal determines the current status of the business after which there is a decision on where they should sit. Their motive is enshrined in the simple mission in which they state that the programme is designed for aspirational companies that are driven by a firm commitment to embrace impactful changes that enhance their growth.

The response to IBUKA was positive. 19 total applications were received in the first cohort. The application process is simple. An application form online asks of basic information of the company and a website link. It is also possible for applications to be considered without a functional website which can be designed and uploaded within two (2) months of a hosting being confirmed. A requisite is that the applicant be introduced by a ‘host introducer’. A host introducer is an individual or an entity that places the *hostee* on either the incubator or the accelerator. These would typically be investment advisors licensed by the CMA-K or other recognized market intermediaries. A hosting introducer need not be a capital market licensee.

Incubation post-vetting aims to crystalize a company strategy not unlike the framework at ELITE. Indeed, the wheel of interventions is similar. IBUKA involves ‘financial, technical, operational, strategic, governance, environmental, legal, compliance, outsourcing, capacity building, risk, and other service level’. *Hostee*s are provided with valuation services prior to their entry to the accelerator which is purely at their discretion. The transactional aspects of the IBUKA cover placement documentation, valuation, and fundraising.

IBUKA emphasizes the aspect of visibility – not just to prospective funders but also, to advisors and the media as well. The IBUKA's communications strategy is aligned with that of the NSE. Application and hosting fees are conservative: approximately USD 2,300 and 3,300 for the incubator and accelerator respectively. The fees between the advisor pool and *hostees* is at their discretion.

10.3.3 Farm trip to IBUKA

A farm trip to IBUKA was held between the 8th and 11th of December 2019. The scope of inquiry has been mentioned earlier. The trip focused on the stakeholder matrix as prescribed before.

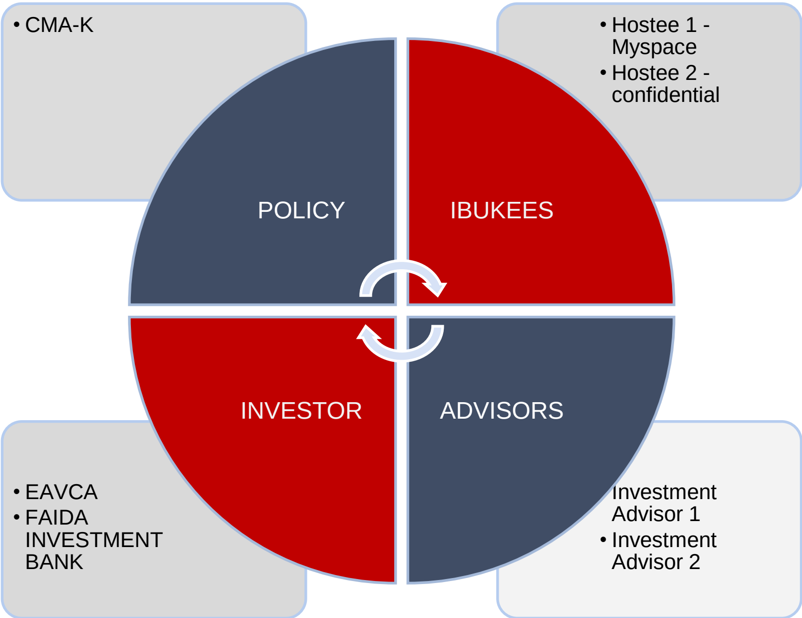


Figure 8. IBUKA matrix

The interviews were executed over a two-day period with the NSE being our main focus and facilitator. The feedback is presented on subject matter rather than source stakeholder to provide a logical sequence that feeds in with the workplan and ToRs of the engagement.

Elaboration and citation is provided where required.

Parameter	Definition
Motivation Originators	✓ Multiple Companies approached the NSE with the intention to list but conversations normally suffered from complexity of regulations, costs and the lack of knowledge from enterprises. ✓ The ELITE programme while well-intentioned, did not speak to the larger segment of SMEs operating in Kenya. ✓ The CMA-K realized that many an investor was turned off after embarking on due diligence exercise even when listing was being considered. There is a history of government support to the capital markets through the divestiture programmes of the early 2000's. The treasury was not averse to supporting the capital markets but insisted that initiatives internal to the market-players be fostered. The strategy to offer a diversity of products is enshrined in the capital markets strategic plan. ✓ The NSE as a demutualized for-profit entity also needed to get creative – more services and products including ETFs, the world's first mobile traded bond, and a derivatives market have all been instituted ✓ GEMS board was plagued with challenges – a trickle of uptake on one hand and then market interest was deflated after a series of very public governance issues were raised ✓ The mechanism speaks to the fundamentals of the market as opposed to the prescriptive models ✓ Market intermediaries needed to come up with more routes to revenue as listings dried up ✓ Screening of the top 100 medium-sized businesses was an obvious start point ✓ Challenge with foreign PE funds that extracted value and repatriated the gains, the other dividends notwithstanding ✓ PE was not exiting through the market – valuations tend to be higher when they sell onward to other equity funds or operators ✓ Polishing up the investor readiness of companies was paramount – outside of the existing start-up ecosystem
Motivation Beneficiaries	✓ Fast growing businesses needed to devise non-bank options for fundraising ✓ Entrepreneurs didn't know what they didn't know – they focus on business. The incubation phase is an important stage to understand what outside capital is ✓ Visibility is key for brand purposes, customer onboarding and the possibility to raise capital ✓ Compliance on taxes is standard practice for companies of a certain size. Once a company is at a certain revenue level, there is no use in 'hiding'
Requisites	✓ It was important to first of all get government buy-in. The IBUKA initiative was supported by the Deputy President and the Treasury as well as other arms of government. ✓ The regulator recognizes the benefits to the market and their role ultimately down the sequence but it was important that the process is regulator light. ✓ Buy-in from market intermediaries through their umbrella organisations – KASIB. The industry as a collective has shown that they can move policy – this was apparent when they successfully argued against the levy of a capital markets tax on equity sales
Initial Engagement	✓ Originally expected funding from FSDA – possible that the conflict with the LSE stifled that line ✓ Engagement with the join EIB- AfDB BOOST program ✓ Collaborations with other similar entities across the globe in order for shared learning and related. Existing MoUs with Seoul and Shanghai equivalents
Structure	✓ IBUKA is a program not a legal corporate entity ✓ IBUKA is hosted by the NSE. There is a steering committee, implementation committee, and a pool of advisors that are used to build capacity of hostees, particularly in the incubation phase – the advisors are custom to the needs of the hostee. ✓ Fee structure is in place but has been waived for most of the initial cohorts. ✓ Carry interest for successful placement of debt or equity ✓ Collaboration with EAVCA under an MoU should some of the cohorts be seeking equity
Services	✓ Incubation as described previously ✓ Acceleration as described previously

Parameter	Definition
Experiences	✓ Approximately 30 hostee companies in the 12 months of operation. A success beyond expectations. ✓ There are in principle commitments of approximately USD 100.m. Of this, USD 23m is a debt term sheet for one hostee. ✓ Has provided massive benefit for hostee companies in terms of strategic planning and related ✓ Visibility – much to the benefit of all parties involved. ✓ There are seeing hostees invite recommend IBUKA to their network of entrepreneurs.
Next Phase	✓ Seeking funding partners for operations ✓ The advisors need to agree on a standard pricing mechanism. ✓ A cross-hosting mechanism is possible with companies domiciled elsewhere in the region. ✓ Considerations around establishing a fund in residence to take make investments as parameters allow

Table 9. IBUKA Summary

10.3.4 Snapshot – MYSPACE COMPANY

The consultant had an interview with the founder and CEO of MYSPACE Properties, Mr. Mwenda Thuranira. MYSPACE– a leading lettings and property Development Company in Kenya. His is a success story that demonstrates true entrepreneurial zeal. Mwenda had numerous stints and ventures prior to setting up MYSPACE. The company grew rapidly to become the number one letting and development company at the coast out of their HQ in Mombasa. Mr. Mwenda had maximized options of funding through traditional capital from banks and retained earnings. He knew that in order to grow, he needed to have flexible long-term capital. However, with major focus on building a business, Mwenda need to understand the dynamics of business planning and the capital options that existed prior to engaging with the providers of capital. The IBUKA programme with its model of advisory first was a perfect mechanism for the successful entrepreneur to complement his business smarts with skills on developing a workable strategy for MYSPACE. Mr. Thuranira now has a number of funding options under consideration but also importantly, he as an understanding of how they work for his company

10.3.5 Select companies in IBUKA

COMPANY	SECTOR	DETAILS
Vehicle and equipment leasing limited (VAELL)	Finance	Asset and equipment leasing company with a presence in Uganda
Myspace properties	Property	Developer of residential and retail space across Kenya. Focusing now on the retail space of approximately 4000 sq.m
Tusky’s	Retail	Tusky’s is a leading supermarket chain in Kenya – they also have branches in Uganda
Globe trotters	Travel	A leading travel agency in Kenya
TSA commodities	Agribusiness	Tea company who run their own brands for both the domestic and export markets
Homeboyz productions	Media / entertainment	A diversified media company with interests in radio, television, and other entertainment
Blue nile steel	Steel manufacture	Has grown to a capacity of 100,000 tons p.a. in 12 years since they started operation. Products are wire products and steel from their rolling mills.

Table 10. IBUKEES

10.3.6 Benefits for the engagement

Specific to Uganda, there is scope to cross-host companies that are looking to benefit from the services of IBUKA immediately or in the near-term. It is also possible for the team behind IBUKA to provide consultancy services on the set up of the Uganda equivalent. This of course presupposes that there will be a strong case to structure a vehicle in Uganda and that its features will mirror the same as what is housed in Kenya.

The interactions brought out the varying interests of parties, an understanding of centres of influence, motivations that are financial, branding, knowledge dissipation and absorption and more. There is benefit in taking that knowledge into the approach for Uganda particularly as the consultant embarks on a detailed interrogation of the stakeholder ecosystem.

10.3.7 Lessons from IBUKA

Given that the IBUKA program was just launched in 2018, it is premature to put a verdict on its success. No company from the inaugural cohort has listed on the NSE (speaking to the embedded bias of the program) plus specific PE or acquisition deal is yet to be announced. That said, that there are a diversity of *ibukees* enrolled into the program speaks to the demand from enterprise for a process where they understand concepts around alternative finance and what needs to be in place. The concept of uptake is vital in defining success for any initiative crafted for the Uganda market as will be detailed in a subsequent section.

For the program to be launched, we are aware that a number of vital cogs needed to have been in place. The key ingredients are listed below.

- ✓ ***Regulatory support:*** The CMA-K recognized the need for such an initiative within the broader context of developing the capital market. This was especially important on the back of a relatively docile period in the Kenyan capital market as well as the fact that the industry had plagued with a number of high profile governance issues.

- ✓ ***Visible support through the NSE*** that serves as a home for the programme. It is noteworthy that the demutualized NSE is a listed-company in its own right with revenue and other performance expectations. As such, they are compelled to innovate products and services that ideally should lead to more listings. That the NSE had engaged directly with the LSE’s ELITE was useful in enabling them to adopt a customized plan for the local market.

- ✓ ***Consensus among the financial advisors*** – the association of investment banks and investment advisors in Kenya offered support to the initiative by offering their services to ibukees at no cost in the initial incubator stages. The wider pool of advisors that fall outside KASIB adopted the same principle although there is a framework at the acceleration phase for companies and required advisors to negotiate engagement terms at their own accord.

- ✓ ***Support from the EAVCA*** It was vital to onboard the Private Equity fraternity in East Africa as a potential partner. This offers the enterprises choice insofar as the spectrum of funding is concerned should they wish to explore non-bank capital. The benefit for the PE funds from such an initiative is obvious: quality pipeline is hard to find in the region so therefore a programme that mitigates operational and strategic risks is welcome.

- ✓ ***An effective communication strategy*** to all key stakeholders was vital – simplying the message relative to the otherwise complex language of finance spoke to the needs of businesses in particular who could clearly anticipate the benefits of investing their time and resources in IBUKA.

- ✓ That the ***process of applying and being on boarded is simple*** also made it easier for companies. The information requirement from the onset is not intrusive – no ask for financial records or other aspects that would be surplus to what is needed to appraise a prospect.

- ✓ ***IBUKA is constituted by professional advisors and their respective umbrella organisations*** but also presented in a manner that doesn't have a prohibitive cost structure. Entrepreneurs are suspicious of plain 'sharks' who parade themselves as advisors with often disastrous outcomes on one hand, and tend to be intimidated by the cost structures that some of the more visible professional firms levy.

- ✓ Finally, the ***sense of structural independence*** we feel, was vital. The program does not serve the interests of one party over another. To this end, the cohorts are comfortable that every party involve is providing their competencies in the interest of the companies themselves.

11 SWOT ANALYSIS

The internal and external dynamic of the proposed facility needs to be looked at from the perspective of potential challenges and their mitigants on one hand, and the opportunities that it presents on the other. The analysis is based on the current reality and what the anticipated developments that will have an impact on it.

STRENGTHS	WEAKNESSES
✓ Government and Development Partner buy-in ✓ Private Sector interest including enterprises and existing institutions in finance ✓ The ecosystem has the requisite human resource	✓ Weak policy regime ✓ Integrity of the data is questionable ✓ No local precedence ✓ There is no logical 'home' within existing institutions for the facility ✓ Pool of advisors locally is thin
OPPORTUNITIES	**THREATS**
✓ Demand from potential offtakers exists ✓ Seed state incubators/accelerators are thriving ✓ Fund in residence ✓ Geographical diversification across the country ✓ TA is expensive on an individual fund level	✓ Seed stage incubators might graduate to the next tier ✓ Some funds come with their own interventions to enhance investibility.

Table 11. SWOT

11.1 Strengths

✓ The initiative has ***strong support from the Government of Uganda through the CMA-U and its line ministry, MoFPED.*** In addition, Development Partner programs that seek to address the challenges with Access to Finance in Uganda with a bias towards non-bank funding also have the proposed facility on their radar. This is particularly important as will be shown later on the aspect of sustainability due to the fact that facility will have multiple components that converge to define it as a success over and above matters financial.

✓ The Private Sector through both umbrella organisations and companies in their own right ***recognize the need for an intervention that enables businesses to improve their internal environment.*** This would, as has been frequently stated, enable them to engage with a broader pool of capital providers outside of formal and informal lenders. Their willingness to immerse themselves in the facility will be important.

✓ The ***ecosystem includes a diversity of advisors*** covering everything from strategy and legal to environmental and social. The primary inquiry provided confirmed the need for quality well-priced advisory services as a key ask from businesses.

11.2 Weaknesses

✓ The ***policy gaps with regard to non-bank finance*** from outside of the capital markets needs to be addressed. PE as an asset class is only mildly touched upon in the URBRA regulations that label it as an investible asset for regulated pension funds. The matter of policy extends to the tax system – typically, risk capital that is channeled towards early stage businesses or those ignored by formal funding structures in the regulated banking system enjoy tax breaks. Capital gains tax levied on exits outside of the capital market (even though exemptions for exits via the stock exchange is still up for debate) seems punitive The ambiguity and opacity on the matter of taxation has resulted in most funds opting to register offshore in jurisdictions like Mauritius and Liechtenstein rather than locally. There will be a need to visit matters of policy over the mid-term.

- ✓ Multiple definitions of SMEs and from there-on, ***the challenge when it comes to quality of data***. Often, the numbers presented are suspect because SMEs need to shield earnings from the tax authority. The data and information problem extends also to industry and sectoral information that tends to be shallow, outdated or both. PE in many ways addresses the data challenge by structuring their finance that rides on expected performance rather than valuation based on historical numbers. The facility will have to design a screening process that allows for business diagnoses to be carried-out where information integrity is not an issue.

- ✓ A number of the programmes elsewhere are borne out of institutions that have an ongoing mandate around the aspects of promoting non-bank finance. The rationale balances their own internal objectives and priorities with that of the market and it is often the case that they have some bases covered on the matter of resources needed to kickstart programmes. Uganda tends to fall short in that regard – ***there is no obvious host for the programme within the current construct of stakeholders***. It is however an opportunity to develop a structure that has the right level of independence so that the users do not see it to be biased in favour of one constituency over another – this is in line with feedback that came out of the primary inquiries as will be demonstrated.

- ✓ That there is ***no local precedence for this sort of intervention*** means that the facility will be the experiment. While a number of accelerator/ incubator facilities that speak directly to the needs of businesses are cropping up, they address a totally different segment than that which the facility will be targeting. The feasibility therefore has had to explore the motivation behind and operational environment of similar facilities across the continent. The findings were merged with on-the-ground inquiries covering the stakeholder buckets of policy, investors, investees and market intermediaries.

- ✓ The ***pool of qualified professional advisors is thin and Uganda needs to be increased***. Because of gaps in the system, some transactions are intermediated by persons/entities who are short on skills. The facility would therefore do well to draw in experts from CMA-U licensed advisors (and those from accredited by other professional bodies for non-finance advice) as well as offer training modules targeting advisors.

11.3 Opportunities

- ✓ The facility has ***strong in-principle support*** from the aforementioned stakeholders. Most important is the validation from the businesses themselves who will tap into the services on offer. Sustainability in the mid-term rides on the ability of the facility to generate some form of revenue in a manner that balances its internal operational obligations without necessarily burdening the businesses that require the services. The preceding will be a key part of the financial sustainability model.

- ✓ While existing ***accelerators and incubators speak to a different tier of business*****,** there are lessons to be learnt about the broader ecosystem of business in Uganda. Most importantly is that the promoters of the said ecosystems have recognised the need to cultivate the same environment for businesses that fall into the ‘stable’ segment. This was apparent in our interviews with institutional funding stakeholders who currently have seed stage initiatives in play.

- ✓ The services provided to the companies on-boarded effectively make them ***more attractive to investment***. With this in mind, there is an opportunity for the facility to carry interest should the cohort(s) opt to raise capital from a partner pool of PE funds, or further down the line, raise its own fund in residence to take advantage of the body of work invested in incubation period. This speaks to the aspect of sustainability but naturally, would warrant a robust inquiry into what makes most sense for partners.

- ✓ The facility will do well to ***avoid restricting its catchment area to Kampala***. The opportunity provided by the emerging cities and peri-urban areas must be explored – ultimately enterprise that thrives across the country will provide much needed economic uplift to those areas. There is precedence in Kenya where the IBUKA program has been deployed in other cities like Mombasa and Kisumu with great success. The form of deployment can at first be by way of communication and awareness and graduate to more physical presence once certain benchmarks are achieved.

- ✓ TA is ***expensive on an individual fund level***. As was mentioned in section 7, TA mostly comes into the picture when there is a presence of a DFI in the LP pool. Withought a granting partner, GPs that incorporate TA have to find a means of recovering that cost as it has an impact on returns.

11.4 Threats

- ✓ We do not envisage any material threats aside from the ***potential for existing incubators and accelerators to lever up*** into the segment which serves as a focus for the intended facility (established SMEs).

PART C:
PRIMARY RESEARCH

12 OPINION OF ADVISORS AND FUND MANAGERS

In our open-ended interviews with market intermediaries and investors, we focused on the logical transaction path of ***origination, investment, management,*** and ***exit***. On account of the nascent state of PE in the Uganda market, there have not been many documents exits either by way of trade sales or listings. A consistent feature of most engagements therefore focused mainly on origination and investment, with some commentary on management.

