Fund Intermediated Investments

Investments and Exits

The East Africa Private Equity and Venture Capital Association ("EAVCA") tracked thirty-two (32) fund-intermediated private capital deals executed in Uganda over 2022. These had a disclosed aggregate deal value of ~$70.5 million and a median deal size of $2.2 million. When follow-on capital is included, disclosed aggregate fund intermediated investments over the reporting period were forty-one (41) with an aggregate deal value of ~$112.3 million. No exits were disclosed in the period.

Technology, Media and Telecommunications (TMT): TMT emerged as the most backed sector in 2022, accounting for nearly three quarters (72%) of deals executed and attracting up to $55.4 million in investments.

With an aggregate deployment of $50.2 million in new investments, the FinTech segment was dominant - mirroring the wave of global venture capital-backed FinTech investments that swept across Africa in 2022. The latter, as disruptive digital technologies offering underserved groups micro-loans and savings solutions, while high-risk investments present an outsized opportunity for returns - amid a large unbanked population coupled with high mobile phone subscription rates and growing internet penetration rates.

The big takers for the year proved to be FinTechs offering asset financing or working capital micro-loans to small enterprises with Asaak and NUMIDA notable. Asaak- "a mobile-based microfinance platform offering two-wheeler asset financing", stood out the most-securing $30 million in follow-on investment in a round led by Resolute Ventures and an additional $20 million in debt from Cauris Management. NUMIDA- a FinTech using "proprietary credit models and tech-enabled underwriting processes to provide unsecured working capital loans to semi-formal" enterprises was also notable for its entry into the 2022 Cohort of the prestigious Silicon Valley-based Y-Combinator accelerator. Credited with having engineered the trajectory of global Tech brands such as Airbnb and Dropbox, among
others, entry into the Y-Combinator is highly advantageous as it has a signalling effect in attracting further investment into a start-up from top Silicon Valley-based venture capitalists. NUMIDA’s entry into the programme saw the start-up not only receive $500,000 from Y-Combinator but also raise an additional $12.3 million in financing in a round led by US-based Serena Ventures - signalling increasing interest from global venture capital firms in backing quality, scalable start-ups across Africa\(^7\,8\,9\).

Outside the ambit of investments by global venture capital firms into Uganda's FinTech space, 2022 signalled a strategic shift in the investment strategies of East African-focused private equity firms. These have, in the past, shown an affinity to investing in traditional sectors such as healthcare, manufacturing, consumer discretionary and consumer staples. Data from 2022 provided evidence of a lean-in, by these, into emerging high-potential verticals such as FinTech alongside a more diversified portfolio in mentioned traditional sectors. Most notable is Iungo Capital’s investment into Future Link Technologies- a digital marketplace for affordable financial services- and RENEW Capital’s investment into the AgriFinTech-Akello Banker\(^16\). The shift mirrors global and regional trends – with the line between venture capital investments and private equity blurring as both investor groups increasingly deploy capital to similar profiled companies at similar or comparable ticket sizes\(^17\).

Besides FinTech, EAVCA also tracked investments in AgriTech, HealthTech, and TourismTech over the period. Future Africa’s investment in TourismTech start-up –Tripesa- is of interest as it signals interest in other Tech verticals outside the obvious FinTech, AgriTech and HealthTech\(^18\). Further, given Future Africa's nucleus in West Africa, the investment signals the expansion into - and a growing interest in East Africa by investors that have traditionally focused on other regions.

**Box 1: Run down of non-fund intermediated private capital investments and corporate mergers and acquisitions executed in 2022**

**Direct investments:** Direct investments tracked in the period were in the financial services sector, with an aggregate deal value of $\textbf{44.5 million}$ and a median deal size of $\textbf{22.3 million}$. Proparco’s $26.5 million investment in Centenary Bank in the form of two guarantees and a credit line reflects a recent spate of direct investments by the development finance institution across Africa-particularly in the financials and industrials sectors\(^10\). Further direct investments were by the Danish Investment Fund for Developing Countries (IFU) and the European Union (EU) –who, through a combined ~$18 million investment into the Agricultural Business Initiative (abI)- became equity shareholders of the Ugandan development finance institution\(^11\).

