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Blended Finance in Uganda: Opportunities, Challenges and Risks

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Preface

Southern Voice is a network of 50+ think tanks from Africa, Asia and Latin America.

Since its inception in 2012, it has served as an open platform. It provides structured inputs from the Global South into the debates on the 2030 Agenda, and the SDGs, with a view to addressing the 'knowledge asymmetry' and 'participation deficit' that usually afflict such global discussions.

In 2017, Southern Voice started to explore the use of blended finance as part of the strategies to finance the 2030 Agenda in Least Developed Countries (LDCs). It is a joint effort with the United Nations Capital Development Fund (UNCDF) and the United Nations Foundation. In this context, four country case studies, along with a synthesis paper, were carried out in Bangladesh, Nepal, Senegal and Uganda. These were inputs also for the UNCDF's report "Blended Finance in the Least Developed Countries," published in November 2018.

The present study constitutes a broad analysis of the application of blended finance in Uganda. It identifies the circumstances and conditions under which the instrument of blended finance is being used to mitigate risk and attract private investment in projects and programs that may promote the implementation and achievement of the Sustainable Development Goals (SDGs). The study offers concrete and actionable recommendations to take advantage of blended finance at a local level.

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Abstract

This study explored the opportunities, challenges and risks concerning blended finance in Uganda. It reviewed and analysed Uganda's national policy documents and other relevant national documents and interviewed national-level stakeholders including government officials, Civil Society Organizations and donors. The study found, that few Ugandans understand the term blended finance, but many know public-private partnerships, the dominant form in which blended finance is manifested in Uganda. Agriculture, energy and transport sectors dominate blended finance deals. The guarantee is the most common blended instrument being used, with increasing participation of domestic financial institutions in sustainable development. Blended facilities are however not targeting the poorest of the poor. The possibility of unfair competition among banks and different banks targeting the same individuals is high, and the latter could lead to duplication. Skills gaps in programme implementation and limited technical support for projects do affect the bankability of blended projects and significantly contribute to project delays. Nevertheless, foreign private investors have a keen interest in investing in Uganda, and the Uganda Government continues to be very supportive of the private sector. Uganda's insurance industry and the National Social Security Fund could also prove significant partners of blended facilities if well incentivised.

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Acronyms

aBi	Agricultural Business Initiative
ACF	Agricultural Credit Facility
BoU	Bank of Uganda
DFIs	Development Finance Institutions
FIs	Financial Institutions
GDP	Gross Domestic Product
KFW	Kreditanstalt für Wiederaufbau
LDCs	Low Developed Countries
M&E	Monitoring and Evaluation
MDGs	Millenium Development Goals
MoFPED	Ministry of Finance, Planning and Economic Development
MoU	Memorandum of understanding
NDP	National Development Plan
NIMES	National Integrated Monitoring and Evaluation System
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PPPs	Public-Private Partnerships
PSFU	Private Sector Foundation Uganda
SDGs	Sustainable Development Goals
SIDA	Swedish International Development Agency
SMEs	Small and Medium-Sized Enterprises
START	Support to Agricultural Revitalization and Transformation
UDB	Uganda Development Bank
UECCC	Uganda Energy Credit Capitalisation Company
UIA	Uganda Investment Authority
UKAID	United Kingdom Agency for International Development
UNCDF	United Nation Capital Development Fund
URA	Uganda Revenue Authority
USAID	United States Agency for International Development

Blended Finance in Uganda: Opportunities, Challenges and Risks

Ibrahim Kasirye
Job Lakal

Introduction

It is a globally accepted idea that all countries need to develop sustainably; however, the question of how to attain the globally idealised level of development has been an extraordinarily complex puzzle particularly for developing countries. Over the years, there have been multiple initiatives spearheaded by world leaders in attempts to fast-track development. The start of the Millennium Development Goals (MDGs) was a breakthrough in terms of drumming up unified global support towards social and economic development. However, Jaiyesimi (2016) notes that the MDGs concentrated mostly on social goals, leaving out other priorities like infrastructure and energy. Accordingly, in the post-MDG era, the 2030 Agenda and the Sustainable Development Goals (SDGs) followed through with a more comprehensive framework to address sustainable development across developed and developing nations alike, while integrating the collaboration between the public and private sectors in pursuit of its 17 goals. Given the broadness of coverage, the Sustainable Development Goals (SDGs) present significant opportunities and at the same time challenges, one of which is financing (Jaiyesimi, 2016).

To meet the SDGs by 2030, developing countries require at least USD 4.4 trillion annually (Deloitte, 2017). Development, especially in the Least Developed Countries (LDCs) has traditionally been financed through government revenues and official development assistance (ODA). However, with an estimated USD 2.5 trillion per annum investment gap required to meet the SDGs in developing countries, there is a need for more creativity in mobilising financial resources to realise the goals. Approaches must consider both public and private sources of finances domestically and externally (European Report on Development, 2015). The private sector is increasingly being globally recognised as holding the key to fully unlocking Sustainable Development; however, engagement models facilitating public and private collaboration have thus far been elusive to that effect (Kharas, 2013). Nevertheless, the development community continues to break barriers in forging new forms of partnerships for development, and blended finance has recently emerged as a potential solution to the existing gaps in development finance.

According to Choritz, Lorenzato, & Santoro (2018) in a report of the United Nations Capital Development Fund, blended finance can be understood as the "strategic use of concessional public finance to catalyse private sector investment in SDG-related investments in developing countries" (p. 14). It can be regarded as an investment risk-reducing mechanism used to attract commercial finance towards SDG related investments. It leverages a wide array of financial instruments to incentivise investors to consider investments that they would not otherwise consider under normal circumstances (Deloitte, 2017). Deloitte's paper adds that blended finance is characterised by the use of:

1. Leverage, where development finance and philanthropic funds are used to attract private capital into deals;
2. Impact, where blended investments should drive social, environmental and economic progress; and
3. Returns, where financial returns for private investors in blended projects remain in line with market expectations, based on real and perceived risks.

Between 2012 and 2015, about USD 5.5 billion of private finance was mobilised for projects in LDCs; with 60% of this coming from multilateral sources, only 24% of this finance was mobilised from within the beneficiary country (OECD, 2018)[1]. At least, 70 % of this money was mobilised using guarantees or insurance, an instrument of blended finance.

1 Because the data does not show why only 24% was mobilised from within beneficiary countries, it is difficult to conclude on whether it is a good thing or a bad thing for all the countries. For the case of Uganda (being one of those countries), it can be argued to be a bad thing, because the risks identified such as weather shocks, exchange rate volatility and political uncertainty play a key role in stopping local private players from investing in SDG related development. If increasingly averted using blended tools, more could be mobilised.

With the SDGs' integration of the private sector as a key player in development, new incentives are being innovated towards a productive partnership to that effect, one of these is blended finance. Deloitte (2017) echoes on the importance of blended finance in reducing risks and leveraging financing for development but notes that its effect has so far been limited. It indicates that the global share of capital market flows is USD 118 trillion and that developing countries could use blended finance to adapt their systems to increase their share in this market.

Developing countries could use blended finance to adapt their systems to increase their share in this market.

However, development practitioners are keen to acknowledge that blended finance is not a "one size fits all" solution and should, therefore, be considered within a policy framework. The European Report on Development (2015) adds that mobilising finances alone is insufficient without the right set of policies to determine effective usage of the funds mobilised. There is a need for stronger national finance and policy frameworks and robust systems for monitoring and accountability.

According to OECD, between 2012 and 2015 Uganda mobilised USD 130 million[2] out of the USD 81.1 billion private finance mobilised globally. Senegal, on the other hand, whose GDP is lower than Uganda's mobilised up to USD 1 billion. Table 1 below compares economy sizes against amounts mobilised from private finances through blended finance. The countries selected are all from sub-Saharan Africa and with similarities to Uganda.

2 Because of the lack of a unifying transparent framework for documentation of blended facilities. Verification of this figure may require a methodology beyond the scope of this study.

Table 1. Amount mobilised from private finances

Country	GDP (Constant 2010 USD)[3]	Amount mobilised from private finances (USD million)[4]
Uganda	28,572,697,920	127.8
Kenya	58,116,217,884	2,014.8
Tanzania	50,098,249,469	200.1
Rwanda	9,342,172,848	100.9
Zambia	28,139,396,719	507.5
Senegal	17,975,846,535	682.4

Source: The World Bank (2018) and Benn, Sangare, and Hos (2017); compiled by authors.

GDP in the table is a proxy for economy size. Countries with bigger GDP have more significant economies. The table shows that Zambia, whose economy is the same size as Uganda mobilised USD 507 million, almost four times the amount Uganda mobilised. Senegal, a smaller economy mobilised USD 682 million. While these disparities reflect differences in opportunities, it is also an indicator that Uganda as a country can learn a thing or two on the intricacies surrounding Senegal or Zambia's bigger blended finance flow.

Currently, though, there is still limited awareness and convergence of local actors towards the idea of blended finance for development in Uganda. The existing forms of financial blending and any related evidence currently remain scattered, and as such, there is limited comprehensive evidence on the blending portfolio in Uganda and its impact on development. The fact that most of the local actors interviewed were unaware of the

3 GDP figures are for 2017, collected from World Development Indicators, World Bank.

4 Figures adopted from Benn, Sangare, and Hos (2017)

term "blended finance" itself signals that there is hardly a locally entrenched community deliberately creating awareness on blended finance. However, this does not mean that blended approaches are not being used in Uganda. A staff of Uganda Development Bank (UDB) interviewed reiterated that many private actors, especially at lower income level do not have access to adequate information about blending facilities. As a result, many of them miss out on the opportunity to access blended funds. Through dissemination events regarding financing, UDB has played a limited role in informing the private sector about such financing methods.