12.1 Financial advisors and other market intermediaries

i. A global financial services firm with a strong presence in Uganda was quick to point out that that the ***due diligence processes were onerous and not particularly customized with the local enterprise/entrepreneur in mind***. The propensity to apply the same methodology that worked elsewhere to the local scenario almost line for line effectively led to situations where there was negligible progression if any at all from the initial screening processes. Another financial services firm concurred in saying that the 'investors perception of risk is utterly misplaced'. Due diligence is hampered by a number of challenges particularly:

- ✓ The tendency for entrepreneurs to run different sets of accounts (for themselves, for the bank and the taxman);
- ✓ The lack of integrity when it comes to data and the also that up to-date information is difficult to find;
- ✓ Inability to enforce agreements and even when there is recourse to the court system; delays in the process drive costs from a time and monetary perspective; and
- ✓ The reservations that entrepreneurs have on the matter of letting outsides in on their internal affairs.

ii. Much of the above circles back to the subject of ***the entrepreneurial ecosystem that enables enterprises to thrive***. This system is informed by the complexity of a community's culture towards enterprise, the rule of law vis-à-vis a judicial system sufficiently covering the resolution of commercial disputes, enforcement of legal contracts, turn-around time for cases to be resolved, and levels of corruption in general.

iii. The advisors went on to add that because they are ***unable to bend the rules on the matter of financial reporting***, it is often a challenge for them to onboard clients on the demand side of capital.

iv. ***Due diligence from a time and cost perspective is a deterrent*** for those companies who might pass the initial rigorous scrutiny. Cases where due diligence takes 12 to 18 months were shared and those often led to the need to revise terms because of material changes in the target investment.

v. Another deterrent is the situation where ***investors seek to be compensated for due diligence costs by the investee upfront***. Most companies do not agree to such a mechanism even when the finance terms presented may be attractive.

vi. ***Shortcomings in governance*** was raised by the same advisors. The matter of board installation, its diversity from a skills and personnel perspective, compliance in terms of reporting, and other matters are viewed as an unnecessary cost to business especially for the SME segment. Investors recognize that governance makes their job easier and is a key to them meeting their target IRRs. The lack of governance makes a number of post-investment activities hard to monitor and raises challenges with respect to the provision of strategic guidance and overall investor assistance. SMEs are often willing to adopt aspects of governance if there is some support to them in being able to do so within a manageable cost threshold. Technical Assistance or Business Development Services is a tool that funds sometimes deploy to assist investees improve their operating environments. This service is typically delivered by a third party entity.

vii. Another advisory firm shared that they are active in terms of providing origination services for PE and other categories of investors, as well as preparing their local client base for external investment. They emphasize that ***the assumption gap needs to be bridged***. By their estimates, there are no more than 2,000 companies in Uganda with a turnover of between US$ 500,000 and US$ 5.0m. They point out that even while companies are willing to explore options, the form of capital available, particularly on the PE side, is expensive. They echo the points around data integrity and governance but also make it clear that businesses are wary about dilution of equity. This might boil down to the nature of their businesses i.e. family owned in some cases or a lack of understanding on what a strong investor might bring to the table in terms of expertise, new markets and continuity of business. Their idea of sustainability is one where there is an alignment between investee, investor, and the broader economy at large. They point towards improvement in compliance, clarity on funders and the options available, management of expectations insofar as the aspect of control of the business is concerned, pricing and fees including the timing of the said fees, and emphasize that there has to be a clear communication strategy at play. Because of their experience on the tax front, they note that the current tax to GDP ratio in Uganda at 14% is low – this means that any business that rears its head will be on the radar of the tax authorities. The cost of tax and avoidance of tax isn't quite the issue, a means via which the tax authorities can understand that SMEs, if allowed to grow within an accommodative tax environment, will reap benefits to the national coffers in the mid- to long term must be explored. Down the line, the capital markets in their opinion, has role to play with regard to exits. For this, the NSSF as a dominant fund manager should support smaller businesses by making PE investment themselves as is allowed in the URBRA guidelines on investments.

viii. ***Alignment between investor and entrepreneur is important*** opined another market intermediary. Even when 'impact' is a key feature of an investor's mandate, it should resonate well with the local expectations on the same. Pre-investment assistance involves screening potential investees using a dashboard that measures a number of key metrics. Their experiences demonstrate that basic financial management is the most prevalent issue with SMEs followed by governance. They also recognize that enterprises see value in adopting the recommendations that come out of the diagnosis phase and are willing to pay for them. Like the other advisors, the firm concurs that the due diligence process is longer than it should be particularly for businesses whose ask is between US$ 25,000 and 250,000.

12.2 Investors

i. A fund manager we engaged with emphasized the need to ***develop a dedicated policy for Private Equity investment.*** The point about how the provision of early stage or risk capital that fuels growth of enterprises in the aforementioned 'missing middle' category should be shielded from punitive taxes from both the investee and investor perspective. As it is, the easy 'out' for investors is to register their investment vehicles offshore which results in less economic activity, jobs created and tax receipts locally.

ii. ***Origination challenges are consistent with what the advisors raised*** but another dimension was brought to the fore. The investees in their opinion, sometimes engage unqualified intermediaries whose commission incentives make it difficult to get to closure. For this, they propose that a code of conduct and qualification credentials for market intermediaries, perhaps under CMA-U sanction, be designed. This would emphasize ethics, valuation skills and being bound by legal agreements. Situations where intermediaries use termsheets issued after a long period of engagement as a basis to shop around elsewhere are not uncommon.

iii. ***Investors acknowledge the need to change the due diligence script***. This is many ways, is now informed by the difference in investment instruments that they are presenting to potential investees. Funds are structuring convertible instruments or pure debt linked to performance especially in situations where there is no common ground on valuations. The result of this is that there is an unfortunate trend towards debt rather than equity investments. The debt tends to have some flexibility in terms of structure and collateral requirements but is more expensive or on par with commercial bank finance.

iv. ***Business Development Services (BDS) or Technical Assistance (TA) is packaged with some investment at both pre- and post- investment stages***. Technical Assistance should be directed towards promoting efficiency within the business such that revenues are increased and costs are contained. As the same time, the matter of ESG compliance often requires outside expertise. Pre-investment Technical Assistance is aligned with investment readiness and post-investment Technical Assistance more specific with regard to the company's targets and value enhancements through systems, and personnel.

v. Other fund managers submit that the ***entrepreneurial system is self-filtering***. They argue that entrepreneurs prevail regardless so in essence, those who are well positioned to succeed will already have some semblance of operational checks and balances as well as governance in place – 'either you are an entrepreneur or you are not'. That said, they are still inclined to play it safe with debt instruments linked to revenue albeit for longer tenures. On the matter of funding of assets, off balance sheet finance via leasing is increasingly being applied though the tax burden on leasing in their opinion needs to be addressed. The funds average close to 80% of their capital deployed into debt or debt-like instruments. This is, in their words, reactionary and a basic function of the market within which they operate.

13 BUSINESS SURVEY FINDINGS

13.1 Preamble

We created a survey in order to collect the opinions of business owners who we felt fit the parameters defined in the top level Sustainable Business for Africa program. The design benefited from the information compiled from the secondary research exercise as well as the open-ended component of the primary inquiry that targeted investors, a selection of investees, market intermediaries and other pertinent stakeholders as has been previously articulated. The survey construct took into account:

i. The ToRs of the assignment;

ii. Constructive comment shared by key parties at the inception meeting;

iii. Lessons learnt from the farmiliarisation tour of the IBUKA program in Nairobi;

iv. Experiences and opinions shared by fund managers, advisors and policy experts; and

v. Material pointers derived from the secondary research.

Choice in respondents and the selection thereafter were informed by a number of partner databases including PSFU, CMA, the EU, referrals from fund managers and advisors, and the consultant's own contact list. The criteria for companies centered on that have operational experience behind them rather than start-ups. The survey was accompanied by an accreditation letter jointly signed by the EU and PSFU. The intro to the survey was:

"This survey's aim is to ascertain whether businesses in Uganda have appetite for an entity that improves their ability to access non-bank finance from private equity, venture capital and the capital markets. It is supported by the EU Delegation to Uganda (EU) and the Private Sector Foundation Uganda (PSFU). The survey is set to collect responses anonymously - no personal or specific business information is required from you."

The survey run between ***February 11 & March 10, 2020***. In total, the survey was circulated to 378 companies which triggered 168 dedicated visits to the survey for which 75 responses for the whole survey were registered (an additional response was completed by the consultant for testing purposes). This translates to a conversion rate of 45% for survey visits. *(It is worth noting that the first database that informed the majority of the circulation list had high email bounce rate and furthermore, a number of emails that were delivered did not translate to click-throughs)*

The consultant randomly selected 3 respondents for in-depth open-ended interviews carried out on ***February 13th** & **February 18h, 2020***. The survey data compilation and analysis was carried out by a dedicated online survey application that summarized findings in a report.

The respondent data was auto-generated by the online application and presented in graphic and tabular form. Some of the questions were multiple choice (Single Answer) while others were Multiple Choice (Many Answers). For multiple choice (Many Answers), there was a provision for respondents to elaborate further where the choices provided didn't correspond to their views (other box). The submissions in relation to these 'other' contributions was included in the report; where deemed relevant, the consultant has included those contributions to the summary.

The survey was designed to extract information that spoke both to the TORs and also to give some basic insights on the respondent company. All information was compiled anonymously for purposes of privacy.

Question themes aligned with the TORs, secondary research and interviews carried out with non-investee stakeholders are captured in the table below:

Question theme	Elaboration	Rationale
1. Type of SME enterprise within sub-segments	Different motivation for doing business among SMEs ultimately defines the sort of capital they seek. In this regard therefore, it is important to know what the business theme of the respondent SME is so as to map with funding opportunities	Research on 'The Missing Middle'. Are businesses Growth Ventures, Niche Ventures, Dynamic Enterprises, or Livelihood Sustainability Enterprises?
2. Use of non-bank capital among SMEs in Uganda	Is the business exploring outside of the commercial banking space? What form of finance is it – aligned with definitions of funding instruments.	Awareness within SMEs of alternatives that are out there – feedback from stakeholders on limited knowledge
3. Sources of non-bank capital among SMEs in Uganda	For those tapping into alternative finance – where are they deriving it from?	Spectrum of products covering equity and grant funds
4. Considerations in seeking an equity investment partner	What should the finance provider bring to the table in addition to capital? Which aspects of strategy are most important to the SME if any? What about control? Are businesses happy to cede?	Measure of sophistication – will the enterprise need more than capital? Feedback on the aspect of ceding control as informed by market intermediaries and investors
5. Challenges when seeking external funding	What are the hurdles in engaging with external providers of equity capital? Are the challenges external or internal? Are the advisors available and affordable?	Cross reference the DD process (lengthy duration of) and other issues raised by investors such as compliance
6. Basic information about the company.	To confirm scale, years of existence and sector	Additional information to further describe the business

Table 12. Survey question rationale

13.2 Survey results

13.2.1 Basic Company Information

With 24% of total submissions, the respondent pool was dominated by agribusinesses from a sectoral perspective. This was followed by finance and professional services at 14.7 and 13.3% respectively. 10.7% were in the IT space and 6.7% operate in construction and building materials.

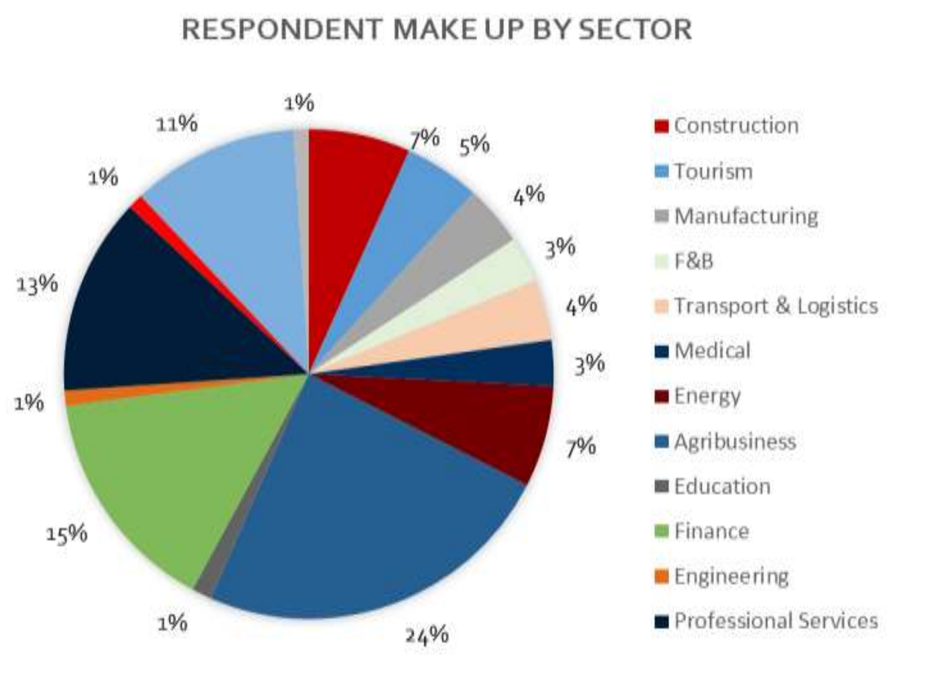


Figure 9. Respondent breakdown by sector

In line with our desired scope, most companies surveyed have been in business for more than a year. 45% have been in operation for more than ten (10) years, 30.7% between one (1) and five (5) years, and 18.7% between 5 and 10 years. A mere 5.4% are in their early stage of 12 months or less.

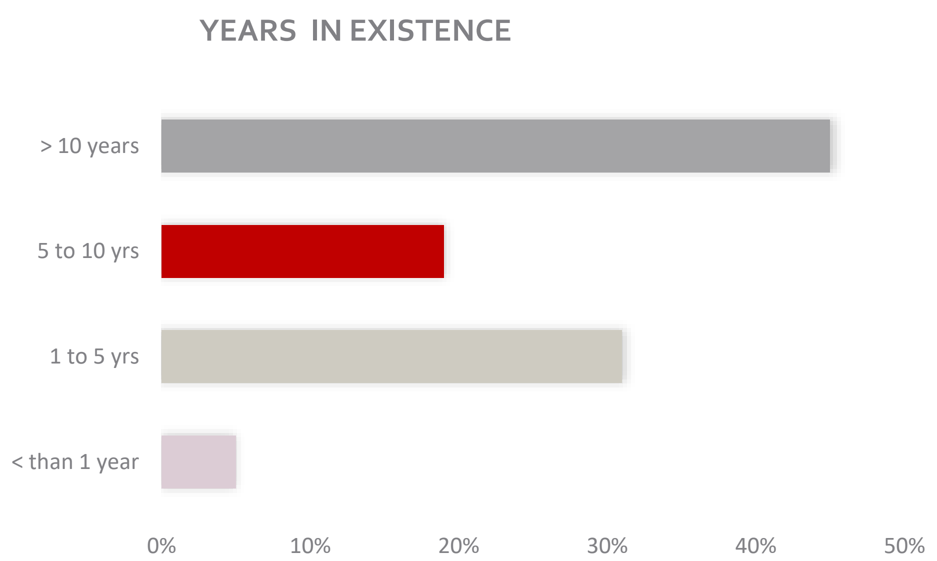
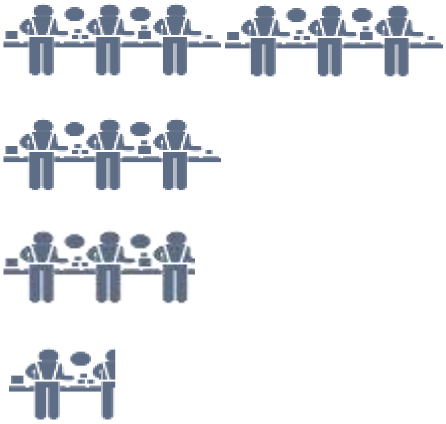


Figure 10. Respondent years in business

Over 75% of the companies surveyed employ less than 50 employees in line with the country definition of 'small' enterprises while 11% are in the medium enterprise bracket with 50 to 100 employees. On the other end of the spectrum, just 5% employ in excess of 100 full-time staff.



- 5% > Over 500
- 11% between 50 and 100
- 9% between 100 and 500
- 75% < 50

Figure 11. Number of employees

13.2.2 Business motivation and sub-segment

Against this backdrop particularly on the aspect of years of operation, it came as a surprise thereafter that 32% of respondents described themselves as 'highly innovative' – they seek to disrupt the status quo. This was followed by stable i.e. those that provide everyday consumer goods. Impact as a category came next at 22% - these are the companies for which social and environmental scores are just as important as financial, and then at 21%, the last category defined themselves as being niche.

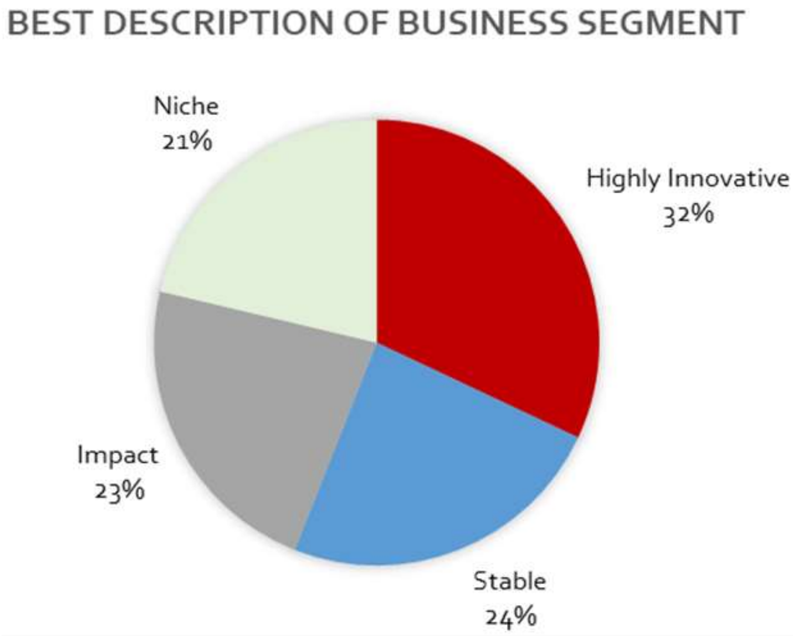


Figure 12. Business description

13.2.3 Source of funding – debt, equity and grant instruments

Given their years of operation, it wasn't inconsistent with preceding information that most companies effectively bet on themselves. 32.9% fund growth through retained earnings. Funding through formal bank credit at 22% is well above the national average (9.7% as per the World Bank Enteprise Survey) and then at 18.4%, a higher than expected number have received funding form external investors. Informal lenders were a priority source for 10.5% of respondents. In all, 54% confirmed that they've received capital from external investors and 45% have not – just two of the total number of respondents opted out of answering this question.

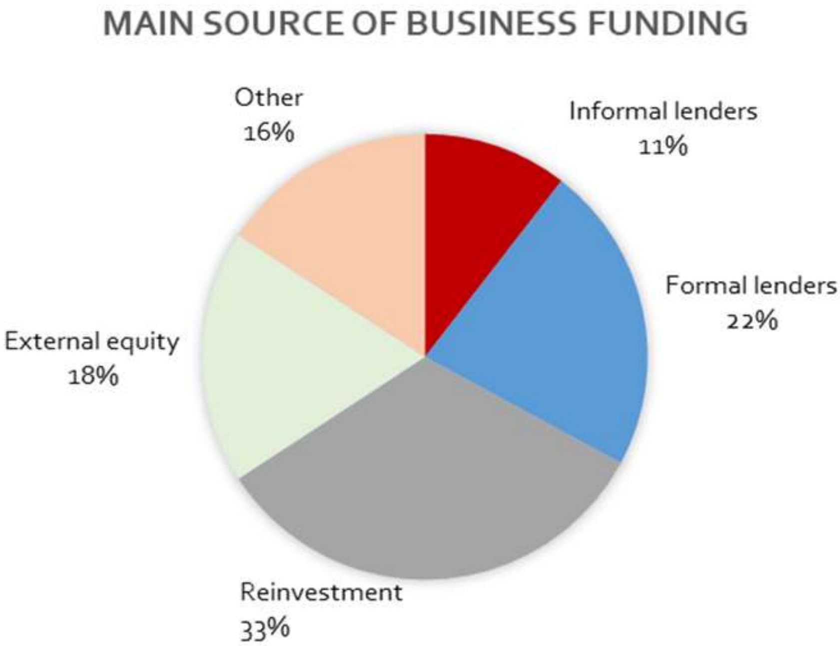


Figure 13. Respondent segmentation by main source of funding

13.2.4 Equity and grant instruments

In the breakdown of finance from external investors, the majority confirmed that it was sourced from 'informal associates' friends and family (points out to likely small amounts). Formal PE and VC was a funding option for 23.2% of respondents followed by business grants from NGOs or government agencies. Semi-formal investors like investment clubs catered for 9.3% of external equity investment.

The basket of 'others' included funding from an overseas parent / partner, family inheritance, pre-payment for product and crowd funding. As is reflected in the secondary market information, no respondent has tapped into the capital market for funding.