**Catalytic investments:** EAVCA tracked one hundred and one (101) catalytic investments in 2022 with deal values of $\textbf{12.5 million}$ and a median deal size of ~$\textbf{123,000}$. Seventy-eight (78) investments were executed by the Outbox Hub-implemented National Social Security Fund (NSSF) Hi Innovator Programme. The Programme is “an initiative of NSSF Uganda in partnership with MasterCard Foundation”\(^12\).

**Corporate mergers and acquisitions (M&As):** Corporate M&As tracked over the period were three (3) - most notable being the acquisition by Seacom of selected infrastructure assets belonging to Africell Uganda - including 760 kilometres of fibre optic cable laid in and around Kampala, a data centre and office space. The acquisition is part of Seacom's five-year expansion strategy into East Africa\(^13\). Other corporate acquisitions executed in 2022 include the acquisition of UAP Old Mutual Life Assurance Uganda Limited by South Africa's Old Mutual Africa and of Top Finance Bank Limited by Djibouti-based Saalam Africa Bank \(^14\,15\).

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**Energy.** As with 2021, fund-intermediated energy investments in Uganda remained subdued in 2022. The $10.6 million 17-year term loan to the 7.8 megawatts Nyamambwa II mini-hydroelectric power project secured by Serengeti Energy from the Private Infrastructure Development Group’s Emerging Africa Infrastructure Fund (EAIF) was most notable\(^19\). The recent move towards the liberalisation of energy production and distribution infrastructure assets by the government of Uganda may further dampen investments in energy in 2023 and beyond. The latter, as sector interest by private capital investors, has primarily been in hydro-power plants and solar mini-grid infrastructure feeding into the national electric grid system\(^20\).
Manufacturing. Fund-intermediated investments in manufacturing paled compared to other sectors - accounting for only 4% of deal values and 9% of deal volumes in 2022. The Pearl Capital Partners’ managed Yield Uganda Investment Fund executed most deals. As the Fund- the main deal maker in Uganda’s agro-processing segment- reaches full investment and fully enters the portfolio management stage, the slow investment activity experienced by the sector in 2022 will likely carry forward into 2023. A caveat is placed on companies manufacturing or assembling electric mobility solutions, which will likely be attractive prospects in light of the global drive towards an energy transition.

2023 Outlook for Private Capital Investments

(The outlook applies to fund-intermediated, direct and catalytic investments)

Supply-Side Outlook for 2023

The supply of private capital available to qualifying targets is expected to be adequate for various reasons.

An improving economic outlook for Uganda and most of the world implies the likelihood of sustained capital deployments into fresh assets. A January 2023 revision of the grim economic picture painted by the International Monetary Fund (IMF) in its October 2022 outlook for 2023 from what was termed as a year that would be “very painful” to one that will likely shape out as a less pronounced economic downturn globally implies that private capital funds- which typically either hold on to dry powder or opt for follow-on investments during economic downturns will show greater willingness to deploy capital to fresh targets. A reversal of the economic downturn is already evident in Uganda, with headline inflation falling for the first time since June 2022 from 10.7%, in November 2022, to 10.6% in December 2022 and likely to fall further to ~6% in the course of 2023 in reaction to quantitative tightening by Bank of Uganda.

Growing investor appetite for Tech start-ups implies a substantive pool of capital ready to be deployed to quality early-stage Tech assets across emerging markets, particularly Africa, with Ugandan companies likely to benefit from investor momentum. The most notable example of said interest is the launch in 2022 by the International Finance Corporation (IFC) of a $225 Venture Platform for Africa and other emerging markets. The platform is part of IFC’s approach to de-risking investments through a first-in-last-out approach and will see IFC make direct equity or equity-like investments in early-stage Tech companies across emerging markets. The investments may be similar in profile to IFC’s earlier 2018 investment into Kenyan AgriTech- Twiga Foods. Similar signalling is from U.S. International Development Finance Corporation (DFC), in a 2022 $50 million collaboration with MasterCard’s Community Pass Programme, whose presence in Uganda- alongside five other Countries aims to expand support for FinTechs and AgriTechs. Further, Visa’s $1 billion pledge -announced in 2022- to “accelerate Africa’s digital transformation” and “strengthen the payment ecosystem through innovations and technologies” is yet another example of growing investor appetite for opportunities in Africa’s Tech ecosystem.