Uganda's Development Bank is a government-owned development finance institution established by an act of Parliament with the ultimate aim of promoting and financing development across sectors in the economy. Built in 1972, UDB is a market leader in financing SDG related development on concessional terms in Uganda. By mandate, therefore, blended facilities that involve government financing should ideally involve UDB, yet that has not always been the case. There are several blended initiatives involving government financing without UDB, example ACF is being coordinated by Bank of Uganda. As a matter of fact, to date, there is no national framework to purposefully integrate blended finance and track its results, something that UDB could be supported to do.

This scoping study aims to close the evidence gap and contribute to the policy debate on blended finance by identifying evidence on how blended finance can be used in Uganda. It also seeks to create a community of practice that can help shape the actions of governments, investors, and practitioners. The study adopts the earlier outlined UNCDF definition of blended finance.

The rest of the paper is structured as follows: Section 1.1 briefly highlights the methodology used for the study. Section 2 discusses the context of blended finance in Uganda. Section 3 presents an overview of the economy and financial flows. Section 4 identifies sectors/projects that blended finance is supporting in Uganda. Section 5 presents the risks, barriers and challenges related to blended finance in Uganda. Section 6 discusses the opportunities for blended finance. Section 7 presents how the development impact of blending is being captured. Section 8 is a conclusion to the report. The sections are summarised below:

The context for blended finance in Uganda

Here, the study found that the term blended finance is new, but people could identify with some of the instruments such as PPPs, credit guarantee, and matching grants. Local finance institutions are also increasingly getting involved in blending. Information regarding blended projects is limited, mostly to middle and high-income sections of the population who are more connected to sources of information. It concludes that blended programmes targeting lower income groups should do more sensitisation to expose people to their programmes and make them understand how they operate.

This section also looked at existing policy, regulatory and institutional frameworks for blended finance. It is observed that Uganda's national development plan supports private sector involvement. Its strategy is in using more concessional loans and public-private partnerships in its financing. Quasi-market approaches are also being encouraged, to increase efficiency among service providers and choices for consumers. Key government bodies involved include the Ministry of Finance, the Central Bank and Uganda Investment Authority. Several donor agencies are playing a role in promoting blended finance. Institutions such as the public finance management act and the public-private partnership act help guide negotiations in blended projects but may need to be improved.

Overview of the economy and financial flows

This section showed that growth has picked up in the financial year 2017-2018 at 6.1% from the previous 3.9%. Critical sources of development finance are government revenues, official development finance which includes loans and grants, foreign direct investments, and remittances. The service sector is the most significant contributor to the economy but employs less than agriculture. The cost of private finance is still high, with market interest rate averaging about 20%. This is hindering private investment in high-risk SDG projects. Commercial banks which account for over 90% or private credit tend to lend more to the government because it is low risk. However, actors like Uganda development Bank and donors are using blending to reduce interest rates for specific SDG related investments. It concludes that blended facilities could focus more on balancing employment levels across agriculture, industry and service sectors. Donor funds remain a significant part of development finance in Uganda, but there is a need to pack more into blended approaches to help unlock the private capital that is currently shy of risks.

Sectors and projects that blended finance is supporting in Uganda

Blended finance is predominantly in the agriculture and energy sector. In the agriculture sector, it is being driven by donors. This is partly because most poor people are in this sector, but also because it is the riskiest sector. In the energy sector, it is driven by the government's current growth strategy of frontloading physical infrastructure. Public-private partnerships are heavily financing the roads and transport sector; however, due to limited data, estimates could not be established in this study. The principal risks being mitigated across sectors including political instability, loan default, breach of contract, transfer restriction, expropriation, war and civil disturbances and weather/environmental shocks.

Risks, barriers and challenges related to blended finance in Uganda

This study found that corruption, human and institutional capacity gaps in programme implementation, limited technical support for projects do affect the bankability of projects. Risks to blending include the possibility of unfair competition among banks, different banks targeting the same individuals leading to duplication, blended projects increasing inequality in gender and regions, the risk of leaving out the poorest of the poor because they are not bankable, and political disturbances that may affect investment decisions. Challenges discussed include limited capacity for monitoring and evaluation, severe project delays, limited sources of long-term finance, information gap especially to low-income groups, and the high cost of domestic credit. It calls for more technical support to projects, better coordination between banks, broader awareness creation on blended facilities, and the need to match blending packages with poverty levels. It also argues for the need to develop other cheaper financing sources like equity, to provide an alternative to debt.

Opportunities for blended finance

In this section, the study observed that there is an increasing interest from private investors to invest in development in Uganda. Secondly, the Ugandan government has a high interest in and support to the private sector. Thirdly, there exist untapped potential funders like the National Social Security Fund and insurance agencies that could be incentivised to invest more in SDG related development.

The development impact of blending is being captured

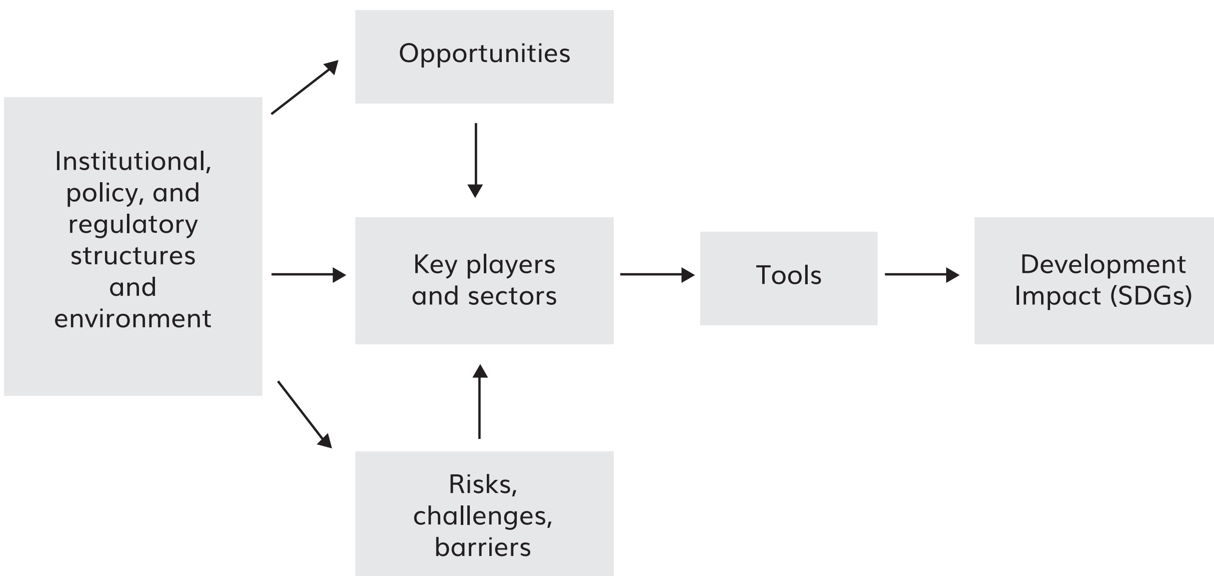
Monitoring and Evaluation frameworks exist, in both government and donor systems. Their degree of performance is on a case by case basis depending on who is steering the project. In most cases, donors are strong advocates for M&E. In government, capacity is low, and dissemination of results for learning is limited. It is recommended that more technical support for M&E is required, especially in the government. Beneficiaries should also strive to demand feedback from relevant stakeholders as a way of encouraging the sharing of M&E findings.

Methodology

The study takes a qualitative approach through a desk review of both primary and secondary sources of literature to establish and put together already existing evidence on blended finance in Uganda. Key informant interviews (KIIs) were conducted to triangulate findings from the desk review and to support in-depth analysis on cases studies of interest. Interviews were conducted with 17 relevant officials coming from 13 different agencies including government agencies, non-governmental organisations, donor agencies and private businesses engaged in blended finance. Institutions that participated included Uganda Development Bank, Uganda Development Cooperation, Private Sector Foundation Uganda, Post-Bank Uganda, Pearl Capital Ventures, National Planning. The study uses the framework below as a mechanism for analysing data.

As illustrated in Figure 1 below, this study focuses on the institutional, policy, and regulatory structures and environment for blended finance. It also analyses the opportunities, risks, challenges and barriers and its effects on the key players and sectors involved in blended finance. Lastly, the study looks at essential tools being used in blending and how development impact from blending is being captured.

Figure 1. Analytical Framework



Source: Elaborated by author

As illustrated in the framework, the study starts by understanding the institutional, policy, and regulatory structures and environment supporting or hindering blended finance in Uganda. This environment has a bearing on the opportunities, risks, challenges or even barriers that the players face within various sectors. We then look at the blending tools currently used to address the risks and how they are impacting sustainable development within the context of Uganda's National Development Plan.

The context for blended finance in Uganda

While the term "blended finance" is relatively new in Uganda, the concept itself as a form of development financing has been in practice for several years. There has hardly been any thematic debate on what exactly constitutes blended finance, but local actors generally have some understanding of the working tools and instruments used in blending. Many people understand it better when the concept is described using some of its tools like PPPs.

While all actors interviewed[5] could quickly identify with the blending instruments being used, only interviewees from donor agencies and financial institutions were familiar with the term "blended finance"[6]. Note, that all interviewees were literate and are most likely middle-class individuals who have access to some information about blended tools such as guarantees, matching grants and public-private partnerships (PPPs). Even then, some said it is difficult to get full information necessary to apply for funding from such facilities because they hardly reach out to create awareness.