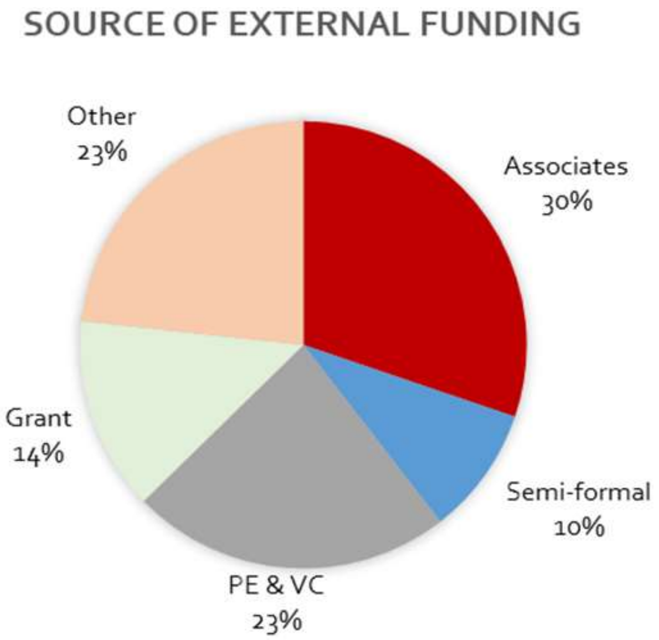


Figure 14. Breakdown of grant and equity capital

13.2.5 Preferences sought in a partner

**Respondents were able to select multiple choices for this question which resulted in percentages relative to number of responses provided per each answer option.*

The need for investment partners that provide useful strategic insights that would help with business structure and growth topped the rankings as the most important input that external investors should provide. The flexibility of funding relative to options from commercial banks came in second. Respondents also felt it important that they keep control of the business. The fourth priority is passive investment – investors who provide the capital but have no operational or strategic input. The lowest consideration was that around entrepreneur's willingness to ceding control to external investors.

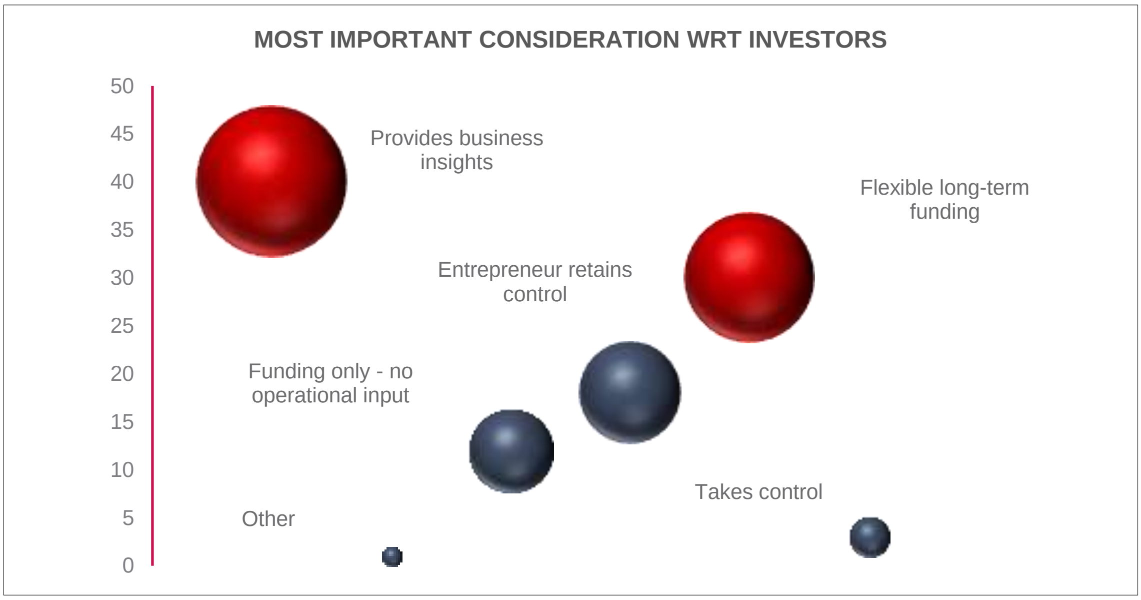


Figure 15. Most important consideration in evaluating business partner

13.2.6 Challenges with the origination process

**Respondents were able to select multiple choices for this question which resulted in percentages relative to number of responses provided per each answer option.*

The biggest challenge that companies face when going through the process of engaging with possible investors is that regarding the complexity and time required to close the transaction. This posted a score from 45% or the companies surveyed. The second most important concern is the matter of the high cost of professional advisors as was selected by 32% of respondents.

Companies were also quick to admit that they need some internal reorganization prior to engaging outside investors. This was followed by those who simply are not aware about where they can source proper investment advisors. The next ranked challenge is the complexity of structures presented to them. Other material contributions included the need to align objectives of the investor with the company, and that issue of taxes on funds disbursed which we interpret to be stamp duty and capital gains on share transfer and value of enterprise respectively.

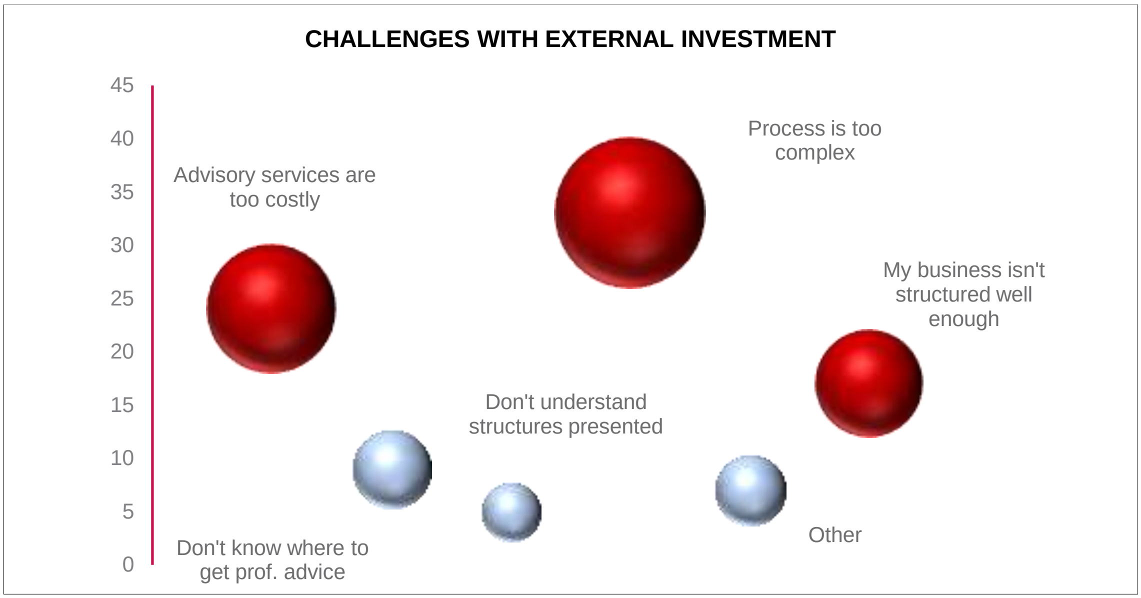


Figure 16. Hindrances to securing external investment

13.2.7 Most desired services

**Respondents were able to select multiple choices for this question which resulted in percentages relative to number of responses provided per each answer option.*

The final question focused on what services the companies felt was most needed for their situation. The majority stated that the most important service for them is one which assists them in developing a comprehensive strategy for their business. This stood at 56.8%.

In line with current trends and perhaps the disruptive motives of respondents, designing digital strategies for both operational efficiencies and business growth was presented as important by 36.5% of respondents. Compliance on tax, governance and other matters resonated with just over 24% of respondents, while 20.7% emphasized the aspect of needing to improve their human resource compliment. 18.9% felt that understanding the value of their business was important to them.

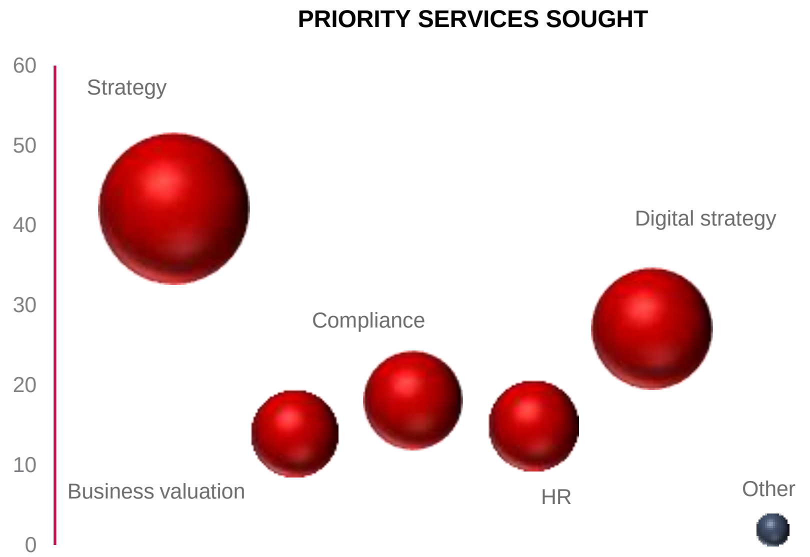


Figure 17. Most important service sought

14 RESPONSE MATRIX

The table that follows documents responses from all categories of stakeholders. Common and conflicting opinions alike are presented after which there is a series of interpretations in line with the ToRs.

<table>
<tr><th rowspan="2">RESPONSE</th><th colspan="4">CATEGORY</th></tr>
<tr><th>INVESTORS</th><th>INVESTEES</th><th>INTERMEDIARIES</th><th>POLICY</th></tr>
<tr><td>Origination</td><td>✓ Lack of information & data
✓ Compliance issues on accounting and overall governance
✓ Intermediary interference
✓ Lack of skills on account of Intermediaries
✓ Lofty expectations on the matter of business valuation</td><td>✓ Duration of DD is too long and the process is complicated
✓ Admit that assistance is required in order for them to package their businesses for potential investment
✓ High cost of professional advisors
✓ Not knowing where to get professional advisors
✓ Guidance on valuation is important</td><td>✓ Investees not keeping the right information as per required standards
✓ Lack of understanding on the part of investees
✓ Investees not in positions to fork out for fees</td><td>N/A</td></tr>
<tr><td>Investment</td><td>✓ Debt-link structures that are less onerous are preferred
✓ For pure equity, investees may not be comfortable ceding shares
✓ To manage expectations and risk, capital linked to certain operational and other deliverables is released on tap</td><td>✓ Alignment with investors is key
✓ Strategic input matters
✓ Preference to retain control
✓ Tax challenges on funds received
✓ Tax challenges on capital gains
✓ Costs are often front-loaded thereby disincentivizing investees</td><td>✓ Provide third-party opinions on various aspects like valuation or matters on ESG</td><td>✓ Provide a conducive policy environment for fluid engagement between investor and investee
✓ Derive tax policy on the matter of risk capital
✓ Revisit the board aimed at attracting SMEs to the capital market
✓ Ensure fund managers and trustees are aware of the variety of asset classes in which they can deploy capital</td></tr>
</table>

RESPONSE	CATEGORY			
	INVESTORS	INVESTEES	INTERMEDIARIES	POLICY
Management	✓ Matter of governance and skills improvement is an issue ✓ Governance and management improvement need not be heavy ✓ Additional costs ✓ Provision of TA specific to the portfolio company needs to be considered ✓ Asset Management / Leasing is a challenge because of an onerous tax regime	✓ Require guidance on HR ✓ Prefer to keep control of the business ✓ Digital strategy is an important component of advice	✓ Have a role in providing independent guidance	✓ N/A
Exits	✓ Exits a challenge on account of the shallow capital markets ✓ Offshore transactions preferred because of favourable regimes governing the asset class	✓ No opinion sought	✓ Exits a challenge on account of the shallow capital markets	✓ Policy framework should allow for exits to be facilitated within the local environment

Table 13. Response matrix

15 MATTERS ARISING FROM RESEARCH

The secondary research provided some insights on what value proposition existing SME-targeting accelerators and incubators provide across select Sub-Saharan Africa and European jurisdictions. As has been reiterated across the report, it is important that these insights are contextualized for the Uganda setting. It goes without saying as well, that the broader pillars vis-à-vis the entrepreneurial ecosystem highlighted in section 2 of this report be considered – these will no doubt be worked upon in the mid- to long-term given their complexities. It is against this backdrop that the primary inquiry was fashioned; targeting not only key stakeholders on the demand and supply side of capital, but also policy and regulatory authorities and market intermediaries.

Before narrowing down to specifics, it is important to point out that what emerged from the combined research were a number of material outputs that speak to the ecosystem in its entirety:

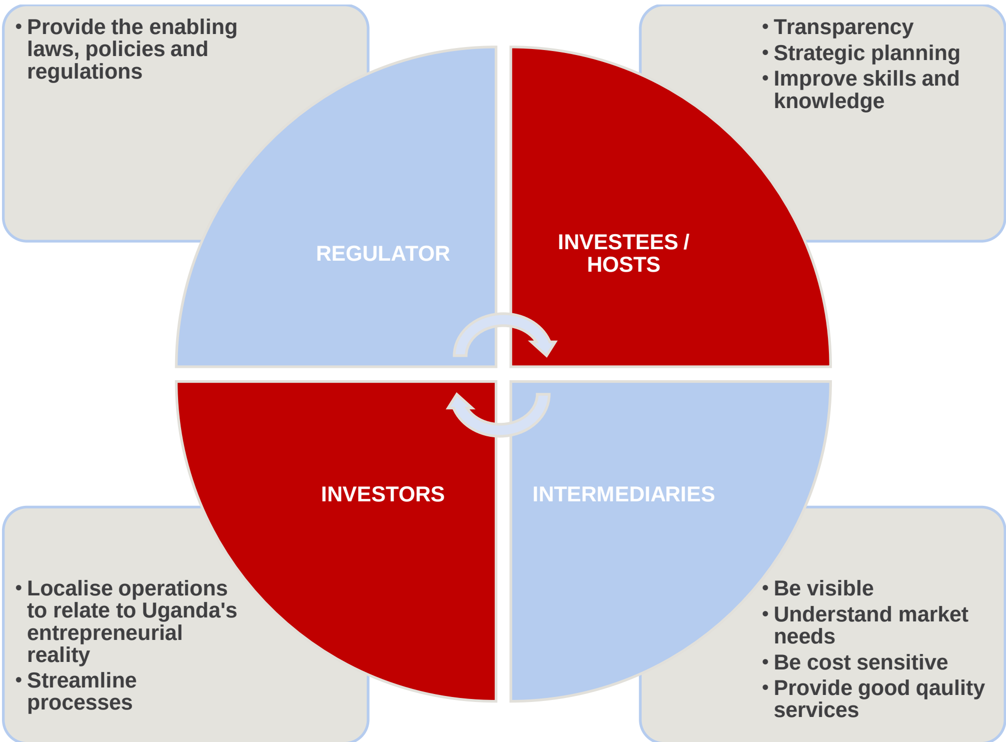


Figure 18. Response matrix

15.1 Regulator Responsibilities.

The Ugandan regulatory regime is set up to cover among others, SME enterprises seeking alternative finance from the capital market even though the eligibility parameters are not exactly in synch with the operating reality of businesses. On the matter of private equity, there are no explicit laws, regulations or even guidelines in place. The challenges encountered are borne out of complexities that come with building an entrepreneurial ecosystem that blends a number of direct and indirect inputs – some organic, others inorganic. That said, part of the regulator's responsibility is to compile material considerations extracted from market participants in order to create a regime that is enabling and enduring. This inquiry is one of several that are tasked with informing strategies to address structural and systemic anomalies.

There is some comfort in knowing that the challenges of SME finance are not unique to Uganda. Elsewhere, barriers have been identified and tackled after which prescriptions were fed into transformative policies for SME finance. A few notable mentions deserve reiteration:

- ✓ ***Prerequisites for small and growth companies to list have been made lighter*** across the global capital market landscape covering both developed and developing markets for a number of reasons. In the former, post sub-prime recession in the US with the JOBS ACT and India and Ghana in the latter category are both doing the same for their SMEs.

- ✓ After assessing their operating environment, the regulator in Europe made the decision to also ***lighten the regulatory environment for SMEs looking to raise capital from the public markets***, removed barriers on the investment side that made it hard for retail investors to access public offerings, initiated investor and issuer educational programs, and putting in place tax incentives to favour equity over debt investment over the long-term. The tax considerations (allowances) in our market as opined by the stakeholders, should apply to both the investors placing risk capital for which returns are aligned with the fortunes of the recipient businesses, and also for the enterprise itself with respect to dividends, capital gains and more.

- ✓ ***The challenges faced by the EU and its partners in establishing the Yield Fund*** should be used as a reference given the unfavourable structure that they were forced to embrace. The yield fund as articulated was created in spite of the relatively adverse conditions from a PE structure perspective. This was because of the anchor investor's focus being sufficiently skewed towards delivering impact (environmental, social and governance) benefits alongside financial return. Other funds have a work-around this hurdle by domiciling in favourable jurisdictions and thereafter exploiting DTAs.

- ✓ ***The GEMS segment as an initiative has a number of structural deficiencies*** – that no company is listed on it is evidence enough. The Uganda regulator is fully aware of the barriers that held back the GEMS segment as was pointed out in the Uganda's Capital Markets Development Masterplan 2016/17 – 2026/27.

- ✓ Uganda's capital market regulator is mandated to license market intermediaries who provide investment advice to retail and institutional investors, as well as issuers of debt and equity in the capital market. ***The PE landscape is still grey*** and as such there were a number of cases documented in our inquiry where transactions that were otherwise attractive to investors and investees were derailed by intermediaries whose knowledge of the asset class is plagued with gaps.

15.2 Investors

The survey raised some concerns 'from', and 'directed towards' investors. The interpretation from the consultant's analysis is that funds that are primarily geared towards financial returns and have a body of operational experience in this market are navigating the terrain by adopting their products and services. A few have proven to be innovative and gone on to develop creative means of investing. This allocation of capital does not necessarily exposing the investors to higher risks but in many cases – where collateral is prerequisite for example, they fall short of the classic definition of PE. Their strategy can be described as 'reactionary' in that it is in response to the environment - the issues arising from the other key stakeholder segments: investees, policy/regulator and intermediaries. An elaboration follows below.

15.2.1 Pipeline and investees

The adoptive funds are structuring instruments that are geared towards the operating reality of businesses. Noteworthy are:

- ✓ Targeting smaller ticket sizes that reflect the finance needs of the majority of businesses are in the missing middle – those companies that lie in the space between micro-finance and commercial banks;
- ✓ Debt instruments that provide a little more flexibility than banks but do not necessarily come with tenure and pricing benefits;
- ✓ As a result of debt-like structures, the professionals hired on the local front are recruited mostly from the commercial bank space for their relationships and knowledge of preferences of the local business;
- ✓ Mezzanine or convertible debt that gives the investor the option to strike on convertible clauses when there certain financial and operational targets are achieved;
- ✓ Asset financing for which an enabling law that allows for moveable assets to act as collateral was passed in 2019 – The Security Interest in Movable Property ACT (2019);
- ✓ Compensation based on revenue gains that are by implication, immune to some of the operational integrity of businesses;
- ✓ Embedding BDS and/or TA covering both pre- and post-investment phases. This cost is recoupable in some cases while can be provided in grant form in others.

15.2.2 Matters around jurisdiction

The majority of investors operating in Uganda are not registered in Uganda. There are a number of reasons behind this; the primary one being that they often have multi-country exposure and so for efficiency, require registrations in jurisdictions that come with the right combination of features aligned with the investment vehicle's operating and strategic intentions. This goes beyond taxation into the sphere of pragmatism: it is a reality that there is often sensitivity stemming from LPs who require registrations to be in domiciles where other factors in the broader entrepreneurial ecosystem are considered. The stand out concerns are:

- ✓ ***Rule of law*** and recourse to the judiciary system on the aspect of time, enforceability and costs. This speaks to the 'opportunity perception' pillar in the global entrepreneur index.
- ✓ ***Availability of experienced professionals*** not only in the investment sector but also extending to intermediaries and support services.
- ✓ ***Vibrancy In the secondary market*** on the matter of liquidity be it via the capital market or specific to private equity and operational companies as well who might want to acquire portfolio companies at the maturity time of the investment

15.3 Investees

The overwhelming theme that emerged from the survey shared with companies is that there is a need for an alignment between company and investor. Our respondent pool was sophisticated enough to have a base knowledge of PE to the extent that the spirit of 'partnership' in their opinion, has to be at the centre of engagement. Partnership right from the point of origination speaks to what the investors can bring beyond just capital. In the survey, the need for investment partners that provide useful strategic insights that would help with business structure and growth topped the rankings as the most important input that external investors should provide.