A growing movement towards alliances between traditional providers of growth-stage capital and seed and early-stage investors also signals a "reaching down" to start-up and early-stage opportunities and a high likelihood that 2023 will be characterised by an adequate supply of capital for earlier-stage investments – assuming an adequate supply of quality companies in Uganda. TLG Capital is notable in this instance following a 2022 alliance between the private equity firm and Future Africa- a venture capital firm - for the set-up of a $25 million venture debt platform for Africa. Through the alliance, Future Africa shall provide deal pipeline across the continent and offer pre-investment technical assistance to companies in the pipeline, while TLG will provide financing to qualifying companies.

Closer to Uganda, the first close of Bamboo Capital's Agri-Business Capital Fund (“ABC Fund”) in 2022 and of Partech Africa’s $263 million Venture Capital Fund II in 2023, as well as a hard cap of XSML's African
Rivers Fund III and the final close of Ascent Capital's Ascent Rift Valley Fund II in 2022—all of which, among other countries, explicitly identify Uganda as a country of interest also bodes well for the prospect of fresh investments. The latter two-XSML and Ascent- shall likely retain their legacy strategy of investing in growth-stage opportunities. Further similar developments include the operationalisation of early-stage indigenous Uganda-based investors, including SHONA Capital and Inua Capital, which are similarly likely to add to the pool of private capital available to Ugandan companies.

On the downside, the interest by global venture capital investors in local deals and the bullish deployment by these in deal sizes at par with, or larger than those offered by East African-focused growth stage investors – who have traditionally accounted for the bulk of fund intermediated investment into Uganda– may lead to subdued growth stage deployment by private equity funds as they struggle to compete with global venture capitalists for the same deals. As a result, entering into 2023, amid increasing competitive rivalry, East African-focused growth stage investors may adopt a capital efficiency strategy, focusing on deploying follow-on investments to existing portfolio companies rather than fresh investments.

**Demand Side Outlook for 2023**

Private capital investors will likely focus on "underserved industry verticals representing untapped opportunities". Sectors in Uganda that will attract the most investor interest in 2023 will likely be FinTech, AgriTech and, to a lesser degree- renewable energy, CleanTech, and e-mobility.

**FinTechs- particularly those using digital means to extend micro-loans at scale- will be most attractive for global venture capital firms** who seem to have refocused their efforts into Africa, with Ugandan companies likely to take a piece of the pie. The potential for scale for tech solutions offering microloans in Uganda is immense, given a large unbanked population estimated at 87%, amid a rapid mobile phone penetration rate– estimated at 80% for Ugandans aged 15 and above- and a growing internet penetration of 53% of the population. Innovations around Artificial Intelligence and Machine Learning (AI/ML) as applied to delivering last-mile financial services in Know Your Customer (KYC) processes or alternative credit scoring solutions for populations without verifiable credit histories will also attract interest.

**AgriTech-- as an emerging Tech vertical- is also likely to gain increasing prominence in 2023-likely to carry forward into subsequent years.** Investments into AgriTech will likely be driven by investor interest rather than by a substantive supply of good quality companies (assets) in the segment. Food security risks across the world amid food (grain) supply chain shocks caused by the Russian/ Ukraine War and climate change risks to agricultural yields imply that companies innovating around solving agricultural productivity gaps, climate risks to productivity and market access gaps (supply chain streamlining) through Tech will be of interest to investors. While AgriTech assets may not necessarily represent the best quality assets the market has to offer and likely comprise a smaller pool of companies, investors looking to the sector are confident that these will be of great value in the not-so-distant future. AgriTech companies in Uganda -as a predominantly agronomic economy with 80% of its population employed by agriculture - will be of interest given the presence of a critical mass of agricultural value chain actors in the country able to generate traction for AgriTech innovations. Investors with a high-risk appetite are looking to make bets on this potential-particularly venture capital firms with a higher risk threshold and LP's with direct investment platforms.

**A global refocus towards the energy transition** will mean that CleanTech, ClimateTech and e-mobility will continue to be of interest as enablers for the transition into greener economies. On direct investments, Uganda-specific facilities such as the ~$35 million GETAccess Mini-grid solar programme- an initiative of the German government and EU may see capital flows to Uganda’s renewable energy space.

**The increasing cost of commercial bank debt implies that enterprises might show a greater willingness to seek out and absorb alternative forms of financing.** Quantitative tightening by the Bank of Uganda to curb inflation through benchmark Central Bank Rate (CBR) hikes- adjusted four times upwards between June and August 2022- implies higher interest rates on loans from commercial banks. As commercial bank debt becomes costly, enterprises may show greater willingness to opt for private capital as a non-traditional form of financing.
Methodology

Author(s): This analysis has been provided by EAVCA © 2023.