A number of the interviewees also argued that unlike middle-class people who have access to information, for example through the internet, many low-income people who

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5 We were not able to talk to MoFPED, but we talked to its agency the National Planning Authority and the Uganda Development Cooperation.

6 For example, the interviewee at Private Sector Foundation Uganda (PSFU) mentioned that he only got to know about blended finance a week prior to our interview while attending a launch of a new donor project on SME financing.

would benefit from some blended facilities like credit guarantees do not have the same degree of access to information. They are therefore not aware of the existence of such funds and hence fail to access them. This is partly because adequate information about blended facilities are mostly accessible only from websites and through walk-ins to the facilities, channels that are difficult for the poor to use.

Blending in Uganda is most visibly manifested in the form of public-private partnerships (PPPs), concessional loans, grants, guarantees and technical assistance motivated to specific sectors, initiatives, and government incentives to the private sector. Lately, commercial and development finance institutions (DFIs), micro-deposit taking institutions and credit institutions have significantly come in as the dominant local private players in blending finance for development. Domestic banks mainly source out for low-cost financing (grants, loans) and mix it into a blend with other financing sources and then lend it to targeted development causes at relatively reduced rates[7]. Actors identified banks doing as 'Pooling of finances'. Finance institutions involved in pooling include Uganda Development Bank which is a DFI; Commercial banks include Centenary Rural Development Bank and DFCU Bank; micro-deposit taking institutions to include Pride Microfinance Limited and FINCA Uganda Limited, while Post Bank Uganda limited is a credit institution.

One kind of mix (pooling) stated in an interview with a bank official is where the bank sources for and combines a grant (cheap in financial terms) with its high commercial capital to fund a development cause usually identified by the grant partner. Accordingly, the Uganda Development Bank (UDB) attracts low-cost funding from donors and other international development finance institutions. A case in point is where UDB secured financing from the African Development Bank at the cost of 1% interest, it mixed this kind of cheaper finance with other relatively costly capital, consequently reducing its average cost of credit which is then lent to development causes in targeted sectors at friendlier

7 Domestic banks in this context means local DFIs, commercial banks, micro-deposit taking institutions and credit institutions.

rates. Another typical example that came out during an interview with a government official is the solar refinance facility, implemented by Centenary Bank and Uganda Energy Credit Capitalization Company (UECCC). Under this facility, UECCC granted over USD 280,000 to Centenary Bank, which mixed it with its funds[8] to finance solar projects at a lower fixed interest rate of 8.15% per annum. Here the bank blended UECCC grants with its relatively expensive commercial finance (more than 20% interest rate) to offer cheaper loans they would not have provided without the subsidy. However, given the limited awareness and convergence of local actors towards the idea of blending for development, the existing forms of financial blending in Uganda and any such evidence currently remain scattered, and as such, there is limited comprehensive evidence on the blending portfolio in Uganda and its impact on development.

Policy, regulatory and institutional frameworks affecting blended finance

Uganda's long-term development aspirations are articulated in its Vision 2040 plan, which set out key priority areas with similar objectives and strategies to push the economy to middle-income status (National Planning Authority, 2007). The vision is implemented through five years of National Development Plans (NDP). All sectors are legally required to link their investment plans to the 2040 Vision and the NDP which is connected to the Sustainable Development Goals. As such, it is important to note that over 69% of the SDGs have been mainstreamed in Uganda's NDP (Global Partnership for Effective Development Cooperation, 2016)[9]. The Ugandan 2040 Vision acknowledges the private sector as a key financier and proposes as policy reform, the adoption of a quasi-market approach with the private sector as the engine for growth and development. The NDPII (2015-2020) which is estimated to be financed with about 42% private finances also notes the commitment of the government to pursue a private sector-led and quasi-market approach as part of the strategy to achieve its objectives (Government of Uganda, 2015b).

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8 An undisclosed amount

9 There is no data or information on the progress of the other almost 30% of the SDGs which is not mainstreamed.

Policies such as the creation of a PPP unit in the Ministry of Finance and PPP mechanisms in other ministries, departments and government agencies are promoting private sector involvement.

Under quasi-markets, the government encourages competition for public services to improve efficiency and widening consumer choices without losing equity benefits of public financing. This can be done through the creation of institutional structures that allow public agencies to compete with each other in the provision of a service. This competition improves efficiency across public institutions. It can also be a fee-for-service reimbursement programme where more than one private service provider is contracted for the same service. The choice of who should provide a service is then shifted to patients, for example, using a voucher coupon system. The Uganda Reproductive Health Voucher project funded by the World Bank and the United Nations Population Fund is implemented through a voucher scheme. The scheme is administered by Marie Stopes (a private provider) as its Voucher Management Agency (VMA). Using the voucher, pregnant women access safe delivery services from contracted service providers. The service providers then offer specific services and redeem the vouchers from Marie Stopes[10]. This increases the choices available to mothers and at the same time encourages competition through better services among the private providers. Further, the private providers use their finances to provide a service up-front and reclaim it afterwards, something they would not usually do under normal circumstances.

There are many institutions supporting blended financing in Uganda. At a strategic level, the Ministry of Finance, Planning, and Economic Development (MoFPED) are crucial in setting out policies and regulations, and working with the Central Bank of Uganda where necessary. MoFPED works with other public institutions like Uganda Investment Authority (UIA), Uganda Revenue Authority (URA) and the Private Sector Foundation Uganda (PSFU)

10 Marie Stopes is a non-governmental organisation providing contraception and safe abortion services in Uganda.

to provide an enabling environment for blended financing.[11] At the sector level, coordination takes place in the joint Sector Working Groups (SWGs) whose members include Government Ministries, Departments, and Agencies (MDAs), Development Partners, NGOs and the private sector (Office of the Prime Minister, 2013). Government through MoFPED also enacted the Public Finance Management (PFM) Act which, among other things authorises the government of Uganda to guarantee loans (including those of a private sector entity) through the Minister of Finance[12], subject to specified prerequisites including that the intended purpose of the loan is consistent with the government's policy and is in line with public interest (Government of Uganda, 2015a).

Uganda has the Public-Private Partnerships (PPP) Act of 2015, which specifically regulates the design, construction, maintenance and operation of infrastructure or services provided in projects under the transport sector, information, communication, technology, social infrastructure, water management facilities, oil and gas facilities, energy related facilities, and agricultural processing facilities. The Act clearly spells that all the projects have to fulfil the objectives of the National Development Plan. The Act is governed by principles including: value for money, transparency, accountability, participation, protection of intellectual property, strengthening institutional capacity, harnessing private sector innovations and efficiency, among others. The Act established a PPP unit within MoFPED to oversee all technical matters related to PPPs. However, in practice, there have been several cases where implementation of blended projects has violated the governing principles of the PPP policy, especially as far as value for money, transparency, participation and accountability are concerned. The auditor general's value

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11 MoFPED manages all development coordination with partners and ensures that projects are in line with NDP and sector priorities and that projects are financed. An aid liaison department was created at MoFPED and it coordinates all ODA. An official development finance management platform was launched in 2014, its online and accessible to the public.

12 Section 36 subs-section 1 of PFM Act clearly specifies that "the authority to raise money by loan and to issue guarantees for and on behalf of the government shall vest solely in the Minister and no other person, public corporation, state enterprise or local government council shall, without the prior approval of the Minister, raise any loan, issue any guarantee, or take any other action which may in any way either directly or indirectly result in a liability being incurred by the Government."

for money audits have often exposed loopholes in the implementation of such projects. For example, cases of limited stakeholder participation and Illegal transfer of funds from the project accounts were observed in the Agricultural Credit Facility (ACF) programme (Office of the Auditor General, 2013). The downside is that such cases frequently end with the exposure of misconduct and not much is done to enforce accountability and foster systemic improvements. Furthermore, the PPP act is narrow in the sense that it only covers partnerships between private and government agencies, leaving out other forms of cooperation, for example, those between donors and private entities.

To attract foreign private capital, the Uganda government through the investment code of 1991 established by the Uganda Investment Authority (UIA). The UIA provides several fiscal incentives including tariff and non-tariff investment incentives to attract private investors, especially foreign ones. The incentives include first arrival privileges and exemption from duties and sales tax. For example, the Uganda Investment Code Act in chapter 21 specifies that importers of plant, machinery, equipment, vehicles or construction materials for an investment project benefit from concessional rates of import duty and other taxes when they arrive in Uganda for the first time (Government of Uganda, 1991). It, however, notes that for a foreign investor to qualify for this, their capital investment should be worth at least USD 500,000. This is aimed at persuading foreign investors to plan more significant ventures in Uganda. These benefits do not only accrue to investors when they arrive for the first time in Uganda, but every time they import items that qualify for the incentive. The next paragraph gives examples of some of the items that are covered under this provision.

The Uganda Revenue Authority (URA) implements a series of fiscal incentives covering a range of sectors most notably in the agriculture, transport, education and sports, energy, hotel and tourism, health and medical, construction and insurance sectors. The fiscal incentives are mainly tax exemptions. In agriculture, for example, breeding animals, tractors, ploughs, and machinery for processing agricultural products are exempted from value-added tax. In the education sector, all approved educational articles and materials as specified in the Florence Agreement[13] are tax-exempt under the fifth schedule of the East African Community Customs Management Act (Uganda Revenue Authority, 2017). Examples of non-tariff incentives include the construction of industrial parks like the Kampala Industrial and Business Park located eight miles East of Kampala in Namanve, with amenities like electricity, roads, and telecommunications infrastructure (UIA, 2018). Several investors are still setting up at the park, which is expected to provide market and boost production for private investors. Further, investment plans worth more than USD 25 million or to create more than 500 jobs in the land are eligible for fully subsidised land or waiver of lease premium charges. This mainly aims at attracting big foreign private investors who have capital to invest in Uganda.