The conclusion we derive from this is that investment cannot be truly passive in this market and secondly, a vibrant PE market is important for a vibrant capital market even if flexible changes to listing rules are operationalized. Once entrepreneurs are familiar with the benefits that accrue out of onboarding partners who add value to their businesses within a closed environment, the 'radical' step up to the capital market will be much easier as compared to directly becoming a public company as is evidenced by the inactive bourses.

The above marries well with the services and related sensitivities that investees expect out of intermediaries. There is, as company respondents shared, strong demand for pre-investment organisation of their businesses. Such will be provided by professionals that can be trusted to offer the right services within a reasonable cost structure. After that, the specific services as relayed from the survey (overall strategy, digital, compliance, HR and valuation) can be addressed.

15.4 Intermediaries

Intermediaries form an important bridge between the supply and demand of capital. Their role is to facilitate a fluid engagement between investor and potential investee in a manner that does not get lost in translation. The service is required in the United Kingdom and Singapore as much as it is in Uganda. For Uganda however, it is especially important because there is direct no regulatory recourse under the current legal environment. That said, PE is typically regulation light and any standards and/or codes of practice mostly stem from the market players themselves be they investors (as in our region is the case with the EAVCA), or intermediaries.

A collective of market intermediaries (investment advisors, lawyers, accountants and asset valuers) with market visibility will serve to further entrench the aspect of trust in a complementary role to the regulator and investors. The Kenyan market has Kenya Association of Stockbrokers and Investment Banks (KASIB) that covers the capital and PE markets. Where the number of intermediaries may not be as well-entrenched, the possibility of them joining the PE and VC association should be explored.

Visibility on professional intermediaries only serves the industry well because it filters out inexperienced and opportunistic 'brokers' who rarely have fiduciary obligations. They also serve as a neutral point of collecting important insights and opinions from all the other stakeholders than can only be better for all parties.

16 PRODUCT AND SERVICES: LESSONS FROM LSE ELITE

The LSE Elite program offers a robust product and service list that is geared towards both the supply and demand side of capital. They also have criteria for market intermediaries or 'agents' and 'advisors'. This of course, speaks to their market circumstance and London's ability to speak to a global pool of funders, advisors and entrepreneurs. They focus on the following:

16.1 Investors

- ✓ Professional networking
- ✓ Access information on opportunities in general terms
- ✓ Access to data room for specific capital placement deals

The Elite Program recognizes that investors will pay the convenience that comes with quick access to quality deals that have gone through a robust filtration process. It also has a standardized presentation format which helps in the evaluation process, the benefit of having data curated by a trusted third party and finally, the networking opportunity allows for transactions of a certain kind to be clubbed by more than one investor– the offer of co-investment opportunities.

16.2 Market intermediaries

Intermediaries are classed in to two categories:

16.2.1 Agents

The Agent finds and involves investors in a specific deal. It can be a bank, a management company, a private banker, a financial promoter or any other entity authorised to collect orders from investors; and

16.2.2 Advisors

The Advisor finds and involves investors in a specific deal but it is not authorised to collect orders from the investors. Therefore investors introduced by the Advisor might look for direct registration or place orders through an Agent.

Both agents and advisors need approval of the programme. As part of the registration process, agents and advisors need to provide information about their regulator (name, reference registrar and registration number. This speaks to concerns in our market about the need to have an environment where qualified professionals provide the advisor and placement services for the program.

16.3 Companies

ELITE positions itself as a centre where businesses can get learning, business support, mentoring and access to capital and funding. This and the fact they have a scope of interventions predetermined speaks to the fact that businesses tend to require more than one intervention once as we established in our on survey.

As mentioned earlier, under the ELITE Growth Compass tool, companies are assessed over ten key metrics that are viewed as most critical aspects for businesses to scale. The assessment covers growth potential, competitive position, business plan solidity, governance, organisation and management, risk profile, reporting, digitalization, sales and marketing, and funding. The tools are online in order for the company / potential applicant to self-appraise. They also have a simple query form on their website.

16.3.1 Product and services for businesses

Elite has designed a structured framework that allows businesses to devise a strategy for the financial and fundraising goals of their businesses. The modules cover the development of strategy for enterprise, linking that strategy to the financial objectives that incorporates internal and external drivers of growth, and the means via which they can articulate and communicate the derived strategy primarily for the purpose of raising funds.

16.3.2 Growth labs

The growth lab modules are deep immersions informed by the Growth Compass tool. The modules are delivered in a workshop format for which there are plenaries, break-aways, case studies, panel discussions and clinics. The modules include: Talent: attracting, rewarding and retaining, entrepreneurial development, funding, exit planning, listing in the capital markets, M&A, competitiveness, internationalization, innovation, digitalization, operations, governance, strategy, and risk management.
In detail from ELITE:

Module	Focus	Relevance to UG
HR 1 & 2	Developing the talent strategy of an organisation focusing on resource planning and channels for recruitment/ Useful for when a business is growing / turning into a corporate	HIGH
Entrepreneur	Personal growth of the entrepreneur as a leader	HIGH
Funding	Helps companies understand the funding landscape / identify the right capital for their business	HIGH
Exit Planning	The right exit plan for their business	MEDIUM
Listing	Preparing for the public market	MEDIUM
M&A	Growth acceleration through acquisitions	MEDIUM
Markets	Marketing and branding in the context of clients and competition	HIGH
International Opportunties	Route to international opportunities	MEDIUM
Digitalisation	New technologies: threats and opportunities	HIGH
Operations	Streamlining processes	HIGH
Governance	The importance of governance	HIGH
Risk	Business risk: identification and management of risk	HIGH

Table 14. Elite services and cross-reference with Uganda feedback

17 PRODUCT AND SERVICES: LESSONS FROM IBUKA

The IBUKA programme offers a simple sequence and pool of services that focuses on the companies (known as '*ibukees*'). The sequence and fee structures are as follows:

i. Candidate for hosting signs a hosting application form. Applications need to be accompanied by a board resolution to apply to the programme, a functioning website details, and an application fee of KES 20,000 (~USD200). The candidate can at their discretion, append additional information with their application.

ii. Successful applicants are presented with a 'hosting certificate' within 28 days of a successful application.

iii. Applicants can enter the programme on secondment by a 'hosting introducer' who is vetted by the NSE. The introducer serves the purpose of supporting and advising the candidate to be onboarded onto the programme. Definitions of 'advice' and 'support' are not explicit.

iv. The *ibukees* after admission fork out fees for 'visibility'. Visibility is described as: *'the optimal degree to which a hostee may attract prominence and publicity through strategies offered by NSE PLC and its stakeholders so as to derive equity value augmentation during Incubation and/or Acceleration'.*

v. Once on the incubator board, the hostee is provided with services that include but not limited to *'preparation or restructuring scope of work with specialized documentation and subsequent implementation'*. The said services 'may be of financial, technical, operational, commercial, strategic, governance, environmental, legal, compliance, outsourcing, capacity building, risk or other service nature.

vi. The services are provided by a panel of experts or individual experts vetted by the NSE. The engagement between *Ibukee* and expert is negotiated by both parties. Note that the 'expert' is not explicitly defined and by our understanding does not have a direct relation to the hosting introducer.

Visibility (incubation)	
Period	**Fees**
To 60 Days	KES 20,000
To 120 Days	KES 25,000
To 180 Days	KES 30,000
To 240 Days	KES 50,000
To 300 Days	KES 60,000

Table 15. Incubator visibility fees

Incubation	
Fee	**Fees**
Incubation Consultancy Fees	**Negotiated between consultant “expert” and hostee/ibukee**
Incubation Consultants Panel (Small Firms) - < 15 Employees	KES 10,000 per panel Minimum number of panels: 15 cap of kes 150,000 for companies applying for > 15 panels
Incubation Consultants Panel (Large Firms) - > 15 Employees	**KES 20,000 per panel** **Minimum number of panels: 12** **cap of kes 150,000 for companies applying for > 12 panels**

Table 16. Incubator advisory fees

Ibuka’s fee structure for acceleration are more or less double that of incubation with similar line items of ‘visibility’ and ‘advisory’. There is no indication as to whether the advisors fee is in line with conventional commercial practice. In our engagement with them, we were told that advisors were encouraged to waive fees for *ibukees* but there was no confirmation of that policy in practice.

18 KEY TAKEAWAYS ON LSE ELITE/IBUKA

The two examples have different models which are structured on the back of respective institutional objectives, amount of research that went into the construct of the programmes, and subtle as it may seem, the construct of both jurisdiction's entrepreneurial ecosystems.

IBUKA places a premium on visibility for which fees are charged. Indeed, the terms of reference point out that visibility is a benefit for companies that enroll onto the programme. The insistence of a 'fit for purpose' website as part of the application speaks to this component. It also states that the applicant should have no objection to the visibility activities that the NSE will implement. The rate card as indicated above, for both incubation and acceleration, links fees to 'period of visibility'. There is however no clear definition on the metrics applied to quantify visibility.

The LSE ELITE programme makes no mention of visibility – it is a given by virtue of ELITE's on PR and communications strategy. ELITE dives straight into the modules fashioned along a map of interventions they feel are required of businesses if they are to attract external capital. The primary research in our case provides some insights on what entrepreneurs would want out of a facility from an internal and external environment perspective – not unlike the ELITE Growth Compass. There is no mention of application fees.

Even if maximized, the fee structure of IBUKA doesn't exactly speak to any form of financial sustainability. That said, the IBUKA program is annexed to existing NSE infrastructure and personnel so it therefore comes with little by way of expenses. The deduction is that IBUKA is a strategy for the NSE to increase the number of listings on their boards which will result in financial benefits down the road from listing and ongoing obligation fees. We established as much our direct engagement with them. The NSE does not take a carried interest in companies. The preceding is consistent with expectations from NSE shareholders to find creative means of driving revenue given their status as a listed company.

PART D:
RECOMMENDATIONS

19 UGANDA INITIATIVE

19.1 Services

The Uganda initiative will do well to incorporate a number of services designed for enterprise, investors, and intermediaries. This conclusion is derived from both secondary research and the primary inquiry that confirmed that established SMEs require enhancements in their internal and external environments. The matrix below offers some guidance prior to an elaboration.

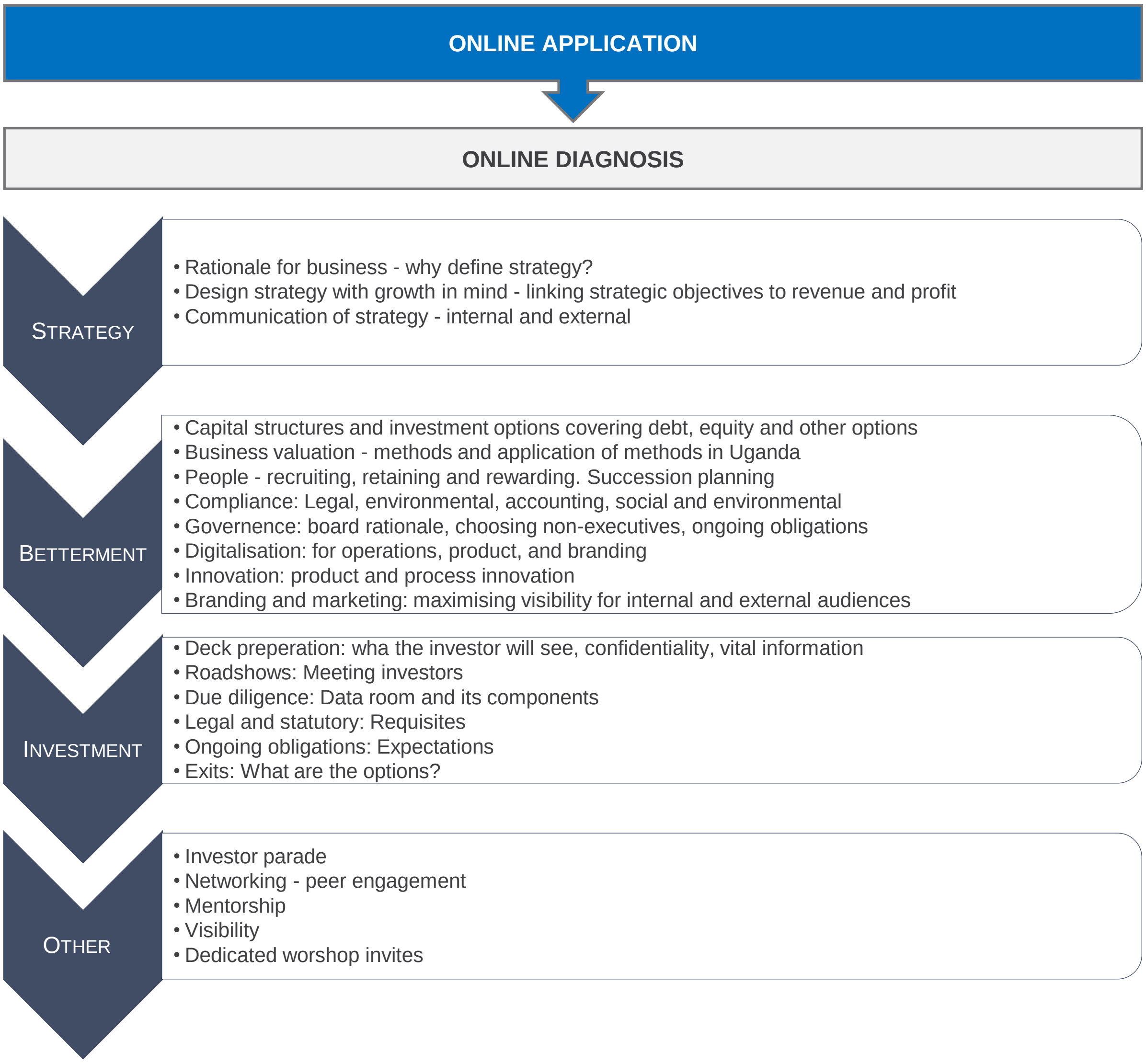


Figure 19. General Service Matrix

STAGE	RATIONALE	MEDIUM	COST	RESOURCE(S)
Application	Simple application for admission to the program	Online	Fee	Internal
Diagnosis	Linked to possible challenges to business as informed by the survey which then informs modules suited for applicant	Online with support	Free following successful application	Internal
Strategy	Defining business path from a strategic perspective	In person	Flat Fee	in-house & external resources
Betterment	Various modules Delivered to the collective of applicants based on their priorities	In person – workshop and classroom	Fees per module / minimum number of	External resources
Investment	Preparation for outside capital	In person	Fees with advisors	In-house and external resources
Other	Networking, mentorship, conferences	Various	Fees TBD – case by case	In-house and external resources

Table 17. Service offering

19.2 Application

Online application for ease of administration and process. The assumption is that the applicant will have digested online and other material describing the program. The application form should require basic information about the applicant and their rationale behind the inquiry as informed by their company needs covering:

- ✓ Business name
- ✓ Sector or segment
- ✓ Years of operation
- ✓ Link to website or well-curated social media handles if available

An application fee in UGX will be charged. This will serve as an initial filtration process to sieve out entities not serious about the offering/don't fit the target bracket.

19.3 Diagnosis

Once an application is successful, the applicant will fill out a brief survey on areas of interest. This will enable them to have a simple preliminary diagnosis report detailing which aspects of the programme(s) are useful for their particular situation. The preliminary diagnosis will be discussed with the client for further elaboration.

19.4 Strategy

Companies will need to demonstrate that they have a workable strategy for growth in place. Such growth will be informed by a capital structure that makes sense for the business. Working with the feedback from the diagnosis, the companies will be able to inform the facility of gaps that are a priority. Companies that require a handful of improvements will be able to select options from a series of modules across a diversity of interventions. Those that have firm strategies in place can dive right into the acceleration phase.

Fees: Companies will be expected to pay out for the services.

19.5 Betterment

Speaks to the companies that need to improve their internal and external environments after the preceding stage confirms gaps in coordination with the business itself. Modules will be reliant on a pre-qualified pool of instructors drawn for the most part. The modules will be spread out during the course of a calendar year in order for economies of scale and better planning.

Fees: Companies will be expected to pay out for the services.

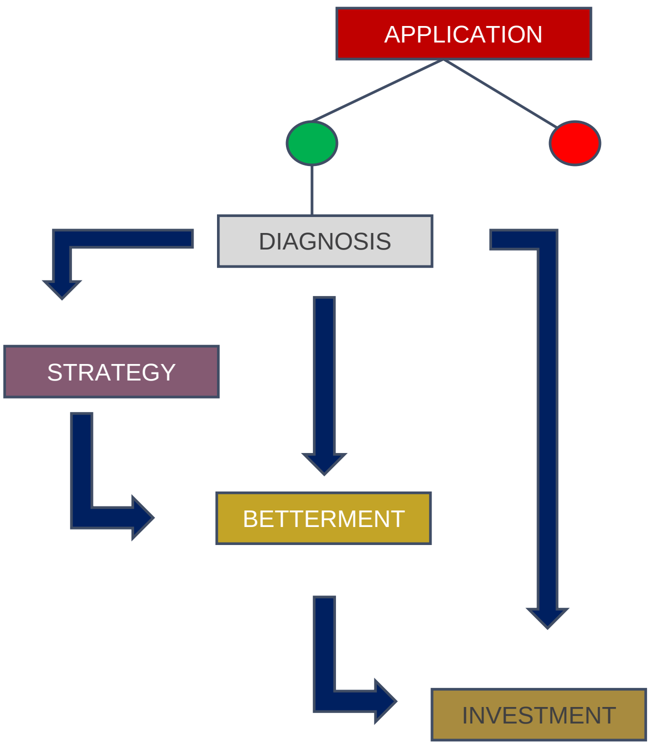
19.6 Investment

Speaks to the acceleration phase based on those companies who after going through the betterment programme decide that they need to raise capital or those who from the onset were primed for capital without requiring the incubation. The investment phase will assist companies in preparation of documents, due diligence packs, match with the right capital partner for their business strategy be it debt, hybrid or equity. The phase will also connect the companies with the right pool of agents.

Fees: The companies will engage directly with advisors and agents for a fee structure that works for both parties within the framework of the facility. The facility will also have the option to have a carry interest in the business in lieu of levying fees. Pool of advisors and funders registered with the facility will have 'first look' privileges. Consideration for flat fee for entire program is an option.

19.7 Other

Opportunities for personal and business developments will punctuate the calendar. This will include talks from business luminaries, networking events and more.
Fees: Specific to the opportunities



- ✓ Application online for which applicants answer basic information on their companies. Notification on success of application delivered within a set timeframe (<48hrs)

- ✓ Diagnosis also uses online as a primary medium. Questions and answers are framed along the spectrum of services typically sought by companies. Applicants are divided into 2 camps:
  - ***Incubation:*** Strategy thereafter betterment
  - ***Acceleration:*** Investment process – fast track to raising funds

Figure 20. Service Matrix

20 ADVISOR AND INTERMEDIARY SERVICES

Advisors fall into a number of different sub-categories depending on the interventions sought by the enterprises. The advisory competencies most needed are linked to the business requirement map which, as informed by the survey responses, are:

20.1 With respect to incubation

- ✓ Business strategy – formulation, linkage to the finance metrics, and communication
- ✓ Financial management
- ✓ Governance
- ✓ Compliance
- ✓ Digital strategies
- ✓ Fundraising – form of funds, suitability, and timing, and post- fundraise obligations
- ✓ Talent acquisition, management and reward

20.2 With respect to acceleration

- ✓ Preparation of pitch documents
- ✓ Due diligence
- ✓ Roadshows and Presentation
- ✓ Financial management
- ✓ Ongoing obligations

It is noteworthy that the service scope required for incubation is wide because the interventions speak to adjustments required of the business and are mostly to do with learning and adjustment – as a result, a diversity of key resources will be required. The benefits that come out of incubation accrue to the company regardless of whether or not they graduate to acceleration. That said, they are better positioned for fundraising for the immersion in the preceding stage.