Disclaimer: The data used in this analysis was collected from the public domain or through self-reporting by industry actors. Data sources included deal announcements made by limited partners, fund managers, intermediaries or investees collected from either public sources or through self-reporting. The data is meant to be merely indicative and representative and in no way or form contains an exhaustive log of deal activity in Uganda.

Note: The Raw (EXCEL) data file containing 2022 deal activity in Uganda is available for download [EAVCA Member Access Only]. EAVCA Members can submit a data request to doris@eavca.org or info@eavca.org to access the file.

About EAVCA: The East African Private Equity and Venture Capital Association ("EAVCA") was founded in 2013 to represent East Africa's private equity and venture capital industry and provide a voice for industry players to raise awareness and engage on regional policy matters. The industry body is the primary industry association for East Africa's private equity and venture capital ecosystem. Its operational jurisdiction within East Africa includes Kenya, Uganda, Tanzania, Rwanda and Ethiopia. With a membership comprising primarily of fund managers, limited partners, and private capital industry service providers, the core business of EAVCA is the provision of services in pursuance of the interests of actors within its membership base. In doing so, EAVCA executes its mandate along its four pillars: advocacy, intelligence, training, and events. Visit us on eavca.org.

Data Sources & Endnotes

1 The term “private capital” as used in this report is in reference to leveraged buyouts, growth capital, venture capital, mezzanine and private credit investments (As defined by the report- ‘Conduits of Capital, FSD-A, 2019’).
13 SEACOM. (2022, February 09). SEACOM acquires Africell Uganda assets to continue expanding its East African footprint. Retrieved from SEACOM.
26 DFC. (2022, November 16). With Focus on Africa, New DFC and Mastercard Collaboration to Provide up to $50 Million in Potential Financing to Enable Digitalization and Financial Inclusion. Retrieved from DFC.
33 Excerpt, public comment from Bruce Neeroko Lule- General Partner at Seedstars Africa Ventures.
### EAVCA Members with a Physical Presence in Uganda

Our member firms with a physical presence in Uganda include private capital providers who have executed deals in the country over the years or plan to do so, as well as advisors who have been at the centre of some of the deals completed or that are part of the growing list of actors providing specialised services to the private capital industry. Members also comprise pension funds, development finance institutions and foundations investing directly or through funds.

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<table>
<thead>
<tr>
<th>A. Private Capital Providers</th>
<th>D. Advisors: Transaction, Audit, Tax, et.al</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. AgDevCo</td>
<td>21. BDO East Africa-Uganda</td>
</tr>
<tr>
<td>2. Amani Partners</td>
<td>22. Bethel Advisors</td>
</tr>
<tr>
<td>3. Ascent Capital</td>
<td>23. BID Capital Partners</td>
</tr>
<tr>
<td>4. FCA Investments</td>
<td>24. Crossboundary Advisory</td>
</tr>
<tr>
<td>5. Iungo Capital</td>
<td>25. Deloitte</td>
</tr>
<tr>
<td>6. Pearl Capital Partners</td>
<td>26. EY - Uganda</td>
</tr>
<tr>
<td>7. SHONA Capital</td>
<td>27. Grant Thornton Uganda</td>
</tr>
<tr>
<td>8. TLG Capital</td>
<td>28. I&amp;M Burbidge Capital</td>
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<th>B. DFIs and Pension Funds</th>
<th>C. Advisors: Legal Services</th>
<th>E. Accelerators, Intermediaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>13. Uganda Development Bank Limited (UDBL)</td>
<td>17. ENS Africa</td>
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<td>26. EY - Uganda</td>
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<td>27. Grant Thornton Uganda</td>
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<td>28. I&amp;M Burbidge Capital</td>
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<tr>
<td>29. International Finance Consultants</td>
</tr>
<tr>
<td>30. KPMG</td>
</tr>
<tr>
<td>31. Mazars - Uganda</td>
</tr>
<tr>
<td>32. Open Capital</td>
</tr>
<tr>
<td>33. PWC - Uganda</td>
</tr>
<tr>
<td>34. Imuka Access</td>
</tr>
<tr>
<td>35. Outbox Hub</td>
</tr>
<tr>
<td>36. SHONA Group</td>
</tr>
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