> **Public-Private Partnership is a common blending approach heavily used by the government and there is much praise for its capital mobilisation power.**

Most official development funds are being implemented through MoFPED, Ministry of Works and Transport, USAID, Ministry of Energy and Mineral Development and Ministry of Local Government (MoFPED, 2018). To a greater extent, blended finance providers strategically engage with government at two levels, either with MoFPED which is the financial hub of Uganda or directly with beneficiary ministries, NGOs, and the private sector. Our interviews established that PPP is a common blending approach heavily used by the government and there is much praise within the public sector for its private capital mobilisation power. However, questions still linger on the technical ability of the government to negotiate PPP terms to the benefit of the country. This is because in some cases, PPPs have not accomplished expectations.

13 A 1950 UNESCO agreement in which states the agreement to remove customs duties on the importation of Educational, Scientific and Cultural materials.

An example is the Bujagali Hydro-Power Project whose commencement was delayed for over five years due to technical complications, some originating from violations of the due bidding process.

In terms of alignment to national priorities, while it is a requirement that concessional and other development financing is aligned to the NDP. According to the fiscal year (FY) 2016-2017 and 2017-2018 certificate of compliance[14], Uganda's overall budget is unsatisfactorily aligned to NDPII (NPA, 2018). In FY 2016-2017, the annual budget was 58.8% compliant compared to 54% in FY 2017/18. In FY 2016-2017, only 7 out of 16 government sectors had development plans aligned to the NDPII. Sectors that did not have plans included works and transport, and trade and industry. The certificate of compliance notes that one of the key reasons for lack of alignment is uncoordinated implementation and monitoring. It cites off-budget support which is not integrated with the overall planning and budgeting process, often leading to duplication. It is worth noting that a key development partner like USAID which also finances blended facilities is one of the agencies that work off-budget. This means that there could be financing that, while necessary for development may not be in line with the NDPII strategic direction. A 2016 report showed that only 35% of development partners/donors use country monitoring systems (Global Partnership for Effective Development Cooperation, 2016). The report calls for better integration of official development finance into national development plans and stronger support for country results framework.

In summary, there are institutions in place to support blended facilities, but according to the interviewees, the institutions need capacity enhancing in terms of systems building and workforce to effectively and efficiently deliver and to increase accountability. Currently, the critical policy framework in line with blended finance is the PPP Act, which may need to be amended to cover other forms of blended facilities. The PPP act provides for agreements made between a "contracting authority" and a private party. Note that

14 The certificate of compliance is a document that shows how the National Budget is focused on implementing the National Development Plan. It is a requirement under Uganda's Public Finance Act (PFMA) 2015, Section 13(7) that this certificate be issued annually.

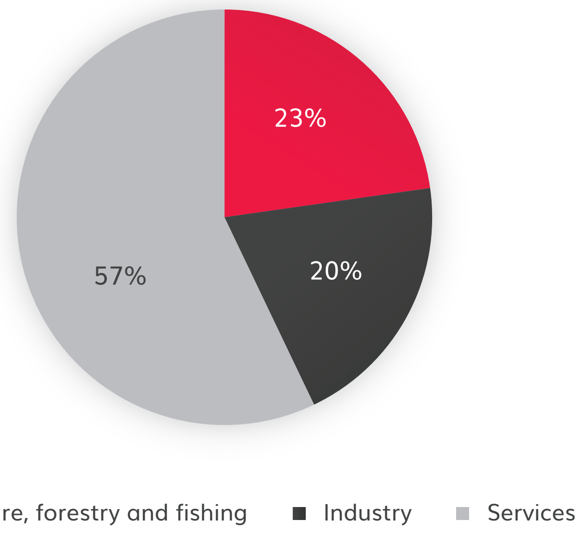
the contracting authority here is a ministry, department of government or any other body established by the government and mandated to carry out its functions. This means that blended facilities that do not involve government, for example, those between development partners and private parties with no government mandate are not protected by this act. Government's commitment to attracting private capital can be seen in the institutions it has put in places like the PPP unit at MoFPED and some of the incentives mentioned above. Official development assistance mainly goes through government ministries, mostly the Ministry of Finance. Donor or private investor engagement with the government is either through MoFPED or directly with implementing ministries and agencies. Blended facilities, especially those that involve Government do align with the NDP, which is supposed to be performed using the national budget. However, according to the certificate of compliance, the national budget does not align with the NDP, sometimes meaning what is planned for is not budgeted and hence, not implemented. On the other hand, sometimes what is not planned for is funded, and thus deviating from national priorities.

Uganda's national development plan supports private sector involvement in development financing. Its strategy is in using more concessional loans and public-private partnerships in funding of long-term development. The Public-Private Partnership Act and the Public Financial Management Act are vital instruments used by the government through the Ministry of Finance to negotiate blended programmes with private players. However, the PPP Act does not cover public-private contracts that do not involve the government. While donors cannot directly engage in profit-making ventures, the law allows them to fund profit entities. This has enabled many donors to partner with private businesses like commercial banks.

Overview of the economy and financial flows

The Ugandan economy is relatively small with the country's gross domestic product (GDP) estimated at USD 28.5 billion in 2017 (World Bank, 2018). As of 2017, the service sector was the most significant contributor to the GDP at 57%, followed by agriculture at 23% and industry at 20%. Figure 2 below illustrates the percentage contribution of each sector to the economy. More than half of the economy is dominated by the service sector, followed by agriculture and industry.

Figure 2. Sectoral contribution to Uganda's gross domestic product, 2017-2018 (Constant 2009-2010 prices)

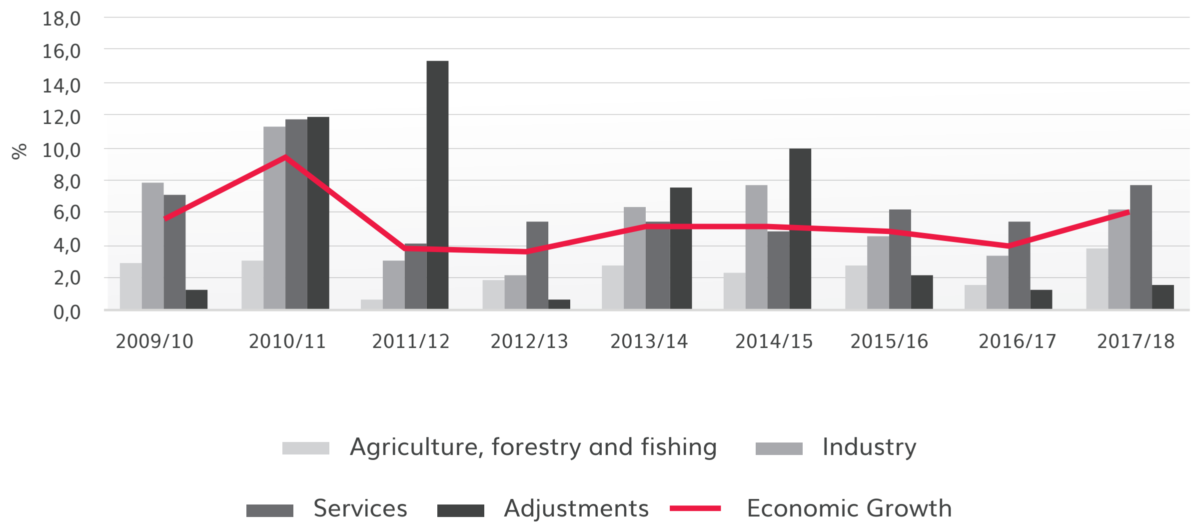


Source: Data from the Ugandan Bureau of Statistics (2018) and compiled by the author.

Note that the three sectors add up to 92.3%. The remaining 7.7% constitute adjustments for taxes on products. The agriculture sector which represents only 23% of the economy employs about 72% of the population, and productivity is quite low. Blended projects could focus on boosting productivity in the sector or creating more jobs in the service and industry sector.

Between 2011 and 2015-2016, economic growth averaged 4.5% (World Bank, 2018) with a high of 9.3% in 2011 and a low of 3.5% in 2013. Figure 3 below shows Uganda's growth trend from 2009/10 to 2017/18.

Figure 3. Uganda's growth trend from 2009-2010 to 2017-2018



Source: Data from the Ugandan Bureau of Statistics (2018) and compiled by the author.

Figure 3 shows that from 2013-2014 to 2015-2016, growth was on the decline, but it has picked up going forward from 2016-2017. In the fiscal year 2015-2016, the service sector has been the highest contributor to the growth in the economy. In the current fiscal year (FY) 2017-2018 growth averaged 6.1%, a significant improvement from the previous year's 3.9%. This improvement was boosted by among other things an accommodative monetary policy, increase in public investment management and the global economy (Bank of Uganda, 2018a). The economy is regulated using a mix of fiscal and monetary policies through the Ministry of Finance and Bank of Uganda. Uganda's monetary policy, which has a more direct relationship with credit supply and demand has been steadily easing over the last two years, with the

In the fiscal year 2015-2016, the service sector has been the highest contributor to the growth in the economy.

Central Bank trimming its Central Bank Rate (CBR) from a double-digit 17% (in the first quarter of 2016) to single digits in 2018 currently at 10 per cent (Bank of Uganda, 2018b). This move was partly undertaken to boost growth in private sector credit (PSC) and to strengthen economic growth momentum (Bank of Uganda, 2018a).