Acceleration is about a specific path to raising capital from the spectrum of sources available: equity, mezzanine, debt (including bank debt). For this, the majority of work is executed by financial and legal advisors. LSE ELITE standardizes the offer documents of companies in their programme. This gives them the advantages of:

i. ***Uniform format*** allows for a streamlined internal process;

ii. ***Attracts funders who will be drawn to the scrutiny under which companies are placed*** prior to being presented as investment options – it is a cost and time saving benefit for them

iii. Enables them to ***charge a fee to funders*** in relation to ii above; and

iv. Enables them to ***compile and analyze data***

The standards and approaches applied differ from advisor to advisor so consideration needs to made with regard to the following services:

i. ***Onboarding licensed advisors to provide services in the lead up to investment*** – uptake and selection of the pre-screened advisors will be at the discretion of the enterprises. *Fees applicable.*

ii. ***Offering training and skills enhancement for advisors*** on aspects related to fundraising such as deck preparation, due diligence, business valuation & transaction management. *Fees applicable*

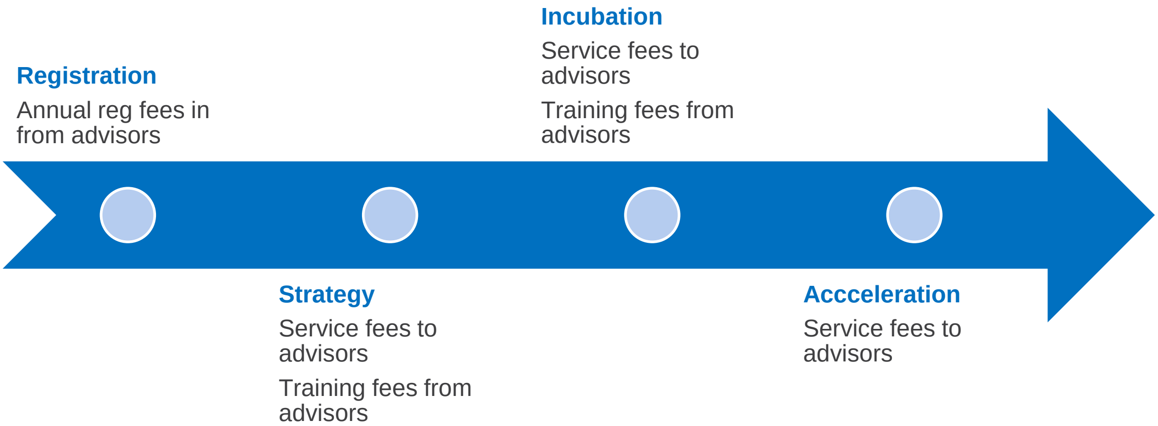


Figure 21. Advisor fee structure

21 INVESTOR FEES

Fund managers and stock exchanges will no doubt welcome the convenience offered by the facility insofar as helping companies become more investible is concerned. For this, investors we anticipate will be in a position to pay a membership fee for the following:

i. 'First look' opportunities within the parade of investible opportunities;

ii. Delivering modules linked to their special skill set (likely via the EAVCA); and

iii. Sponsorship and partnership on other engagements such as bespoke workshops and networking events as will be prescribed by the facility.

21.1 Structural consideration on fees

The option to levy is fixed flat fee covering strategy, betterment (incubation) and fundraise (acceleration) should be considered. The choice of what structure works best for any one enterprise will be informed by the findings of a preliminary diagnosis on what deficits the company faces. The advantage of this mechanism is multiple fold as highlighted below:

i. Provides predictability for the facility, companies, advisors and funds from the beginning;

ii. Uses data from the diagnosis to inform and recommend modules;

iii. Enables proper resource management;

iv. Can be applied to all parties i.e. companies, advisors and funders;

v. Simplifies the narrative by providing a distinction between engagement, advisory and success fees where applicable;

vi. Allows for different bands of services and engagement to be designed – ***Standard, Premium*** and ***Elite*** aligned with known stages of the incubation and acceleration processes;

vii. Allows for parties to establish where to plug in following the diagnosis and the cost of the services without more options than necessary; and

viii. Allows for parties to prioritize and focus on only the key areas of improvement required to address issues and/or enhance their operational parameters

An example of preset bands is shown in the following graphic:

STANDARD	PREMIUM	ELITE
Strategy with completion certificat	Strategy with completion certificate	Strategy with completion certificate
Choice of 3 from 10 modules	Choice of 5 of 10 modules	Choice of 8 of 10 modules
1 networking event per cohort period	Guidance on fundraising documents	Guidance on fundraising documents
No acceleration	2 networking events per cohort period	4 networking events per cohort period
		Matchmaking with funders

Figure 22. Present band service and fee structure

22 STRUCTURE OF FACILITY

The secondary research provided insights into structures applied in different jurisdictions. It is apparent that there is no universal model. Structural outcomes depend on a number of parameters including:

- ✓ ***The ultimate objective of the facility***. An example is the IBUKA programme in which the structure is biased towards the NSE and listings. IBUKA is a programme rather than a stand-alone legal entity.
- ✓ ***Biases of key funding or originating parties*** for example because of its origins out of DFID, Capital SME is housed in the British High Commission.
- ✓ ***The funding mechanism(s)*** in place.
- ✓ ***Maturity of the market within which the facility is located*** is critical to structure from the perspective of personnel, and definition of sustainability.
- ✓ ***Opportunity for collaboration*** will make certain provisions in structure more fluid especially where relevant experiences from similar entities within the region and beyond can be on-boarded.

The Uganda facility if commissioned will have to be framed about the structures permissible by first line of key stakeholders. The fee structures embedded while unlikely to make the business self-sustaining, points towards a vehicle that at the very least blends commercial aspects along with non-profit.

23 FUNDING SOURCES

We anticipate that potential funders will rally around a credible anchor funder. It is important to point out that the emergent structure in the preceding section may not necessarily bode well with all types of funding. Funding options need to be framed along the matrix of influence and interest – in this with emphasis of availability of funds and willingness to deploy them. See below:

CRITERIA	CATEGORY							
	Alignment with Objective	More active than passive	Has an institutional mandate	Resource Provider	Infrastructure Support	Valuable Experience	Overall Validation	**TOTAL**
WEIGHT	20%	5%	10%	20%	15%	10%	20%	**100%**

Table 18. Partner rankings

The facility described as the DFF has been mentioned on many an occasion by the Minister of Finance, Planning and Economic Development whose support is likely to come by way of validation and potential policy guidance rather than from a cash or other resource injection. Operational funding can also be provided via sector stakeholders by way of pro bono or heavily discounted services and allocation of time.

The compliment of interested parties are:

PARTY	PROBABLE PARTICIPATION	INTERESTS
Government of Uganda	Support and validation, Incentives, Policies	Fostering long-term finance
EU	Financial support Personnel	In-line with Sustainable Business for Africa initiative EU is an investor in the Yield Fund EU has other support for long-term funding especially with UDB Technical Assistance
IFC	Financial Support	The IFC is looking at ways to support funding for Small and Medium Enterprises via non-bank finance and unlisted equity
CMA	Validation Licencees	Speaks to their market development mandate in line with the 10-year masterplan
Other Dev. Partners	Validation	Form part of a development partner finance roundtable initiative
NSSF	Financial Support Professional resources	NSSF as the main institutional investor in the country will benefit from additional pipeline that comes out of the facility
UDC	Professional Resources	Speaks to the their market as the equity investment arm of government
USE	Validation, support and pipeline	Various support from research and other resources. Speaks to their desire to get more listings especially from the smaller and medium sized businesses

Table 19. Key stakeholders

24 STAFF AND BOARD

24.1 Management and staff

The human resource compliment is proposed to be lean but effective to keep finances within budget and also due to the fact that the facility is going to be heaviy reliant on partners.

The key roles anticipated are:

24.1.1 Executive Director

The Executive Director is responsible for driving the strategy and operational aspects of the facility. They will lead engagement between the facility associated stakeholders through visible umbrella organisations and regulators including: PSFU, the CMA, EAVCA, FMDC, and the Development Partner Roundtable on Finance.

The ED will also play a role in feeding experiences from the operations of the facility into government policy framed to improve the environment around long-term finance for businesses in Uganda. The ED will primarily engage with institutional investors and market intermediaries from the stakeholder pool, and occasionally support the Enterprise Relationship Manager on matters concerning businesses.

The ED will be appointed by and report to a constituted board. The ED will have responsibility for working with the board to review and develop the strategy of the organization and for developing the associated operational plan and operating budget. They will present any revisions to the strategy, and an annual operational plan to the board for formal approval. Each annual operational plan should cover a three year period.

The Executive Director should also present a quarterly report to the board, providing information on key metrics agreed by the board as part of the strategic plan, and any other significant matters that have arisen during the quarter.

24.1.2 Corporate Financier/Analyst

A finance technical resource in corporate finance will serve as an in-house analyst to principally work on diagnosis of successful applicants, fashioning the likely interventions and engaging with third-party advisors affiliated to the entity. The corporate finance specialist will be tasked with design and curating programmes relevant to their skillset.

This financial technical resource will have a background in financial analysis and/or modeling with specific experience within the non-bank finance spheres of the capital markets and/or unlisted equity within Uganda. Requisite qualifications in finance at degree and professional qualification level will be important.

24.1.3 Enterprise Relationship Manager

Will be tasked with engagement with businesses for whom the interventions in the facility is designed. The resource will have sales experience in finance and banking particularly with origination of transactions and/or clients depending on their specific background. Their role is to communicate the merits on engagement and proceed with hand-holding throughout the cycle of incubation and/or acceleration. The ERM effectively balances the concerns and needs of businesses with the offering of the facility.

24.1.4 Communication and PR

The head of communication and PR will ensure that the objectives, operations, results and overall narrative of the facility is positioned well within the sphere of interests. Communication will take both the route of traditional and digital media. Given the emphasis on digital tools such as the facility website, communications head will have responsibility for dynamic content on digital platforms, ensure the messaging is up-todate in line with key milestones. Relationship with the local, regional and broader media pool is key. The resource will have had communications and PR experiences within the financial sector

Other key functions that will be outsourced are:

i. ***Financial management***, accounting & payroll;

ii. ***Legal (company secretary)***; and

iii. ***IT (systems admin and web administrator)***. This will ensure that the original team will be kept lean.

24.2 Board of Directors

A skilled and diverse board as prescribed by a board charter will be constituted for purposes of oversight and strategic direction of the entity. Given the size of the entity, a board of five (5) should be the maximum considered including the Executive Director. The board should speak to the key constituent members:

1. Development Partner Representative, non-executive Director
2. Regulator/government representative, non-executive Director
3. Enterprise Representative, non-executive Director
4. Non-Executive Independent Chair

24.2.1 Non-Executive chairperson

The non-executive chair will alongside the oversight responsibilities on the board, compliment the Executive Director on stakeholder engagement. The non-executive Chair will not sit as a full-time executive of the entity. They will have solid industry recognition in government and the finance sector with a bias towards the capital markets and private equity. The chair will be independent thereby have no commercial or transactional benefit from the operations of the entity. Protocols on selection of the executive chair will be defined by the board charter.

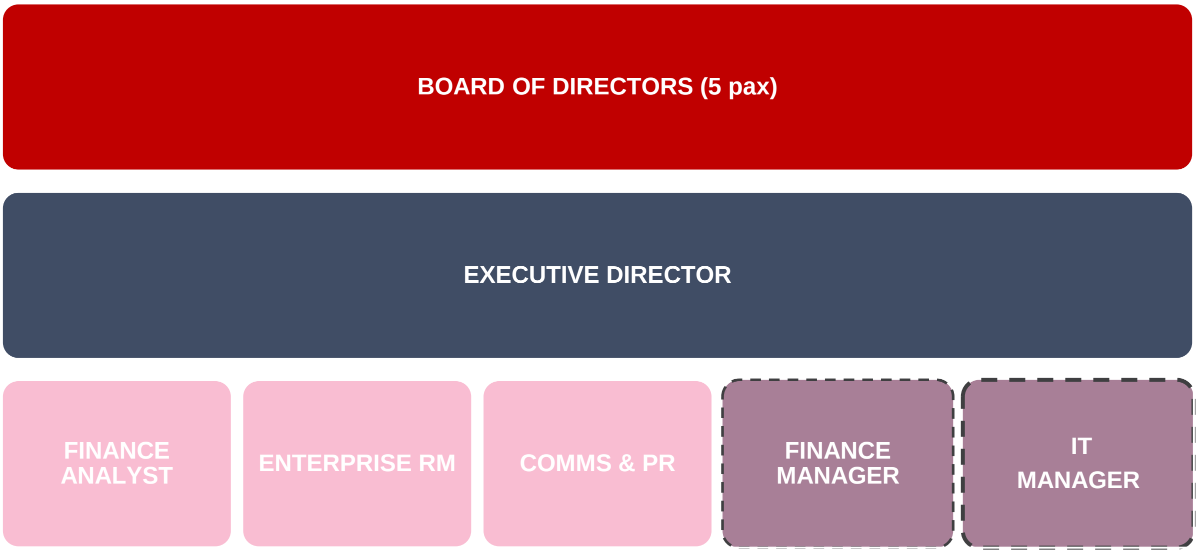


Figure 23. Staff and governance structure

The potential conflicts between all directors should be mapped and declared in line with conventional governance practices.

Mapping the staff requirement against process flow is shown below

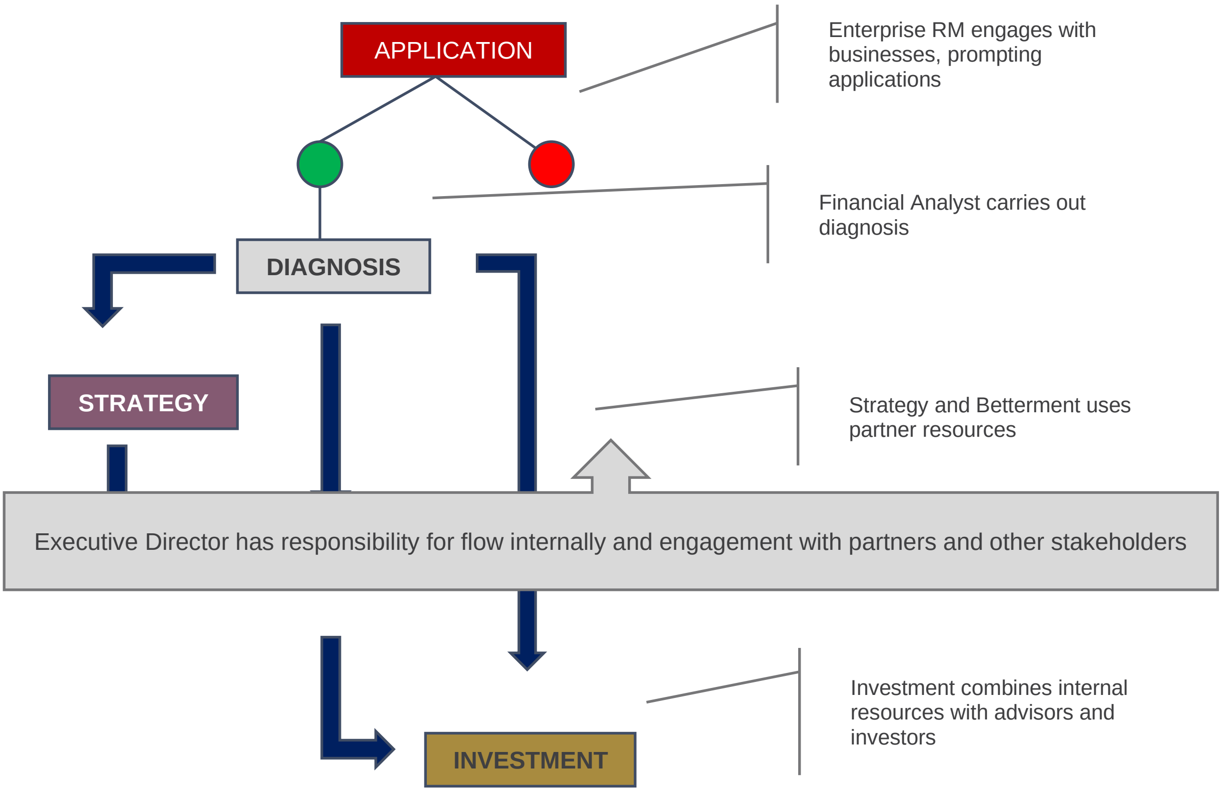


Figure 24. Process flow mapped against staffing

25 PHYSICAL SPACE

It has been highlighted in the secondary search that most incubators in existence in Uganda target start-up and early-stage businesses. They focus on a specific subset of early stage companies that do not have the resources to fund their own premises. As a result, the co-working spaces has sprung up. For start-ups and early stage businesses, this offers the benefits of:

- ✓ The services embedded in co-working spaces speak to general operational convenience to start with;
- ✓ Fostering interactions between like-minded entrepreneurs where ideas are exchanges and collaborations explored; and
- ✓ Economies of scale from delivery of in-house business support.

The space offering translates into revenue that contributes to the sustainability of the incubation programme. The graphic below illustrates the model:

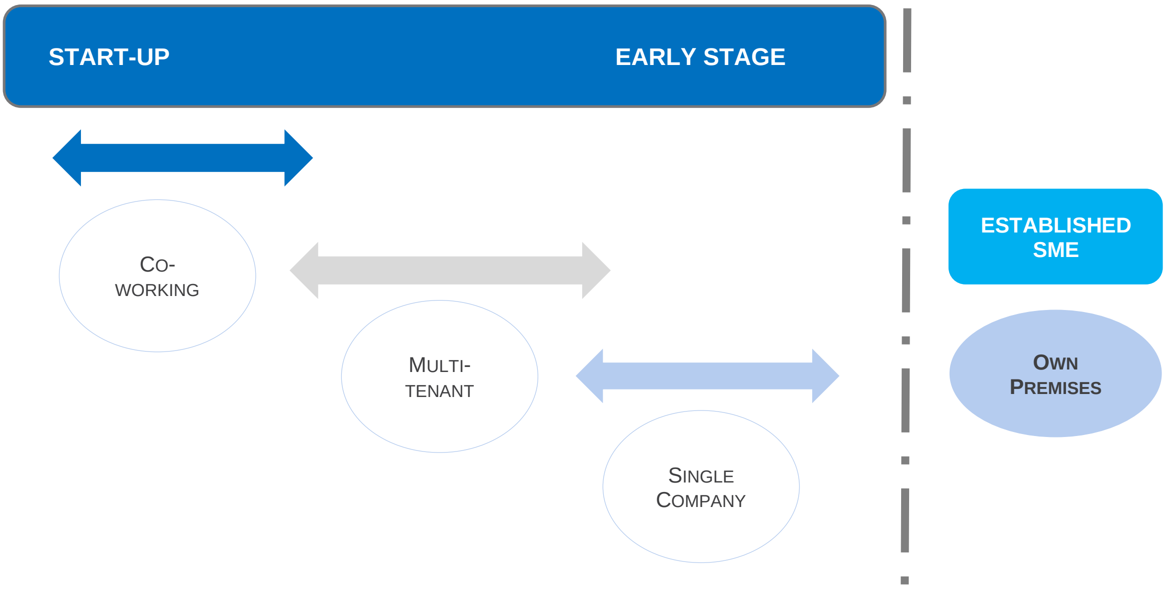


Figure 25. Space considerations

In the case of the proposed facility, the bulk of businesses will have a body of operational experience behind them, and therefore premises in which they operate. Therefore it is not a requirement that a facility beyond the requirements of the team in the preceding section is specified. For delivery of modules, engagement can be on offsite premises hired on a needs basis.

Subject to availability, an efficient model is for the facility to be housed in an existing virtual office. It is particularly useful for the proposed lean group in a market such as Kampala where there's high minimum lettable space for desirable office space would exceed the requirements for the facility.

Virtual offices provide the benefit of:

- ✓ Administrative and other support personnel come with the virtual office
- ✓ No requirement of furniture and other non-operational fixed assets
- ✓ Meeting rooms can be reserved as an when required
- ✓ They tend to be located centrally and are therefore convenient.

That said, there is a surplus of prime office space in Kampala averaging between USD 13 and 17 per square metre. Such would be considered if a larger in-house meeting space is required and/or the desired virtual office spaces have no vacancies.

26 DIGITAL CHANNELS: WEBSITE AND SOCIAL MEDIA

The digital strategy should combine aspects of both function and operation, particularly for the website. Important aspects of function in the website would be to manage time, save costs, and engage with key stakeholders in dialogue. Desired functions will include:

- ✓ ***Onboarding clients*** – through the web application and diagnosis forms
- ✓ ***Lead generation*** – where information about the sector and related benefits are shared through blog articles in text and multimedia form, research, and testimonials.
- ✓ ***Updates of material developments*** and media references made to the activities or personnel of the facility
- ✓ ***Payments*** – a portal for subscriptions and other related payments to be made efficiently and in an instant.
- ✓ ***Customer support***

The above also relates to the relevant social media accounts. This will be framed within a detailed digital strategy developed for the entity.

27 MARKETING STRATEGY

27.1 Key objectives

The marketing strategy is a mechanism that is used to delivery on the key outcomes of the entity. The objectives therefore speak towards:

- ✓ Attracting and onboarding the right companies to the facility
- ✓ Attracting the right partners
- ✓ Communication with key stakeholders
- ✓ Sharing the developments and progress with the wider public.

In the pursuit of the above, the marketing plan has to translate the objectives into actions around the spoke of media taking into account:

27.2 The marketing mix

27.2.1 Price

Pricing of service offering has to be sensitive to market needs. In the fee discussion we addressed the need to working within broad abilities of companies to afford the services. There is also the matter of simplicity in pricing relative to products.

27.2.2 Location

Location and means via which services can be delivered – the physical location is important but a priory has to be placed on the entity's position on the digital landscape. Marketing through digital channels speaks to content, social media channels that speak to the target demographics, and easy of service. Location in the physical sense is about placing the facility in a place where there is a good chance of being reached by key parties.

27.2.3 People

People – engagement with and use of people to push marketing. Increasingly important in a segment where peer engagement is important in building trust among otherwise hesitant entrepreneurs.

27.2.4 Products

Designing products that speak to a known demand is critical. This has been captured extensively in this report. Simplified products and how they are presented to potential clients is a key component of marketing. Due cognizance is made for the variety of clients from enterprises and funders to advisors and also to potential partners.

27.2.5 Promotions

Promotions are means via which the facility is placed to draw attention to its services – it includes deliberate messaging through adverts on one hand, specialized activities like networking events that can be sponsored, conference participation and PR initiatives.

Figure 26. Marketing mix

A plan for launch and on-going promotion and awareness will be necessary after a provisional pilot phase. The plan covers the required messaging, channels to deliver the message, credibility as provided by stakeholder pool, promotional activities

28 PERFORMANCE METRICS

28.1 Considerations on metrics

The aspect of performance metrics is important in all projects. The proposed entity has some complications given the need to provide mid- to long-term results but has to do so in model where market rates for services are not exactly applicable and the likely funding will be time-based – at least in the early stages. The performance metrics will therefore combine both tangible and intangible aspects – some of which will be difficult to attribute to the initiative itself. That said, there has to be a system in place albeit one with due consideration for adjustments as the entity's cycle is activated. Failure to define at the outset what the appropriate metrics are can lead to situations where a program is deemed to have failed simply because in the absence of an agreed set of metrics there is no objective measure of success.

There cannot be a dislocation between the system and the material it is designed to measure and track. The system also needs to be framed within time buckets that reflect the changes that manifest as the project progresses. For the entity, there are distinct stages within the framework of services that need to be delivered but it is also likely that some of the progress will manifest long after companies have left the programme. Long-term metrics are not measurable in the short term but indicators that lead up to them are. There are four distinct categories of metrics which are:

28.2 Categories of metrics

28.2.1 Inputs

The start point is the basket of resources that is channeled towards giving life to the project. It goes without saying that their deployment is critical to the start of operations. There is the tendency to ignore inputs for one reason or another. They are an important reference point to circle back as the long-term expectations may not be met on the back of an under-allocation or delayed allocation of inputs.

28.2.2 Activity metrics

Tracking of activities material to the progress of the project. These are the most common of measures in projects. They are easy to track and measure in line with the set of activities preset at every stage of a project.

28.2.3 Outputs

Is about what comes out at the other end of the tunnel after activities are completed. Outputs can be pulled directly through the system and/or through surveys and questionnaires directed at key users. They include tangibles and intagibles.

28.2.4 Outcomes

The benefits of an intervention or a project in the context of what it is designed to deliver.

28.2.5 Impact metrics.

Very much on the far side of tangibility, impact is about long-term dividends from the project. Sometimes impact is secondary or even tertiary – a personnel improvement programme for example, may lead to an executive going on to create their own enterprise with great success. Impact metrics tend to receive less shine than others as they are not easy to justify to funders or other key partners in the interim period.

Metrics follow a set workflow. It brings order to the system especially when there are adjustments, performance management and resource allocation matters at play. They check and justify components of a project. The journey from input to impact is important.

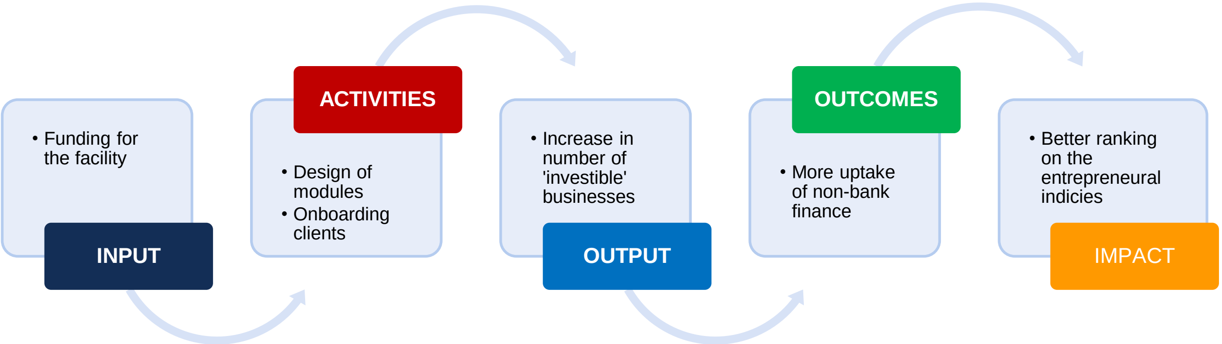


Figure 27. Performance metrics

28.3 Specific metrics for the proposed entity

The assignment is tasked with appraising the feasibility of a proposed Deal Flow Facility "DFF". The DFF combines incubator and accelerator services targeting established businesses with the view of preparing them for debt and equity capital through private equity and the capital markets. Feasibility in our case has focused more on establishing whether there is a requirement for DFF for starters, best practice combining experiences elsewhere with due consideration for the on-the-ground market reality and soft and hard resources that can be allocated to it.

The metrics from input to activity therefore combine the objective of the entity and are populated with vital information and criteria as shaped by the study itself. In brief, the following are considered to be the main performance metrics. Noteworthy as mentioned, these components tend to be organic and as such, there could be adjustments mid-stream.

REF	METRIC	TIMING	SOURCE
1	**INPUTS**		
1.1	Funding for the facility	NT	Budget allocation from funders
1.2	In-kind contributions	NT	HR and other commitments from key stakeholders for board, training etc
2	**ACTIVITIES A (SET UP)**		
2.1	Registration	NT	Entity registration
2.2	Design of program	NT	Detailed program design
2.3	Signing of partner MoUs	NT	Key stakeholders onboarded
2.4	Recruitment of personnel	NT	Executive team and board
2.5	Third party Service Providers	NT	Outsourced funcions
2.6	Digital and web strategy	NT	Design, hosting, testing, activation
2.7	Premises	NT	Contracting and occupation
2.8	Submission of unofficial review	NT	Other functions to do with set up

REF	METRIC	TIMING	SOURCE
3	**ACTIVITIES B (OPERATIONAL)**		
3.1	Applications completed	MT	Pulled from web
3.2	Revenues attributed to applications	MT	Pulled from web/payments system
3.3.	Diagnoses completed	MT	Pulled from web
3.4	Enrollment (full program/incubation/acceleration)	MT	Pulled from web/payments system
3.5	Revenues attributed to enrollment	MT	Pulled from web/payments system
3.6	Module selection(s)	MT	Client engagement
3.7	Certificates issued	MT	On completion
3.8	Key stakeholder engagements (workshops/conferences/etc)	MT	Pulled from budgeted and third party activity calendars
3.9	Partner queries	MT	ERP system
3.10	Media and PR mentions/activity	MT	Media metrics managed internally
3.11	Conversion from incubator to accelerator	MT	ERP system
3.12	Funding closures	MT	ERP system
3.13	Form of funding (bank, listings, PE)	MT	ERP system
3.14	Advisors trained	mt	ERP system
4	**OUTPUTS**		
4.1	Jobs added	DBO	Client engagement
4.2	Funding raised		Client engagement
4.3	Compliance metrics improved		Client engagement
4.4	Governance metrics improved		Client engagement
4.5	Product and Service additions		Client engagement
4.6	Digital strategy adoptions		Client engagement
4.7	Patents registered		Client engagement
4.7	Strategies developed		Client engagement
4.8	Cohort collaboration(s)		Client engagement
4.9	Revenues	DBO	Client engagement
4.10	Other	DBO	Client engagement
5	**OUTCOMES**		
5.1	Gross increase in non-bank finance	LT	Partner research
5.2	Other	LT	TBC
6	**IMPACT**		
6.1	Policy changes	LT	Partner research
6.2	Improvements in the entrepreneurial ecosystem	LT	3rd party research
6.3	Local PE fund registrations	LT	3rd party research
6.4	Deployment of local pension capital into PE and capital markets	LT	3rd party research

Table 20. Performance metrics

29 BUDGET & FINANCIALS

29.1 preamble

The facility is intended to bring the main participants in the ecosystem of non-bank capital together in order to drive up the uptake of listed- and unlisted equity, and other alternative mid- to long-term finance. The motivation is primarily one of 'impact' as has been indicated in the previous section. It goes without saying that this has to be done within a financial framework that is sustainable. The financial input therefore primarily seeks a primarily non-financial return over the long-term. This makes the traditional forecasting irrelevant and places more emphasis on budget against which a number of tangible and intangible Key Performance Indicators (KPIs) will be framed and tracked.

It was also apparent in the inquiries that there is the need for independence and impartiality in terms of the services delivered. All parties particularly the investors, advisors and investees are important participants who should view the facility as working for the entire industry in general. For it to succeed, the facility cannot be seen to be stepping on their turf. Any services rendered should enhance skills and opportunity for all parties. Explicit KPIs combined with the right messaging will provide the funding partners the opportunity to establish whether value is being created in line with the predetermined objectives of the facility.

29.2 Financial model

The financial model estimates an initial Y1 budget of ***EUR 448,613***. The proposed budget will cover set up costs (including design and development aspects), capitalized expenses and payroll for 12 months, and Programme of Activities (PoA). Costs in Y2 and Y3 drop to ***EUR 409,005 & EUR417,185*** respectively on account of the set-up costs being stripped out. An escalator of 2% is used in the model. A summary sheet follows below:

1.0	SET UP COSTS	Y1	Y2	Y3
	Set up and Design			
	Sub-total	€ 45,360	€ 0	€ 0
2.0	**CAPITALISED EXPENSES**			
	Operating expenses for 12 months			
	Sub-total	€ 137,091	€ 139,833	€ 142,629
3.0	**HUMAN RESOURCE & GOVERNANCE**			
	Staff, governance & compliance			
		€ 231,300	€ 235,926	€ 240,645
4.0	**OTHER**			
	Workshops & networking events			
		€ 13,500	€ 13,770	€ 14,045
TOTAL		€ 427,251	€ 389,529	€ 397,319
Contingency		€ 21,363	€ 19,476	€ 19,866
GRAND TOTAL		€ 448,613	€ 409,005	€ 417,185

Table 21. Establishment budget

29.3 Revenue streams

The model incorporates revenue streams that speak to the aspect of sustainability but as pointed out in the preamble for this section, is in the initial stages, not going to be able to be financially self-sustainable.
The revenue streams are aligned with services to stakeholders as follows:

- ✓ Enterprises: Application fees and packages selected post- diagnosis;
- ✓ Advisors: Member subscription and training; and
- ✓ Funds: Member subscription and placement revenue for successful fundraise (a mechanism for the listed market is yet to be formulated).

There are a number of assumptions fed into the model on the aspect of uptake and pricing. Noteworthy:

i. Modest application fees for the programme – low comparative to the approximate USD 200 charged in Kenya

ii. Forecast a conservative 60 applicants annually of whom about 50% will enroll onto the various programmes

iii. The facility adopts a simple fee menu as articulated earlier for which the conversions for Standard, Premium and Elite are 15, 10 and 7 annually.

iv. Pricing for the modules Standard, Premium and Elite are USD 800, 1,500 and 2,000 respectfully.

v. The facility will onboard 12 member advisors subscribing at USD 250 each per annum. Training revenue from the same number of advisors will come up to 21,600 per annum.

vi. Fund subscription fee is USD 1,500 per annum – we forecast 12 funds to register with the facility.

1.0	ENTERPRISES	UNIT COST	# OF UNITS	TOTAL
1.1	Applications	€ 45	60	€ 2,700
1.2	Standard	€ 720	15	€ 10,800
1.3	Premium	€ 1,350	10	€ 13,500
1.4	Elite	€ 1,800	7	€ 12,600
	Sub-total	**€ 3,915**		**€ 39,600**
2.0	**ADVISORS**			
2.1	Subscription	€ 225	12	€ 2,700
2.2	Training revenue	€ 1,620	12	€ 19,440
	Sub-total	**€ 1,845**		**€ 22,140**
3.0	**FUNDS**			
3.1	Subscription	€ 1,350	12	€ 16,200
3.2	Placement returns			
	Sub-total			**€ 16,200**
	TOTAL			€ 77,940

Table 22. Return forecasts

The facility P&L is, as explained in negative territory. The FY, F2 and FY3 forecasts point to EUR -296,820, EUR-302,756, and EUR 301,166 net income respectively

30 SUSTAINABILITY

30.1 Contextualising sustainability

Entrepreneurs are vital for economic growth and job creation which as per the global entrepreneurship report, are important for stable societies. The aspect of risk is always associated with entrepreneurs – the 3rd pillar – risk acceptance, speaks of need for the ecosystem to create an environment in which risk aversion is limited. Risk is later reprised when the matter of capital is addressed. 'Risk Capital' – *'the availability of risk finance, particularly equity rather than debt, is an essential precondition for fulfilling entrepreneurial aspirations that are beyond an individual entrepreneur's personal financial resources'.*[25]

The reality of enterprise particularly for early stage and growth businesses is that only a small percentage of them manage to fledge into mature businesses that create quality jobs over the long-term. The reality needs to be met with the right level of support in terms of infrastructure, advice, mentorship and capital. In some markets, there are mechanisms via which risk capital from the private sector is deployed to catalyze growth for early stage and small businesses. The deployment of this form of capital however is done against a backdrop of government support and infrastructure from policy covering tax incentives and subsidies to grant finance and guarantees. Often, governments through their enterprise and innovation policies also set up facilities to nurture early stage businesses. It goes without saying therefore that financial viability is almost impossible to attain if capital is drawn purely from the private sector. Most countries now have incubation and acceleration facilities for which the desired results are within the realm of impact as covered extensively in the section of performance metrics. There are only a few exceptions to the rule. In the Business26 Accelerator and Incubator Study of 2018, the authors point out that the discussions around sustainability of facilities of this kind are therefore focused more on efficiently deploying the grant finance, the degree of self-sustainability, and the factors that underpin that self-sustainability.

30.2 Critical factors

The aspect of sustainability in the context of the facility itself needs to incorporate a number of critical features. In brief.

a. ***Incubators and accelerators should themselves be entrepreneurial***. This is especially so when there is grant finance and non-financial targets. The onus on the creators of the programme is to design an entity that gets creative to deliver on strict KPIs

b. ***The ecosystem is important from a qualitative perspective.*** This addresses the support that will be drawn from professionals eager to lend their otherwise expensive services pro bono to a smaller client profile that they are used to through mentorship and delivery of expertise. Ecosystem components extend to tertiary institutions like business schools, and corporates who might subsidize services like data and/or also share their experiences.

[25] Acs, Szerb, Lafuente & Markus, The Global Entrepreneurship and Development Institute (GEDI), Global Entrepreneurship Index 2019, PP 18
[26] Chase T, Webb J, Business Incubator and Accelerator Sustainability, 2018

30.3 Revenue models

The World Bank is quick to admit that self-sustainability is a challenge27. The few that come close to self-sustainability rely on rental income for the bulk of their revenues while being thin on personnel. The trade-off can lead to some quality issues particularly when the ecosystem is thin on resources. The property-based model is most common for sustainability – there are cases where more than 80% comes out of revenues from rental of space, co-working and occasional one-off leases of meeting rooms and similar. The model is mostly geared towards early stage enterprises.

30.4 Sustainability – nuances

The facility being explored by this study speaks to a different demographic from the typical incubator/accelerator candidate. That they are more mature negates the suitability of the property model. However as identified by the primary interrogations, there will be demand for some services fashioned the auspices of training. The success fee model has worked well for the better known seed and early stage incubation hubs but in the spirit of the objective of this facility that speaks to the ecosystem, the model is unlikely to be welcome to some parts of the ecosystem – particularly the advisors.

Fees in terms of 'success' for connecting enterprises with funding might apply in the last phase of the programmes after the cohorts have had enough experience to explore whether or not to go with advisors for placement of debt and equity. The value of programming, connection to mentors and increased attractiveness to investors that the facility will provide is very likely amenable to the companies on the program (at acceleration phase) particularly if it is back-loaded with success.

Support is not the preserve of emerging and frontier markets. It can be argued that there is far less support in these smaller markets than there is in developed economies from the perspective of the all-important ecosystem. Data from the Global Accelerator Learning Initiative (GALI)28 shows that nearly 50% of respondents received corporate funding, and 21% relied on corporate funding for at least half of their total funding. Less than 10% generated revenue from equity returns or success fees charged to investors.

An investment fund might be considered down-the-line after the first phase of the facility but like the advisory component, it has to be sensitive of the private capital that's being offered to businesses

[27] World Bank infoDev Program, Module 14 Business Models, Incubator Manager Training Program, 2013
[28] www.galidata.org/accelerators/

31 IMPLEMENTATION PLAN

31.1 Critical Success Factors

This final section of the report focuses on a probable implementation plan. The success of the facility is dependent three critical factors as follows:

- ✓ ***The right inputs from a financial and support resource perspective*** covering at least a three-year horizon. It is convenient as well that the initiative is under consideration at a time when financial infrastructure is being mainstreamed into the country's development agenda.

- ✓ ***Buy-in from the spread of stakeholders that*** formed the focus of both the primary and secondary interrogations namely businesses, investors, advisors and intermediaries, and policy framers/development partners.

- ✓ ***The ability to attract the right talent to the facility*** who will have direct inputs into its operational and strategic path. The aspect of right talent applies to both the executive and oversight perspective; and

- ✓ ***The broader ecosystem where partners*** and agencies will be pleased to channel their expertise, resources and time pro bono or at discounted rates in order to augment that which will be designed internally.

In light of the above, the implementation plan should be phased as follows.

31.2 Phase 1 – resource commitment

Commitment of resources from pertinent partners at government and/or development partner level to the extent that the recommendations included in this interrogation are aligned with their expectations.

31.3 Phase 2 – detailed structure and design

An interim phase in which the detail of the entity will be framed. This will entail formal engagements with legal, finance and accounting, branding and communications, IT and technology partners to put colour into the recommendations. This phase will also include the onboarding of outsourced service providers on matters of ongoing obligations.

31.4 Phase 3 – recruitment of talent

Explicit job descriptions created and the recruitment of talent will likely overlap with the end of phase 2. The rationale is that much of the talent will want to see something tangible. The board should be constituted before the executive team so that they can put their expertise to use in vetting and prioritizing personnel.

31.5 Phase 4 – Content

Programme design covering the strategy, betterment and fundraising phase will be the first deliverable for the executive team along guidelines agreed with the board. The team will be tasked with forging appropriate collaborations with industry associations, affiliate organisations, regulators, and professionals whose expertise will be important for the successful delivery of content within cost and quality parameters.

31.6 Phase 5 – pilot

A pilot cohort of companies should go through the motions for the first phase of acceleration and incubation so as to test and refine or adjust the service offering across multiple perspectives. The pilot phase will also be a good opportunity to test systems particularly the web platform that forms a centre piece of the entities operations. The pilot should last no more than 3 months.

31.7 Phase 6 – launch and operationalization

Launch is immediately after completion of phase 4 – the launch will be the entities official unveil to the public involving select media and PR.