On the contrary, commercial banks and other credit institutions have kept their lending rates in double digits over the same period, currently averaging 21%[15]. However, reduction of the CBR has worked to reduce inflation to within 5% or below (now at 3%) as targeted and private sector credit has also increased mainly throughout 2018, though it remains relatively low as discussed in Section 4.2. Growth has also increased from 3.9% in FY 2016-2017 to 6.1% in FY 2017-2018.

The decline of private investments partly contributes to the persistent financing gap in Uganda.

In the fiscal year 2011-2012 and 2012-2013, the total value of private investments (both domestic and foreign investors) was 21.3% of GDP; this, however, declined to 16.3 % of GDP by FY 2015-2016 and is expected to further drop down to 16.1% of GDP in fiscal year 2017-2018 (World Bank, 2017). This decline is attributed to shocks including the impact of drought on agriculture, geopolitical instability and disturbances in the banking system. The fall partly contributes to the persistent financing gap in Uganda. For example, financing for infrastructure in Uganda has an estimated deficit of USD 1.4 billion

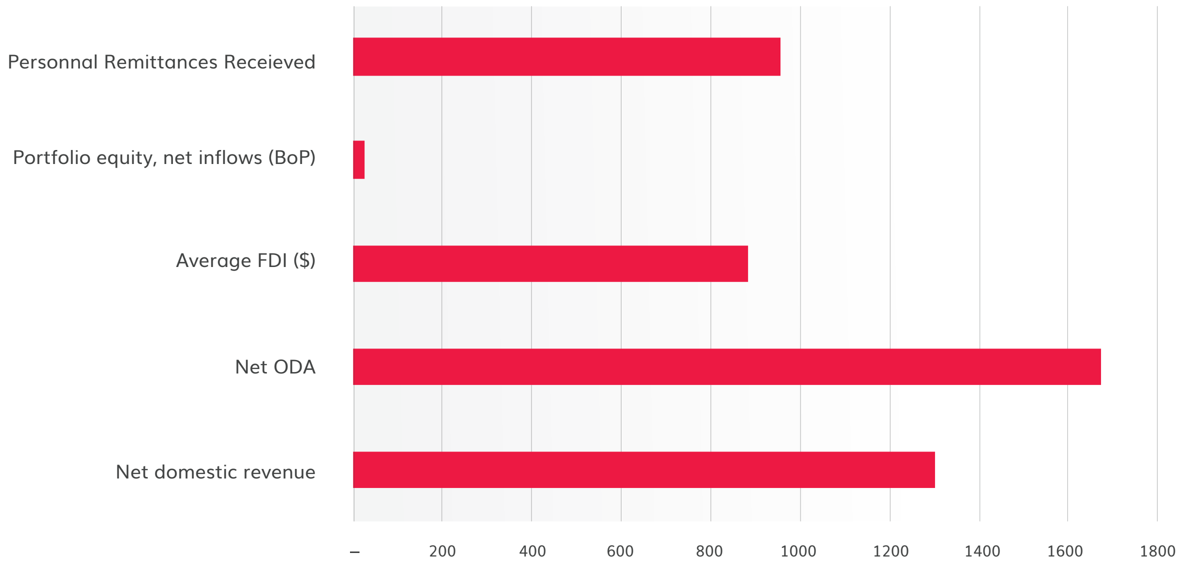
15 These institutions hinge their arguments to several issues, particularly high operational costs (example the cost of services such as electricity, fuel, and labour), inflation, high risk of default risk and increasing non-performing loans and high costs of funding among others. The stickiness in commercial lending rate is part of the reason why "Growth in private sector credit (PSC) remains relatively subdued, with average annual growth at 5% in the quarter ended December 2017, down from 5.9% in the quarter ended September 2017" (Bank of Uganda, 2018a, p. vi).

(about 6% of GDP) per annum (World Bank, 2017). In FY 2017-2018, the health sector received only about USD 500 million, which is 8.3% of the total national budget (or about 2% of GDP), lower than the 15% of the national budget or 5 to 6% of GDP recommended by the World Health Organization (Nantaba, 2017). This is wholly insufficient to provide adequate health care to Ugandans.

Financing modalities in Uganda (government, donor and private)

Development in Uganda is predominantly financed through tax revenue, domestic credit, foreign direct investments, remittances, portfolio equity net inflows and official development assistance. Figure 4 below shows the average size of each of the funding baskets from 2012 to 2016. On average, official development assistance constitutes a more significant share of development finance followed by tax revenue and then foreign direct investments.

Figure 4. Average development finance flows from 2012 to 2016 (USD millions)



Source: Data from the World Bank (2018) and compiled by the author.

From figure 2 above, it is clear that aid still forms a considerable share of Uganda's development finance. However, remittances also constitute a significant source of development financing that the development community need to innovate ways to tap into. Example remittance accounts could earn higher annual interest than standard accounts, as a way of encouraging many Ugandans abroad to save their money in Uganda.

> **Using concessional finance to attract private capital is a more sustainable model for development.**

A staff of UECCC (whose view does not represent UECCC's position), a government-owned company limited by guarantee, considers that using concessional finance to attract private capital is a more sustainable model for development than giving aid directly to beneficiaries. He noted that this is because private players bring in additional money that would otherwise be missing in development. He also added that funds need to rotate and grow, so that more people can have the opportunity to access and benefit from them. According to his opinion, is more likely to happen through the blended model than the conventional ODA, for instance, using credit guarantees through local banks can reduce interest rates, giving opportunities to more people to borrow money and payback. That way, the fund benefits people without being depleted.

Uganda's Private Sector

Data from the last World Bank Enterprise survey (2013)[16] showed that Uganda's private

16 We use 2013 because it is the latest survey done, there may be some changes four years down the road, however, due to data limitations, this may be our best proxy.

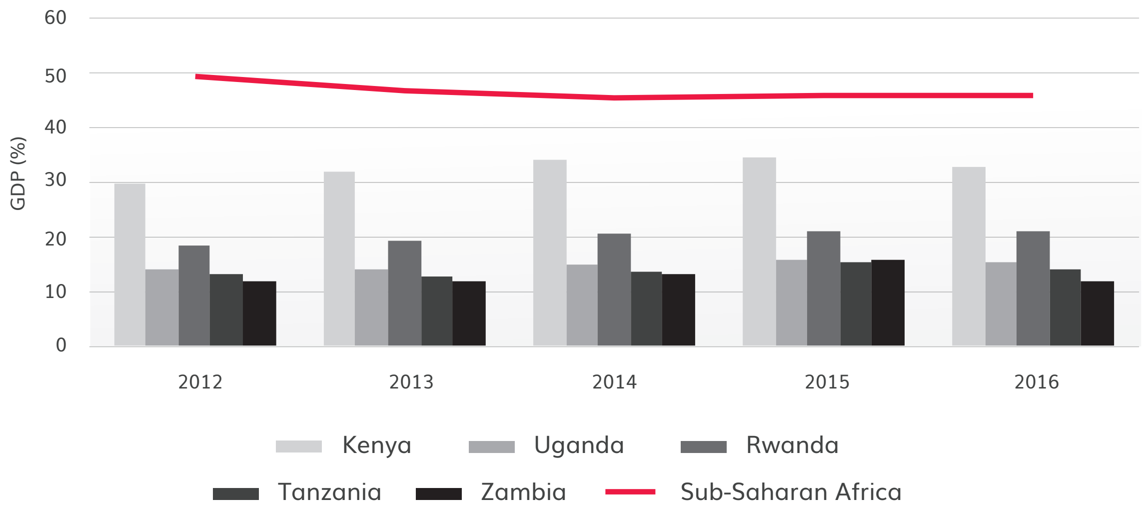
sector is 71% SMEs, of which 63% are small enterprises. The small enterprises, according to UIA, employ about four people and have annual revenues of approximately USD 2700. A lot still needs to be done to enable them to grow into medium size enterprises. At least 50% of the economy is informal (CSBAG, 2017). An interviewee noted that due to the high poverty levels, it is challenging to develop businesses because demand is not effective[17] Thus many people do not have the purchasing power to buy goods or services at going prices. As a result, many businesses do not last long after starting up. He urged that more focus should be put on boosting productivity in the agriculture sector because it employs up to 72% of the population. This could help in raising income level and demand.

> **More focus should be put on boosting productivity in the agriculture sector because it employs up to 72% of the population.**

A look at domestic credit flow to the private sector shows from 2012 to 2016, Uganda's credit to the private sector has averaged 15% of its GDP, this is 32% below the Sub-Saharan Africa average of 47% over the same period. This reflects the more significant challenges of doing business in Uganda, including high capital costs and investment risks. On average, most of this credit has been going to building, mortgage and construction, personal and household loans, agriculture, and trade. Figure 5 below compares the trend of domestic credit to the private sector in Uganda and other comparable countries as a percentage of GDP.

17 For demand to be effective, consumers should be able to purchase goods or services at different prices. Example in this context, assume that a credit guarantee facility is established, with the aim of reducing interest rates for farmers, and assuming that interest rate is set for the fund at 5%. If demand by farmers can exhaust the fund or if all farmers are willing and can afford the 5% interest, demand is said to be effective, but if few farmers are demanding the fund because they still cannot afford it, then it is not effective.

Figure 5. Domestic Credit to the private sector (percentage of GDP)



Source: Data from World Development Indicators (2018) and compiled by the author.