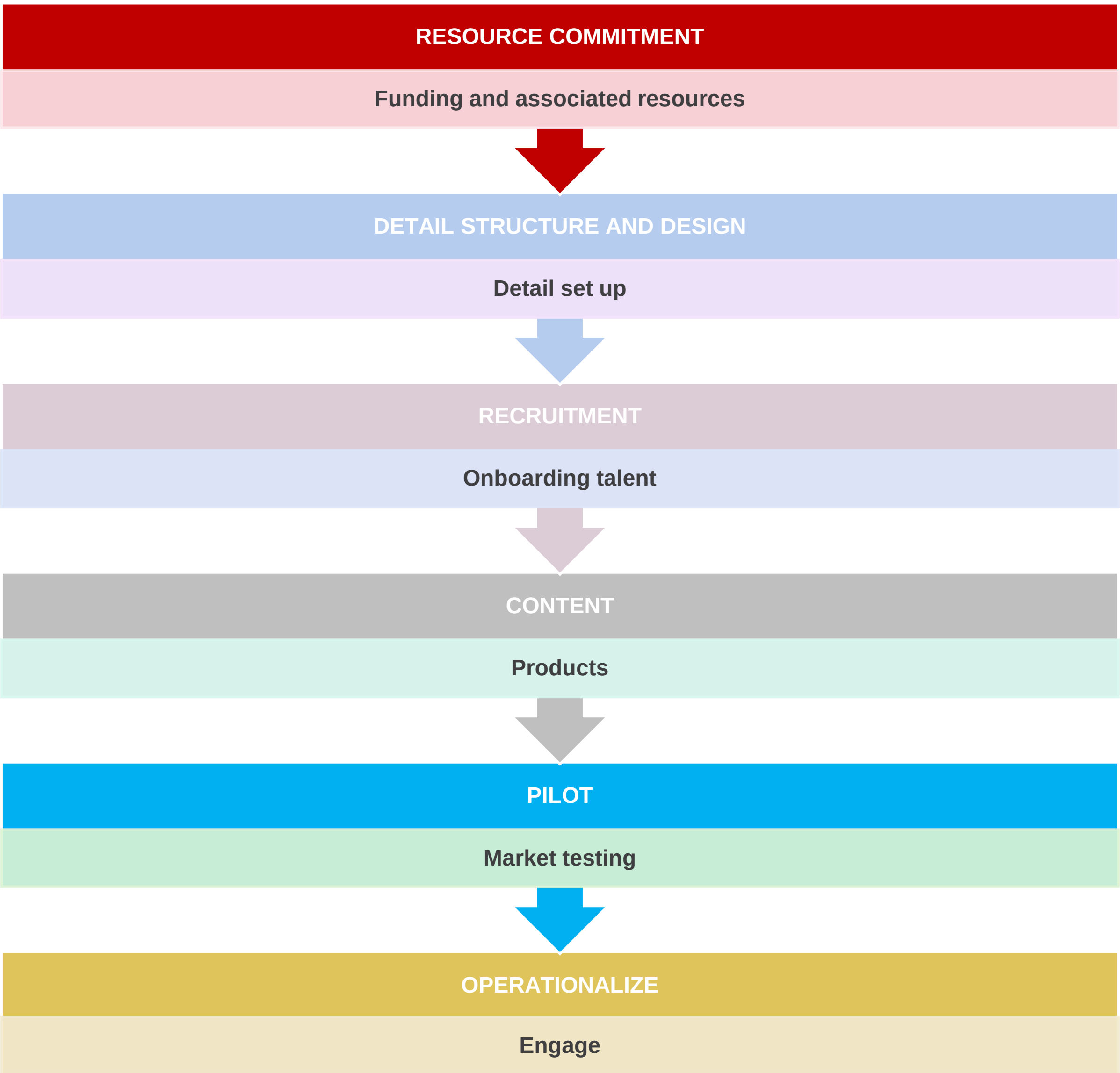


Figure 28. Implementation plan

32 FINAL COMMENTARY AND NEXT STEPS

As the next step for the engagement, the Consultant awaits feedback on the report from the key stakeholders who participated in the inception meeting and workshop participants. The comments will be incorporated into the final report for submission and conclusion of the assignment.

APPENDICES

Appendix 1.

List of stakeholders consulted

	CATEGORY			
#	**STAKEHOLDER**	**MEETING DATE**	**PARTICIPANT(S)**	**DESIGNATION**
1	European Union	November 09, 2019	Adolfo Cires-Alonso	Head of Finance, Land & Agriculture
2.	Financial Sector Deepening Uganda	November 09, 2019	Rashmi Pillai	Executive Director
			Anthea Paleo	Intervention Manager Business Environment
3.	Capital Markets Authority (Uganda)	November 09, 2019	Keith Kalyegira	Chief Executive Officer
			Dickson Ssembuya	Director Research
			Laura Bierer	Technical Advisor
4.	NSSF	December 05, 2019	Patrick Ayota	Deputy Chief Executive Officer
			Alex Rumanyika	Head of Strategy
			Matilda Othieno	Executive PA
5.	Nairobi Securities Exchange	December 09, 2019	Angela Nafula	Analyst
			Irungu Waggema	Head of Business Development
6	IBUKA	December 09, 2019	Amish Gupta	Co-founder
7	East Africa Venture Capital Association	December 09, 2019	Esther Ndeti	Executive Director
			Eva Warigia	Executive Director
8	Capital Market Authority (Kenya)	December 10, 2019	David Kanyi	Head of Market Deepening
9	FAIDA Investment Bank	December 10, 2019	Lucas Otieno	Chief Executive Officer
10	NCBA Capital	December 10, 2019	Judy Waithaka	Head of Equity
11	My Space Property	December 10, 2019	Mwenda Thuranira	Chief Executive Officer
12	APT Commodities	December 10, 2019	Peter Gitata	Chief Executive Officer
13	Private Sector Foundation Uganda	February 24, 2020	Francis Kisirinya	Deputy Executive Director
14	Uganda Bankers Association	February 24, 2020	Wilbrod Owor	Executive Director
15	KPMG	January 23, 2020	Asad Lukwago	Partner, Taxation
16	UAP=OLD MUTUAL	12 February, 2020	Simon Mwebaze	General Manager
17	SBG SECURITIES	11 February, 2020	Paul Muganwa	Head, Investment Banking

#	CATEGORY STAKEHOLDER	MEETING DATE	PARTICIPANT(S)	DESIGNATION
18	STANBIC BANK	17 December, 2020	Emma Mugisha	Head of Corporate & Investment Banking
19	STANBIC INCUBATOR	26 February, 2020	Tony Otoa	Head, Stanbic Business Incubator
20	Grant Thornton	11 February, 2020	Hemal Shah	Manager of Advisory
			Jasmine Shah	Partner
21	XSML	31 January, 2020	Jarl Heijstee	Chief Executive Officer
22	JUNGO Capital	31 January, 2020	Roeland Donckers	Managing Patrner
23	Pearl Capital Partners	30 January, 2020	Edward Isingoma	Chief Executive Officer
24	Ascent Capital	21 February, 2020	Richard Mugera	Partner
25	Open Capital Partners	20 February, 2020	Angela Kerubo	Project Leader
26	Uganda Securities Exchange	04 December, 2019	Paul Bwiso	Chief Executive Officer
27	The World Bank	02 March, 2020	Brian Akimanzi	Financial Sector
28	Uganda Development Bank	28 January, 2020	Denis Ochieng	Chief Financial Officer
29	Uganda Development Cooperation	05 March, 2020	Hamu Mugenyi	Chairman
30	Travel Neza	07 February, 2020	Laura Kagame	Founder/ Chief Executive Officer
31	Outspan Enterprises	07 February, 2020	Kenneth Kayondo	Managing Director
32	COSTA Construction	07 February, 2020	Jonathan Wanzira	Founder/ Chief Executive Officer
33	Amarin Financial	31 January, 2020	Kevin Asinde	Founder/ Chief Executive Officer
34	ALP Advocates	15 January, 2020	Francis Gimara	Managing Partner
35	Aspen Network of Development Entrepreneurs	30 January, 2020	Khatuchi Khasandi	Program Manager East Africa
36	BID NETWORK	02 February, 2020	Mark Mutaahi	Country Manager

Appendix 2.

Workshop agenda

TIME	ACTIVITIES	KEY THEMES FOR DISCUSSION AND EXPECTED OUTCOMES
09h30 - 09h45 (15 minutes)	**Agenda 1: Preliminaries** I. Adoption of program and introductions II. Welcome remarks by EU III. Remarks by CMA IV. Speech by Ministry Finance, Planning and Economic Development	Welcome remarks - Context setting for the presentation
09h30 -10h30	**Agenda 2:** Draft Final Report presentation by the consultant, Mr. David OFUNGI	Overview of the Draft Final Report, key findings and recommendations
10h30 - 11h15	**Agenda 3** Discussion and Q&A session with the Stakeholders	Addressal of stakeholder queries and concerns, and absorbing constructive feedback
11:45 - 11h30	**Agenda 4** Concluding remarks by Ministry of Finance, Planning and Economic Development	Conclusion of the presentation

Appendix 3.

Financials

PROPOSED INCUBATOR & ACCELERATOR FOR SMEs IN UGANDA

Date	**14.03.2020**
Sheet	**3-year budget**
Inf. Escalator	**2%**
USD-EUR	**0.90**
USD-UGX	**3,750.00**

1.0	SET UP COSTS	Y1	Y2	Y3
1.1	Contracting & procurement	€ 1,688	€ 0	€ 0
1.2	Legal advice on structure & associated registration	€ 1,890	€ 0	€ 0
1.3	Finance and accounting compliance at registration	€ 1,890	€ 0	€ 0
1.4	Communications and PR plan including branding	€ 2,655	€ 0	€ 0
1.5	Board charter and related	€ 1,125	€ 0	€ 0
1.6	Module development	€ 7,200	€ 0	€ 0
1.7	Web and digital channel development	€ 9,000	€ 0	€ 0
1.8	Computing, multimedia and related equipment	€ 15,750	€ 0	€ 0
1.9	Miscellaneous	€ 4,163	€ 0	€ 0
	Sub-total	**€ 45,360**	**€ 0**	**€ 0**
2.0	**CAPITALISED EXPENSES**			
2.1	Capitalised leases (12 months)*	€ 37,800	€ 38,556	€ 39,327
2.2	Furniture & fittings	€ 12,870		
2.3	Layout and fittings	€ 11,250		
2.4	Telecom, internet & IT subscriptions	€ 16,200	€ 16,524	€ 16,854
2.6	Travel and related	€ 21,060	€ 21,481	€ 21,911
2.7	Vehicle lease	€ 21,600	€ 22,032	€ 22,473
2.8	Company launch event, press and media	€ 7,311	€ 7,457	€ 7,606
2.9	Other operating costs - 12 months working capital	€ 9,000	€ 9,180	€ 9,364
	Sub-total	**€ 137,091**	**€ 139,833**	**€ 142,629**

3.0	**HUMAN RESOURCE**			
3.1	Executive Director	€ 51,300	€ 52,326	€ 53,373
3.2	Financial Analyst	€ 32,400	€ 33,048	€ 33,709
3.3	Engagement Manager	€ 29,700	€ 30,294	€ 30,900
3.4	Communications and PR	€ 29,700	€ 30,294	€ 30,900
3.5	Accounting and Payroll service provider	€ 10,800	€ 11,016	€ 11,236
3.6	IT Service Provider	€ 10,800	€ 11,016	€ 11,236
3.7	Legal and Secretarial Service Provider	€ 10,800	€ 11,016	€ 11,236
3.8	External Auditor	€ 3,600	€ 3,672	€ 3,745
3.9	Board compensation	€ 48,600	€ 49,572	€ 50,563
3.10	Board meeting 4 x annual	€ 3,600	€ 3,672	€ 3,745
	Sub-total	**€ 231,300**	**€ 235,926**	**€ 240,645**
4.0	**OTHER EXPENSES**			
4.1	Networking and Workshop events 3 x annual	€ 13,500	€ 13,770	€ 14,045
	TOTAL	**€ 427,251**	**€ 389,529**	**€ 397,319**
	Contingency @ 5%	€ 21,363	€ 19,476	€ 19,866
	GRAND TOTAL	**€ 448,613**	**€ 409,005**	**€ 417,185**

Date	**14.03.2020**
Sheet	**Revenue**
Inf. Escalator	**2%**
USD-EUR	**0.90**
USD-UGX	**3,750.00**

1.0	**ENTERPRISES**	**UNIT COST**	**# OF UNITS**	**TOTAL**
1.1	Applications	€ 45	60	€ 2,700
1.2	Standard	€ 720	15	€ 10,800
1.3	Premium	€ 1,350	10	€ 13,500
1.4	Elite	€ 1,800	7	€ 12,600
	Sub-total	**€ 3,915**		**€ 39,600**
2.0	**ADVISORS**			
2.1	Subscription	€ 225	12	€ 2,700
2.2	Training revenue	€ 1,620	12	€ 19,440
	Sub-total	**€ 1,845**		**€ 22,140**
3.0	**HUMAN RESOURCE**			
3.1	Subscription	€ 1,350	12	€ 16,200
3.2	Placement returns			
	Sub-total			**€ 16,200**
	TOTAL			**€ 77,940**

Date	**14.03.2020**
Sheet	**P&L**
Inf. Escalator	**2%**
USD-EUR	**0.90**
USD-UGX	**3,750.00**

1.0	**REVENUES**	**Y1**	**Y2**	**Y3**
1.1	Enterprises	€ 39,600	€ 40,392	€ 41,200
1.2	Advisors	€ 22,140	€ 22,583	€ 23,034
1.3	Funds	€ 16,200	€ 16,524	€ 16,854
	Sub-total	**€ 77,940**	**€ 79,499**	**€ 81,089**
2.0	**CAPITALISED EXPENSES**			
2.1	Sales, General and Admin	€ 37,800	€ 38,556	€ 38,556
2.2	Human Resource	€ 164,700	€ 167,994	€ 167,994
2.3	Rental & insurance	€ 37,800	€ 38,556	€ 38,556
2.4	Utilities	€ 16,200	€ 16,524	€ 16,524
2.6	Travel and related	€ 21,060	€ 21,481	€ 21,481
2.7	Vehicle lease	€ 21,600	€ 22,032	€ 22,032
2.8	Compliance	€ 66,600	€ 67,932	€ 67,932
2.9	Other operating costs - 12 months working capital	€ 9,000	€ 9,180	€ 9,180
	Sub-total	**€ 374,760**	**€ 382,255**	**€ 382,255**
	Operating profit/loss	**€ (296,820)**	**€ (302,756)**	**€ (301,166)**
3.0	**NON OPERATING EXPENSES**			
3.1	Interest	€ -	€ -	€ -
3.2	Tax	€ -	€ -	€ -
	Sub-total	**€ -**	**€ -**	**€ -**
	TOTAL	**€ (296,820)**	**€ (302,756)**	**€ (301,166)**

Appendix 4.

Survey Results

Business Survey

76 Total Responses

76 Completed Responses

0 Partial Responses

168 Survey Visits

RV1

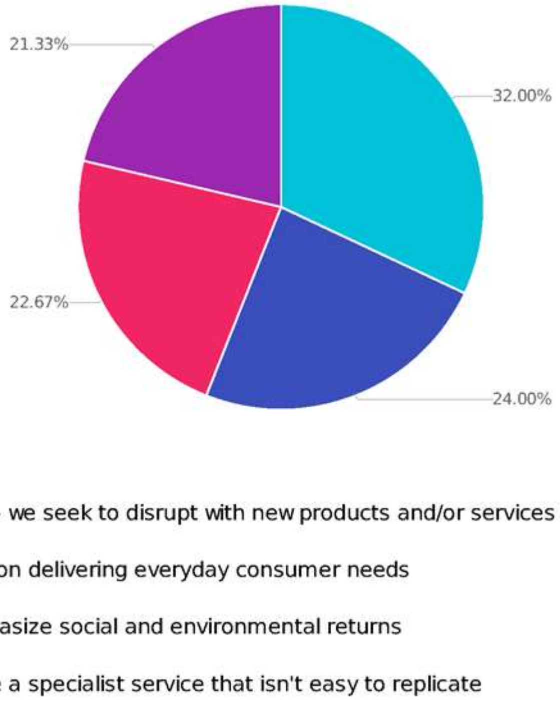
Email address

Answered: 1 Skipped: 75

Q1

1. How best would you describe your business?

Answered: 75 Skipped: 1

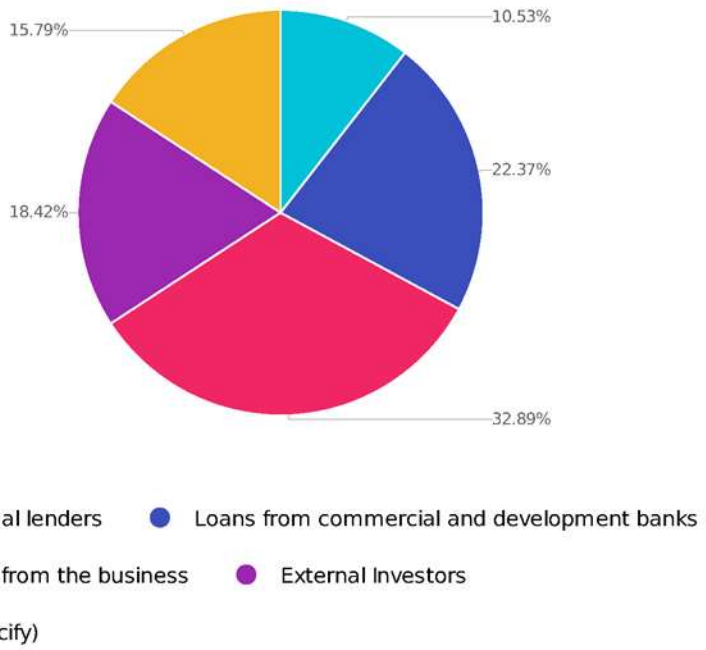


Choices	Response percent	Response count
Highly innovative - we seek to disrupt with new products and/or services	32.00%	24
Stable - we focus on delivering everyday consumer needs	24.00%	18
Impact - we emphasize social and environmental returns	22.67%	17
Niche - we provide a specialist service that isn't easy to replicate	21.33%	16

Q2

2. We understand that you may have multiple options for funding your business assets but which one is your main source?

Answered: 76 Skipped: 0

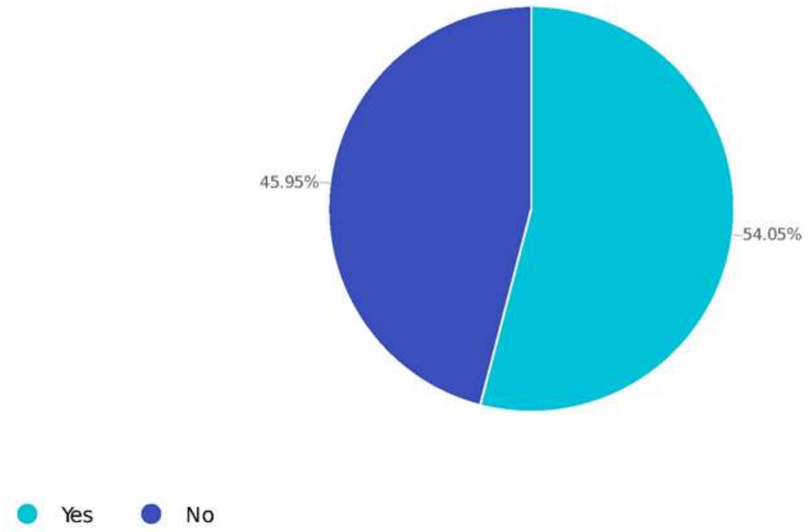


Choices	Response percent	Response count
Loans from informal lenders	10.53%	8
Loans from commercial and development banks	22.37%	17
Reinvested profits from the business	32.89%	25
External Investors	18.42%	14
Other (Please specify)	15.79%	12