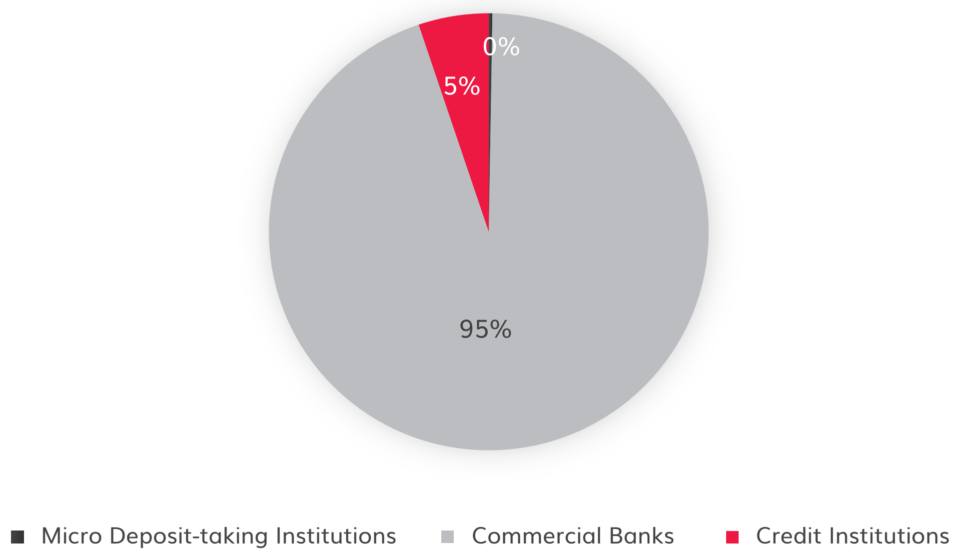
Figure 5 shows that Kenya and Rwanda are performing better in terms of supplying credit to the private sector, while Tanzania and Zambia are slightly below Uganda. However, all the listed countries are entirely below the sub-Saharan Africa average, skewed by her performance from countries like South Africa, Togo, and Mozambique.

An analysis of Bank of Uganda database shows that in the private sector as a whole, commercial banks, credit institutions and micro deposit-taking institutions dominate domestic private financing for development, as illustrated in figure 6 below. There are other private players including insurance companies and the national social security fund (NSSF), but these tend to shy away from actively financing development because of the high risks, and costs. Due to data

Commercial banks, credit and micro deposit-taking institutions dominate domestic private financing for development.

limitations, this paper could not include the contribution of the other players in Figure 6.

Figure 6. Financial institutions' contribution to private credit in Uganda, 2016-2017



Source: Data from the Bank of Uganda (2018) and compiled by the author.

Commercial banks, therefore, dominate over 90% of private sector credit. MDIs contribute about 4.8% while credit institutions contribute 0.2%. This means commercial banks should be heavily targeted in as far as blending is concerned in Uganda. However, also on the negative side, commercial banks are not very accessible to the poorest of the poor. The best way to reach them would be for commercial banks to partner with smaller agencies such as the micro-deposit taking institutions.

In summary, Uganda's economy has been relatively stable over the last two years, but investment risks still exist, mostly due to political events within and around neighbouring countries. Domestically, the majority of the population still rely on rain-fed agriculture; unfortunately, the rains have increasingly been unreliable making the sector even riskier for investments. The political environment is relatively stable, except for election-related unrests. As a result of these unrests, it is still difficult for investors to make long-term investment decisions in Uganda. Commercial banks, who are the bigger players in the domestic private market are even choosing to invest in less risky bonds and treasury bills. This partly explains why domestic credit to the private sector is just about half of the Sub-Saharan Africa average. However, blended finance is attracting more private capital to development investments, particularly in areas where some of the private players previously did not invest. An employee of Post Bank Uganda Limited said that "without the memorandum of understanding with Electricity Regulatory Authority, Postbank would not have invested in the solar loan project because it would not have been cost-effective and the income base from it would have been so low."

In the next section, we provide a sample compilation of blended finance instruments, sectors and sub-sectors, and the key actors involved. The table also provides the rationale for applying blended finance to projects. Some of the cells are not filled due to data limitation. It is important to note that table 2 only represents some of the key blended finance facilities. Some interviewees stated that many other smaller blended facilities could be out there, but due to limited information and the lack of a national framework for coordinating them, their information is scattered and cannot be readily established. The below table is a sample of the types of blended finance projects taking place, the principal partners financing them and their intended impact on the economy. Keeping in mind that Uganda does not have a national framework or database for blended finance projects or initiatives, the purpose of this table is to give a hint about what is taking place on the ground as far as blended finance is concerned

Sectors/projects blended finance is supporting in Uganda

Table 2. Summary of blended finance instruments, facilities, actors and supporting sectors

Instrument	Sector	Entity	Ticket size	Partners	Barrier	Impact/Intended Impact
Loan Guarantee	Agriculture	Abi-trust	Maximum of USD140,000 Covers a maximum of 50% of the loss of principal outstanding	Governments of Denmark and Uganda, SIDA, UKAID, KFW, Crossroads, and 17 local financial institutions	Limited affordable financing and technical skills for SMEs in the agriculture sector	Increased access to financing and technical support for SMEs across the agricultural value chain
	Construction	Abi-trust	Maximum of USD 333,000 of loans		Poor road network in rural Uganda, an impediment to market access.	Strengthen Uganda's lending institutions to finance national road construction and maintenance.
Lines of credit	Agriculture Energy Environment Water	Abi-trust	-	Government Denmark Government of Uganda SIDA, UKAID, KFW, Crossroads	Limited access to affordable financing and technical skills for SMEs in the agriculture sector	Increased access to financing and technical support for SMEs across the agricultural value chain
The line of credit with a concessional loan at 12% interest	Agriculture	Agricultural credit facility	Maximum of USD 580,000	BoU, UDB, Commercial banks	Limited access to affordable financing and technical skills for SMEs in the agriculture sector	Improved commercial agriculture, increased access to finance by agribusinesses, increased agricultural production thus food security as well as boosting the

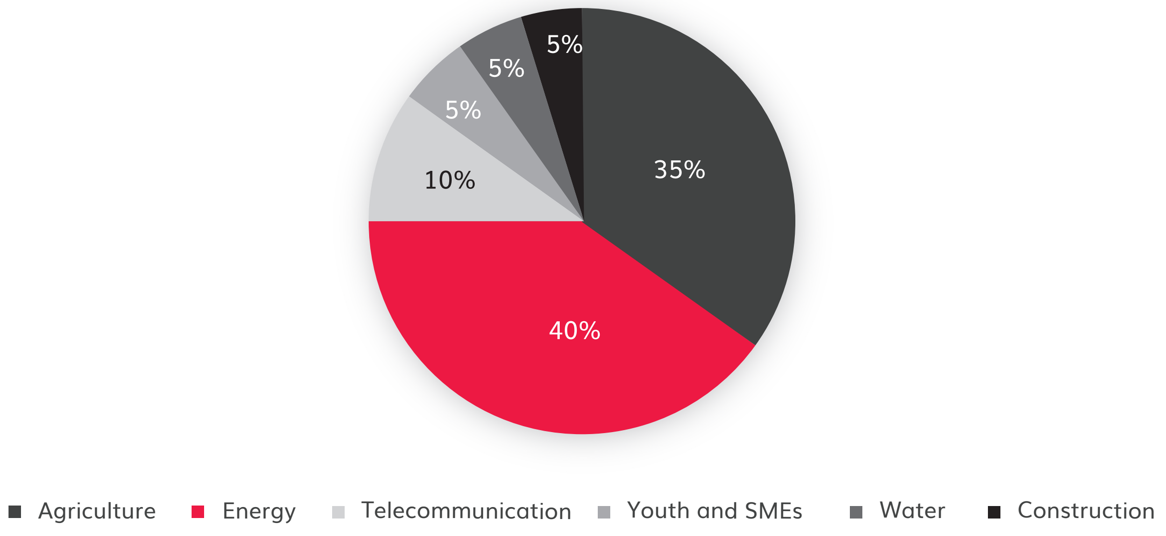
Instrument	Sector	Entity	Ticket size	Partners	Barrier	Impact/Intended Impact
loans guaranteed by the government						confidence of financial institution in lending to agriculture
Concessional loan (interest at 15%). Bank makes an equal contribution with government	Youth, SMEs	Youth Venture Capital Fund	Maximum of $7,000	GoU, Centenary Bank, DFCU Bank and Stanbic Bank	Youth unemployment	Increased access to affordable finance by young entrepreneurs. Improved viability and sustainability of
Guarantees	Manufacturing	Icam Chocolate Uganda Limited	$2.1 million	MIGA	The limited collection, storage, and processing facilities for cocoa.	Increased productivity and commercialisation of agriculture. Boost and diversify Uganda's agricultural exports
Equity and loan guarantee	Power	Umeme Limited	USD 39.6 million	MIGA	Low access to clean, affordable energy	Increased ability of the poor to raise income; improved quality of life of the poor; an enabling environment for economic growth
Guarantee	Power	Bujagali Energy Limited	Gross exposure of up to USD 250 million	MIGA	Limited access to affordable and clean energy	Increased supply to the national power grid at the lowest cost in Uganda
Guarantee	Agriculture	Tilda Uganda Limited	Gross exposure of up to USD 3.45 million	MIGA	Limited technology for rice growing and processing	Contribute to self-sufficiency in rice production and export. Create an estimated 2,000 jobs for local Ugandans

Instrument	Sector	Entity	Ticket size	Partners	Barrier	Impact/Intended Impact
Equity and shareholder loan Guarantee	Telecommunication	Starlight Communications Uganda Limited	Gross exposure of up to USD 2.6 million	MIGA	Limited access to the telecommunications network	Jobs for about 60 Ugandan nationals, trained in equipment handling, field repair, and operations management. Increased access to the telecommunications network
Zero cost loan and risk default cover of 10%	Energy/power	UECCC and WENRECo	-	UECCC, KFW, Hydromax limited, Dott services and WENRECo	Limited access to clean energy	Increased supply of clean energy
Matching grant		CEDP, BUDS	USD 100,000 maximum	World Bank, Private Sector Foundation Uganda (PSFU)	High cost of doing business	Increased private sector growth
Hedging	Energy/power	Bujagali hydropower	-	MIGA	Limited access to clean energy	Increased supply to the national power grid at the lowest cost in Uganda
Guarantee	Agriculture	Kyoga Ltd.	$2.97 million	MIGA	Limited coffee processing facilities in Uganda	-

Source: Author's compilation.

Column one shows the types of blending instruments being used, dominated by guarantee. The second column shows the sectors where blending is taking place. More blended projects are going to the energy and agriculture sectors. The third column shows the private entities involved in the projects being supported, while the fourth column shows the ticket sizes of support being given to each project. Column 5 shows the significant partners supporting each project; this is predominantly external development partners. Column 6 highlights the main development barriers that are being mitigated while column 7 summarises the intended impact that the plans would accrue to the community. These variables are important for interested parties to have an idea of who is doing what in as far as blending in Uganda is concerned.

Figure 7. Selected sectors where blending is ongoing



Source: Author's estimate.

Figure 7 shows indicative estimates (not absolute proportions) illustrating suggestive evidence on the sectors where blended finance is dominant. The chart shows that blended finance is dominated by the agriculture sector and energy subsector in Uganda. It is worth noting that public-private partnerships are heavily financing the roads and transport sector, however, due to the limited data, estimates could not be established in this study.

According to secondary sources, other subsectors where blending is taking place are water, telecommunication, youth and SMEs. Across all the sectors and subsectors, blending is being applied to reduce the cost of capital to enable private players to comfortably invest in development projects without compromising their profit motive. However, there are sector specific reasons for applying blended finance, usually linked to the risks faced per sector. In the energy sector, the key risks being mitigated include political instability, loan default, breach of contract, and equity guarantees. Risks being covered in the agricultural sector primarily include transfer restrictions, expropriation, war and civil disturbances and weather/environmental shocks. Blending in the telecommunication subsector, on the other hand, covers risks of currency transfers, expropriation, and war and civil disturbance while the other remaining sectors face one or more of the already mentioned risks. These include political instability, loan default, breach of contract, transfer restriction, expropriation, war and civil disturbances and weather/environmental shocks.

In the energy sector, for example, MIGA issued an extra USD 10 million guarantees to cover an additional USD 12.6 million equity investment of World Power Holdings Luxembourg S.à.r.l. in the construction of the Bujagali hydropower project in 2012. The guarantee was meant to guard against the breach of contract risk. The additional coverage brought MIGA's total gross exposure under the project to USD125 million. The electricity generation project was developed on a build-own-operate-transfer (BOOT) basis.[18] In this case, the Bujagali power dam will be owned and operated by the private investor before transferring it to the Uganda government.

The Bujagali project was expected to increase supply to the national power grid at the lowest cost compared to other power generating facilities. It is, however, important to note that electricity costs increased instead after the dam was commissioned (International Rivers, n.d.). This was because the fees were negotiated in dollars while

18 In a BOOT arrangement, the private investor is contracted to finance, build and own a facility for a given (concessional) period of time until it recovers its investment and maintenance. The facility is then transferred to public ownership on expiry of the concession agreement.

consumers pay for the energy in the local currency. For instance, during the past six years of the operations of the Bujagali dam, the Uganda Shilling has lost 58% of its value to the dollar. Given that exchange rates feature prominently in the determination of the electricity tariffs, such movements are bound to increase the cost of electricity. Electricity tariff increase has always met a loud outcry, especially from the business community because most of them need the power to run their businesses. While the government is aware of the interrelation between electricity tariff and exchange rate, government officials have not been very successful on preventing power tariff rise, mostly because increases are within the contractual terms signed with the private player. This study could not establish whether that particular risk is being mitigated in new projects.

In the agriculture sector, a Trust, a multi-donor blended facility was set up in 2010 to support agri-business development in the private sector, particularly SMEs in providing financial and technical support in selected agricultural value chains. It offers guarantees covering a maximum of 50% of the loss of principal outstanding and a maximum loan amount of about USD 140,000. In 2016, aBi Trust disbursed loans to the value of up to $30 million and helped 8,954 farmers insure themselves. At least 40,956 of the new loans were under its line of credit. The governments of Uganda and Denmark jointly fund the aBi Trust. Other development partners supporting it include Kreditanstalt fur Wiederaufbau (KFW), United Kingdom Agency for International Development (UKAid), Netherlands Embassy, Belgium, Sweden, European Union (EU), and United States Agency for International Development (USAID).

Evidence from both, desk review and interviews point that guarantees, grants, and loans are the most common instruments being used. Grants and guarantees are prevalent because: 1) they fit well within the mandates of most donor agencies, who in many cases are limited from directly engaging in debt or equity investments; 2) the highly risky nature of Uganda's business environment requires guarantees to crowd in external private investors. An interviewee acknowledged the advantage of risk sharing that comes with guarantees, arguing that "it demonstrates to the market that there might be a new segment of customers that might present a new market." Furthermore, concerning guarantees, the partner offering it can achieve more with less, compared to equity investments where it is more likely to gain more when investing more.

Generally, the exists an enormous potential for blended finance in Uganda, most of the interviewees showed optimism for it. Specifically, high ticket sized blended facilities are more likely to target infrastructure (transport) and the energy subsector due to the capital-intensive nature of their investments, the increasing focus on green growth, and the fact that Uganda's government's medium-term focus is based on boosting infrastructure for growth. There is also much potential for blended deals in the agricultural sector. This is because agriculture is seen as a key growth sector for Uganda and according to one of the donors interviewed, more blended facilities will target sectors with strong potential for growth and employment outcome.

Risks, barriers and challenges

Interviews held with development partners and government agencies show that risks mostly emanate from weak institutional implementation capacity, and governance challenges, particularly corruption.

The issue of corruption is linked with inadequate internal control systems within institutions; there are plenty of opportunities for corruption. A typical example is that of illegal transfer of funds from the ACF Programme accounts. In 2013, the Auditor General's value for money audit on ACF discovered that over USD 5 million was transferred between two accounts of the scheme without proper authorisation. This violated internal control systems, consequently risking the diversion of finances to non-eligible activities (CSBAG, 2014). Such weak internal control systems that many times individuals divert funds to un-planned initiatives at the expense of the goal of the programme. At the international level, Uganda's corruption perception ranking recently rose to an all-time high of 151 (Transparency International, 2018). This also reflects on the ease of doing business in the country, on which many private investors look to when considering their investment decisions. The worsening environment may, therefore, be discouraging to potential private investors who, as a result, could be dissuaded from investing in Uganda.

With regards to programme implementation, human and institutional capacity gaps affect the bankability of projects because it leads to issues like project delays or even project failure. An interviewee noted that many businesses in Uganda are family run and are not open to the idea of having external oversight, for example, through an independent board of governors. As a result, they lack the skills to set up the kind of internal control and accountability mechanisms required to run projects efficiently. Furthermore, financial institutions are also still short of qualified personnel to conduct proper due diligence and accurate valuation of firms; the result is that sometimes firms are overvalued and are given too much capital than they can manage. Capacity and consequently, implementation gaps go deep down to the programme and project level as well. Many private sectors led development projects have been tried in Uganda before, but have been subdued due to technical inefficiencies of implementers and project beneficiaries.

For project beneficiaries, there has been limited technical preparation, example credit lines and loan guarantees for SMEs tend to be limited to business development services. An interviewee from PSFU urged for the need for implementing agencies, especially financial institutions, to focus not only on "if the client is going to make money" but also on "how to help the client make money." Capacity challenges also extend deep into the negotiation and design of appropriate blended finance arrangements where huge gaps exist. On that note, a government official interviewed said that Uganda's PPP framework had not guaranteed value for money financing.

Some sections of the private sector consider that concessional loans and grants risk distorting the commercial market, especially for commercial banks through 1) concessions targeting the same people that commercial banks are targeting and 2) interference with the vital market principle of fair competition. The first scenario is linked to the issue of information asymmetry, which makes it difficult for financiers to trace and obtain the financial position of potential beneficiaries. As a result, UDB and Centenary Bank could both extend agricultural credit to the same business entity unknowingly. This is something that the credit reference bureaus, when well domesticated could potentially mitigate. In the second case, as argued by an interviewee, extending concessions to one bank and leaving out the other may likely put the former bank at an advantage to offer cheaper credit and unfairly amass a more significant clientele, this can be detrimental to the last bank in terms of clients shifting to the benefiting bank. As a result, commercial banks have been very cautious in their involvement in blended projects since each bank is wary not to do a disservice to the other banks.

Some blended projects have tended to foster both regional and gender inequality, contrary to SDG 10 and 5. Under the aBi Trust facility, between 2010 and 2013, the total amount of loans borrowed by women annually was approximately 25% of the entire loan portfolio (less than half of the total for men) (aBi trust, 2014). Similarly, male-owned enterprises dominated the youth venture capital fund (by value and clientele) taking about 70% of funds (Ahaibwe, Kasirye & Barungi, 2014). Regionally, the youth venture capital fund was predominantly accessed by youth from the Central region (31.1%) followed by Kampala (25.6%), and the Western region (23.3%), while the Eastern and Northern regions were at 13.5% and 6.3% respectively. It is interesting to note that the Eastern and Northern regions are poorer and are also participating the least. aBi supported enterprises are also geographically concentrated in Western and Central Uganda (more than three-quarters of loan beneficiaries) (aBi trust, 2014). Most of the targeted cash crops like coffee and dairy are in Central and Western Uganda. While these studies do not show whether this is by design, it is clear that more needs to be done to ensure that all blended projects address inequalities. Some of the interviewees noted that unintended consequences are never planned instead, they leave lessons from which improvements are made in future programmes. For example, an employee of Post Bank Uganda limited said that when UECCC, Post Bank and Solar Now (a private provider) partnered to provide solar equipment to low-income households at a concessional interest rate, many beneficiaries did not expect to pay the Bank for the material. This is because they were not sensitised on how the arrangement works, so they assumed the solar was free from government. From this project, the Bank learnt that proper sensitisation is very key to project success because it helps target beneficiaries to fully understand what they are getting in to.