Q3

3. Have you received capital for your business from external investors?

Answered: 74 Skipped: 2

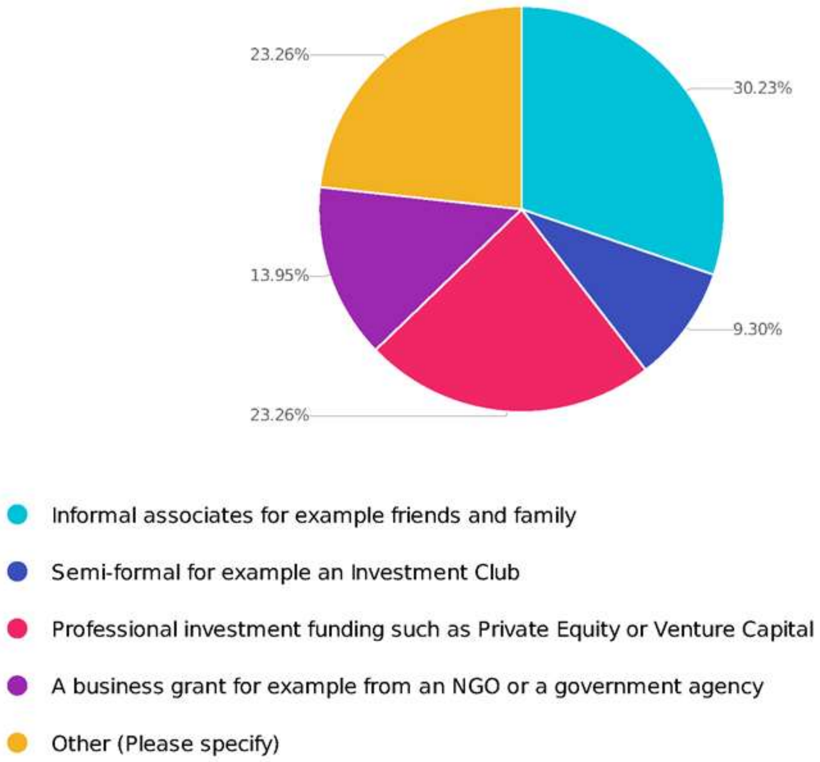


Choices	Response percent	Response count
Yes	54.05%	40
No	45.95%	34

Q4

4. If you answered yes to question 3 above, please tell us where most of your funding was sourced from.

Answered: 43 Skipped: 33

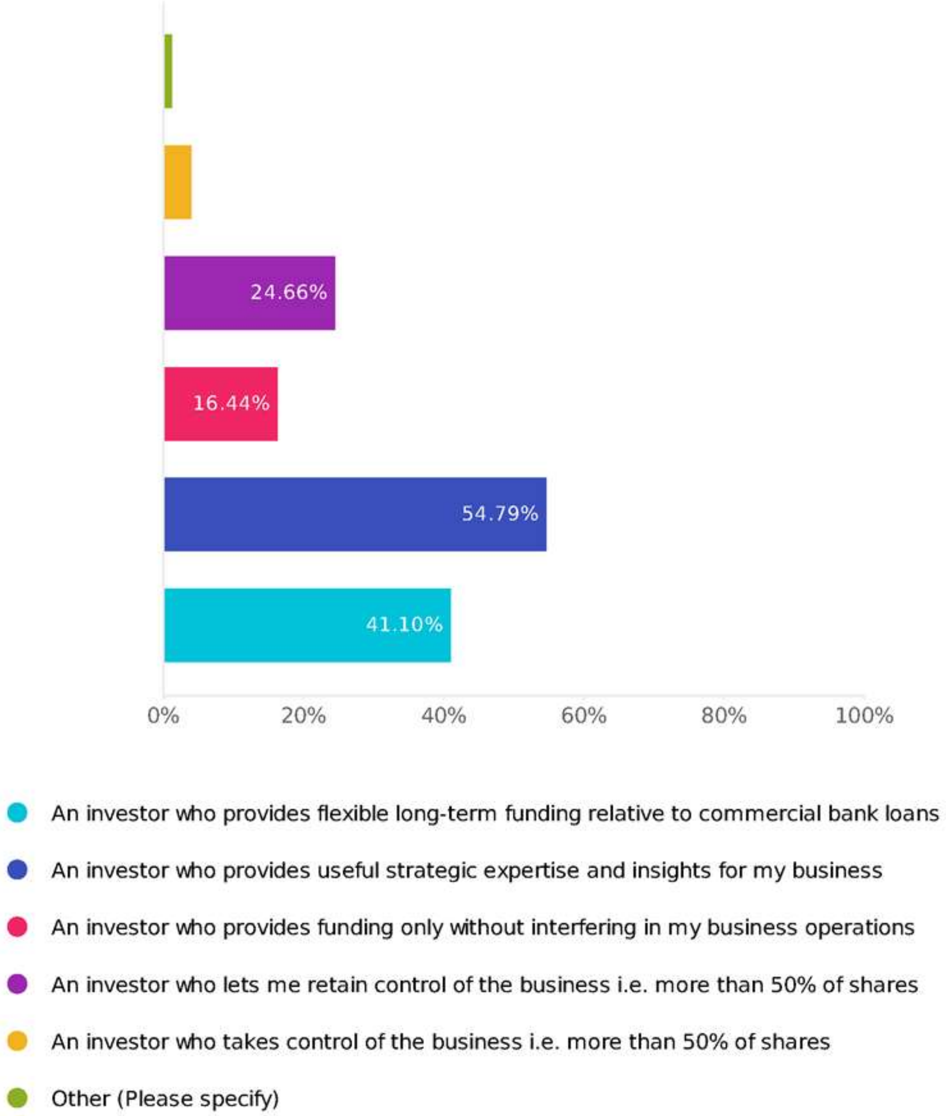


Choices	Response percent	Response count
Informal associates for example friends and family	30.23%	13
Semi-formal for example an Investment Club	9.30%	4
Professional investment funding such as Private Equity or Venture Capital	23.26%	10
A business grant for example from an NGO or a government agency	13.95%	6
Other (Please specify)	23.26%	10

Q5

5. What are the most important consideration in order for you accept investment from external investors?

Answered: 73 Skipped: 3

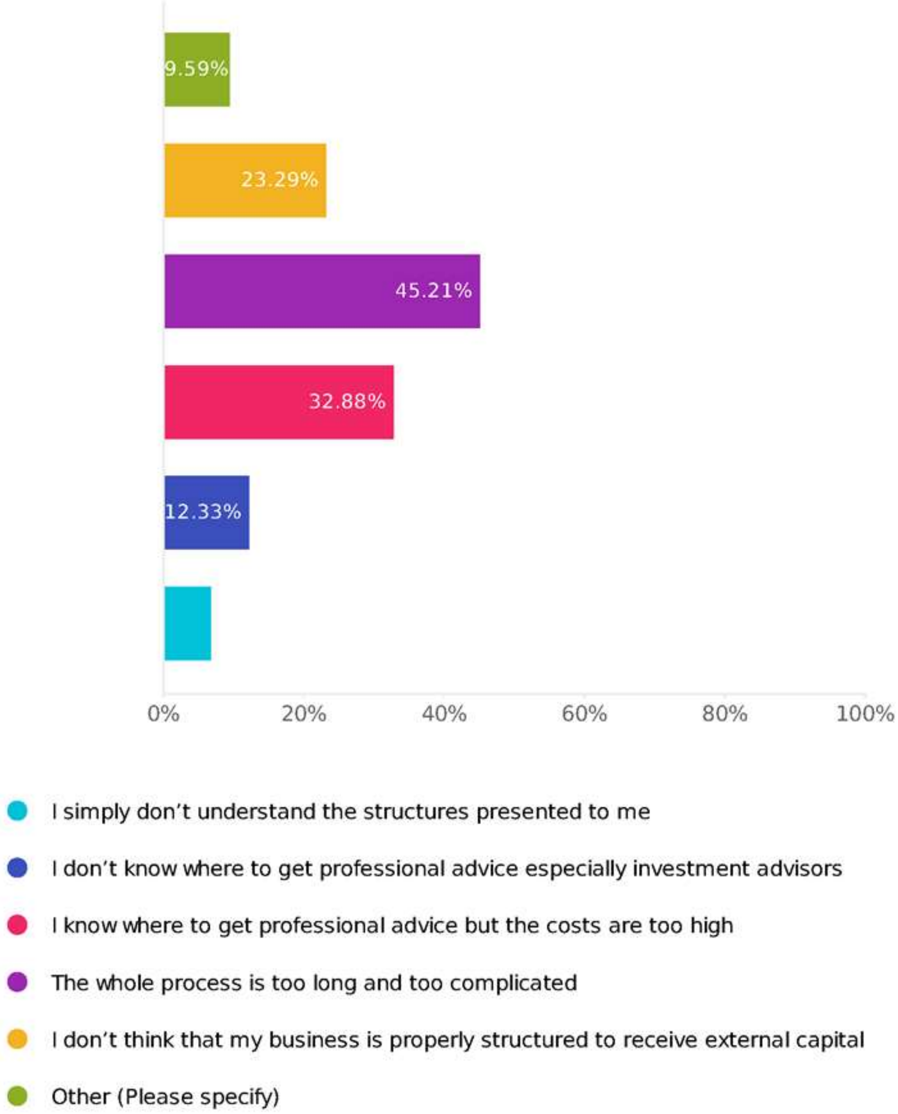


Choices	Response percent	Response count
An investor who provides flexible long-term funding relative to commercial bank loans	41.10%	30
An investor who provides useful strategic expertise and insights for my business	54.79%	40
An investor who provides funding only without interfering in my business operations	16.44%	12
An investor who lets me retain control of the business i.e. more than 50% of shares	24.66%	18
An investor who takes control of the business i.e. more than 50% of shares	4.11%	3
Other (Please specify)	1.37%	1

Q6

6. What challenges if any, do you face when considering capital from external investors?

Answered: 73 Skipped: 3

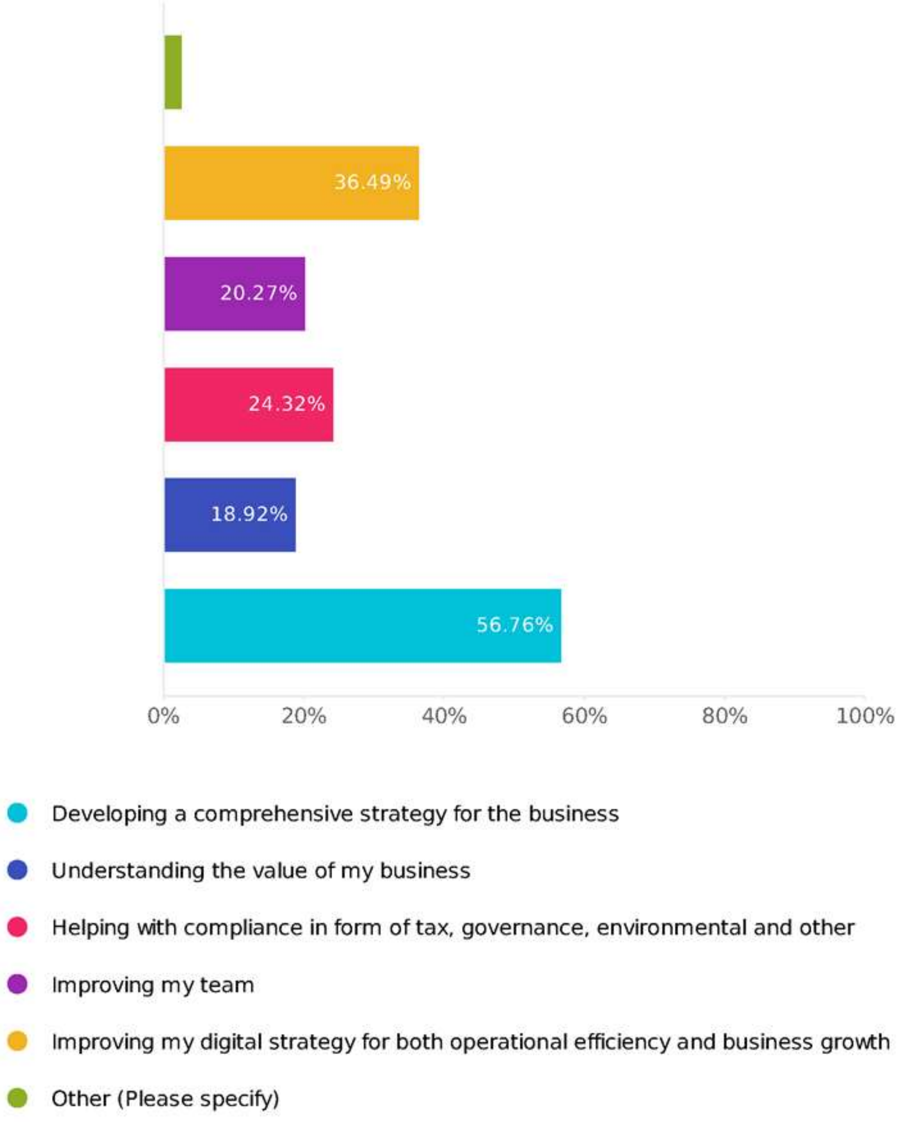


Choices	Response percent	Response count
I simply don't understand the structures presented to me	6.85%	5
I don't know where to get professional advice especially investment advisors	12.33%	9
I know where to get professional advice but the costs are too high	32.88%	24
The whole process is too long and too complicated	45.21%	33
I don't think that my business is properly structured to receive external capital	23.29%	17
Other (Please specify)	9.59%	7

Q7

7. What professional advisory services would you consider most important for your business going forward?

Answered: 74   Skipped: 2

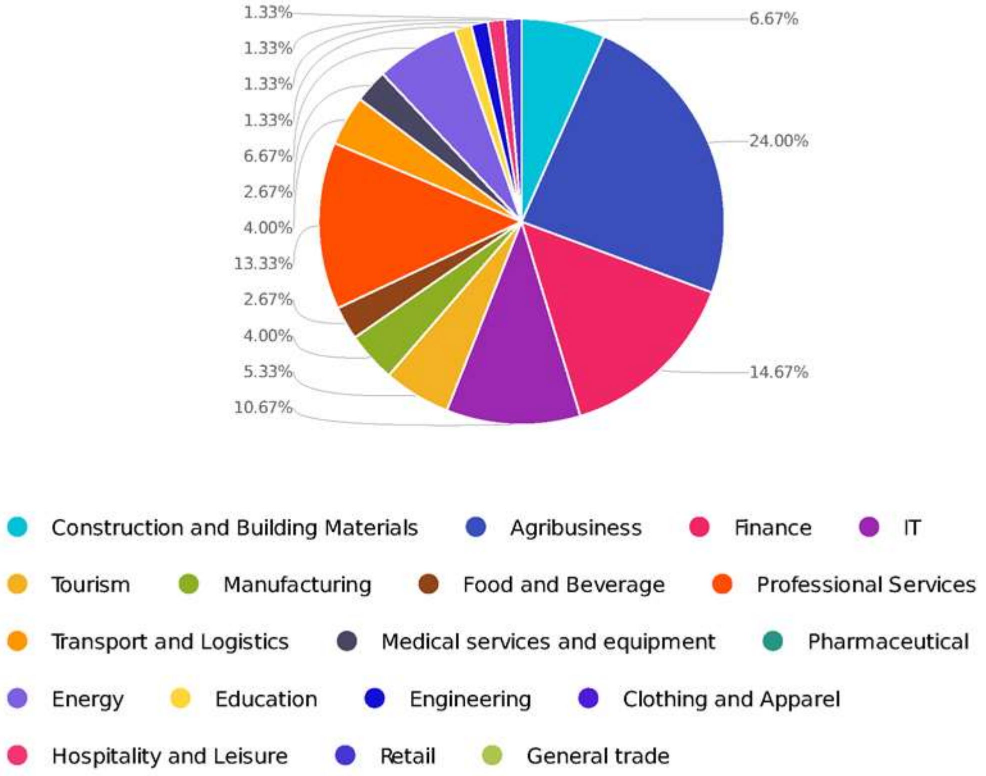


Choices	Response percent	Response count
Developing a comprehensive strategy for the business	56.76%	42
Understanding the value of my business	18.92%	14
Helping with compliance in form of tax, governance, environmental and other	24.32%	18
Improving my team	20.27%	15
Improving my digital strategy for both operational efficiency and business growth	36.49%	27
Other (Please specify)	2.70%	2

Q8

8. In which sector are you?

Answered: 75 Skipped: 1

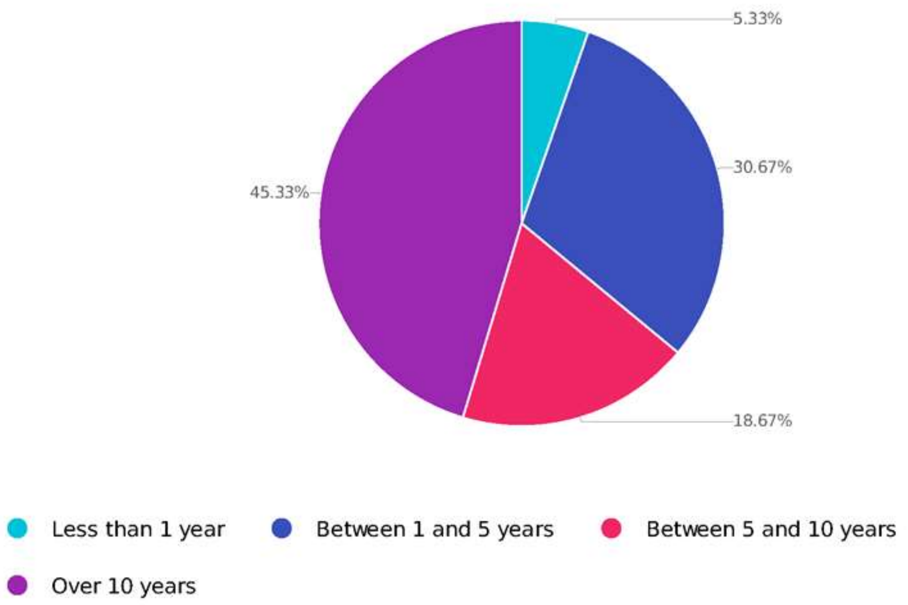


Choices	Response percent	Response count
Construction and Building Materials	6.67%	5
Agribusiness	24.00%	18
Finance	14.67%	11
IT	10.67%	8
Tourism	5.33%	4
Manufacturing	4.00%	3
Food and Beverage	2.67%	2
Professional Services	13.33%	10
Transport and Logistics	4.00%	3
Medical services and equipment	2.67%	2
Pharmaceutical	0.00%	0
Energy	6.67%	5
Education	1.33%	1
Engineering	1.33%	1
Clothing and Apparel	0.00%	0
Hospitality and Leisure	1.33%	1
Retail	1.33%	1
General trade	0.00%	0

Q9

9. For how long has your business been in operation?

Answered: 75 Skipped: 1

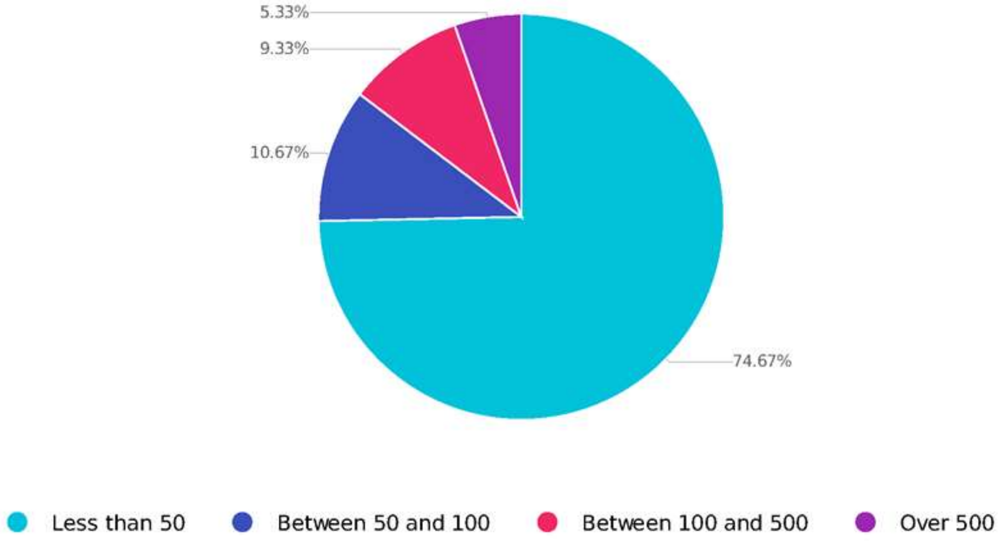


Choices	Response percent	Response count
Less than 1 year	5.33%	4
Between 1 and 5 years	30.67%	23
Between 5 and 10 years	18.67%	14
Over 10 years	45.33%	34

Q10

10. How many full-time staff do you employ?

Answered: 75 Skipped: 1



Choices	Response percent	Response count
Less than 50	74.67%	56
Between 50 and 100	10.67%	8
Between 100 and 500	9.33%	7
Over 500	5.33%	4