Apart from the projects that have a massive trickle down and multiplier effects (which are mostly in the energy and road subsectors), many of the blended facilities leave out the poorest of the poor Ugandans, contrary to SDG 1. The smallest concessional loan this research found was for USD 200,000 under the said solar loan project at Postbank Uganda. Even then, the prerequisites for accessing the loan were hard to meet by relatively poor individuals. To obtain this loan, one would be required to have; 1) a Postbank account, 2) to show proof of source of income or letter from employer, 3) to be a permanent resident of their community, 3) to have a valid identification and 4) to deposit cash of 20% of the cost of the loan. Many of the intended beneficiaries are small scale farmers with no definite proof of income source. They also barely have property deeds to their residences and can hardly proof that they are permanent residents. 50% of Ugandans who save do so informally, while only 11% save with banks (Financial Sector Deepening Uganda, 2018). Many of those who have bank accounts are not using them. These characteristics, therefore, mean that many would be disqualified by prerequisites 1, 2 or 3.

Blended facilities mostly target established enterprises, and their ticket sizes are mostly above USD 2,500, yet by 2013, 63% of enterprises in Uganda were small, with annual sales/assets not exceeding USD 2,700. For a business that makes a yearly sale of USD 2,700, annual profits could be half or even less, which means many of them may not have the resources required to set up the systems for moderate ticket sized funds. Clearly, because of limited capacity, many of these small enterprises are bound to miss out from well-blended facilities like the recently launched European Union supported START facility which targets enterprises with minimum financing needs of USD 8,700. In that regard, UECCC says the average financial requirements for the grassroots is too small and very expensive to manage, "following up the loan (administration) is most times costlier than the returns", and thus it does not make economic sense to financiers. Further, most of the poor do not keep business and other relevant documents making it harder to assess their creditworthiness. However, another interviewee noted that there are other smaller initiatives directly targeting the poorest of the poor, not necessarily passing through financial institutions.

> **Uganda's risk level can be attributed to election-related instability and other civil disturbance causes.**

There may need to match blending tools with different income groups carefully. Considering that over 27% of Ugandans (about 10 million people) live below the national poverty line of USD 8 (UBoS, 2017), if other initiatives targeting the poorest of the poor are overlooked, we may risk widening the gap between the poor and those who are not poor. On that note, an interviewee at PSFU advised that blended programmes targeting the poorest of the poor should have more substantial grant element and smaller loans coupled with business support solutions. The argument is that this would help boost poor people's income to a level where they can then be financially capable of engaging in less concessional projects.

Uganda is considered a politically high-risk economy. The Economist Political Instability Index, which rates governments on the scale of low, moderate, high, and very high risk, has since 2007 rated Uganda as a high-risk government (The Economist, 2018). Political risk comes with several other risks, the first one being civil disturbance and war. Uganda's risk level can be attributed to election-related instability and other civil disturbance causes. In August 2018, protests broke out during by-election campaigns in Arua town in Northern Uganda. This was after the President's convoy was allegedly stoned by opposition supporters. The protest turned violent with the involvement of the military, and one person was shot dead. Similarly, there were protests in Kampala in July 2018 when a tax was introduced on mobile money transactions. What is typical about these protests is that they always turn violent and bring businesses to stand still.

Further, instability within the region, more especially in bordering neighbour countries such as South Sudan and Kenya, has also had negative externalities on the business climate in Uganda. This has caused an effect on private investor's valuation of investments (Lakuma and Sserunjogi, 2017). This political risk generally threatens the enforcement of contractual obligations, which then propounds other factors like the increased likelihood of expropriation, transfer restrictions, breach of contract and currency inconvertibility. Also, Uganda's money market is also unstable; the Uganda Shilling is very volatile in the foreign exchange market hence, increasing the risks of transfers associated with currency conversion from Ugandan Shillings to foreign currency or vice versa, this harms private investment decisions especially for foreigners.

A key barrier to blended finance in Uganda is that of technical inadequacy, and this is in many areas. First, for commercial investors to put their money in development projects, they need to be sure that the project is bankable. In an interview, a staff of UNCDF observed that currently, even the local financiers such as banks often fall short in interpreting financial viability of projects and financial arrangements to clients because some of their staff lack the technical expertise to do the work. As a result, many projects fail to realise the expected returns to investment because they either got the wrong funding package or they were not bankable in the first place. In the same light, PSFU noted that service providers such as local consultants have been very inconsistent in their business. Accordingly, it looks as if people go into consultancy as a temporary resort awaiting the next employment and once they get employed they disappear. This makes it challenging to run projects which require the same consultant to come in and out at different stages.

The above echoes the need for more technical support in blended finance projects. Interviewees from PSFU noted that technical support for project preparation comes on a case by case basis, in most cases determined by donors or the partner pushing for the concession. Players like the World Bank, KfW, PSFU and UECCC, have been providing technical support for projects they take part in, and KfW, in particular, has been very visible in that area. However, not all projects that need preparation support get the support and the ones that do not are more likely to have problems. Therefore, technical assistance needs to be considered when designing blended projects. In the context of Uganda where many domestic commercial banks are already involved, the banks financing SDG related projects need to have their relevant staff adequately trained on assessing the viability of these projects and monitoring them.

It is also important to note that Uganda's business community mainly relies on debt financing. Not many SMEs understand or have come to appreciate equity or mixed financing which is key in blending and can be best suited for certain kinds of projects. According to one of the donors, this still links back to the fact that private equity investors require an oversight stake in their investments, something which local businesses shy away from. Secondly, private equity investment is not typical in Uganda, so many enterprises are just not exposed to it. One of the reasons for it being uncommon, according to a venture capital facility interviewed, is the lack of a regulating mechanism for venture capitalism. Uganda's tax laws are not very supportive of private equity investments. There currently is double taxation since equity investors pay capital gains tax when exiting an investment.

Further, while Uganda and Kenya have the same rate of corporate income tax on private equity firms (30%), Uganda's withholding tax on dividends, withholding tax on management fees and capital gains tax are all more than three times higher while Mauritius has no withholding tax (Deloitte, 2016). As a result, Pearl Capital Partners, a venture fund in Uganda has had to domicile two of its funds for East Africa programmes in Mauritius. To encourage more private equity investors to put their money in SDG related development in Uganda, the country could consider reducing its withholding taxes on dividends, management fees and capital gains. Relatedly, there has also been little recognition of technical assistance as an instrument of blended finance. Most times it is not financially cost and valued as part of a blended facility yet sometimes they require more money than the actual funds themselves.

The cost of domestic credit is also relatively high hence, subduing domestic credit to the private sector and consequently, to the private sector investments. Over the last two years, the Central Bank has been easing its bank rate (from 17% to 9%) in the expectation that commercial banks and other credit lending institutions would follow through in reducing their prime lending rate. However, commercial banks have maintained their top lending rate in double digits over the same period (currently averaging 20.3%). This, according to commercial banks, is because other factors like operational costs (electricity, fuel, and labour), non-performing loans, and risk of default to private lending have remained high. Consequently, blended projects implemented by these banks are still relatively costly, with interest rates averaging 12%. An interviewee from UDB said that commercial banks usually get concessional funding but blend it with other expensive credit. In the end, the weighted average cost of capital remains high. The high risks in private lending and the opportunity of risk-free investments in bonds and treasury bills (securities) has meant that commercial banks shy away from the former and take the latter, hence crowding out the private sector. This is because securities are issued by the government to raise money from the private sector, so in that case, commercial banks spend most of the money they could have lent to the private sector on purchasing securities from the government. Lule (2018) reported that by June 30, 2017, commercial banks held the most extensive portfolio (41.95%) of government securities, noting that if this persists, the government will outcompete the private sector for credit from the financial system.

Striking a balance between social and private benefits is challenging. An interviewee from a donor agency observed that for public players to invest, they need assurance that social benefits will outweigh private profit and the reverse is true for private investors. For example, with blended projects implemented through financial institutions (FIs) like the aBi Trust, solar loan project and ACF, among others, FIs focus more on recovering their money than on ensuring that beneficiaries benefit from the project. Under aBi Trust, it was found that the larger FIs mainly base their loan approval criteria on the strength of the projected cash flow and do not explicitly track and analyse full and partial additionality (aBi trust, 2014).[19] It is essential that the motives and interests of all partners are brought on board in these projects so that transparency and accountability mechanisms are appropriately instituted. Whether social and private benefits can attain a balance remains subject to debate, but having a transparent system can ensure that both the FIs and development partners or government get to discuss their project agenda and jointly agree on how to achieve them. One way to do this is to have joint project committees consisting of representatives of all the partners involved in the project.

A wide information gap still exists on blended finance, most low-income individuals are hardly aware of currently existing facilities supporting blending, and as such, may lose out on the opportunity to benefit from them[20]. For example, people who would ideally borrow a concessional loan for agriculture at 10% interest end up lending at the market rate of 21%. This is partly because there has not been a lot of marketing or information sharing on blended finance especially at the grassroots level. Through interviews, this study established that sometimes information is deliberately hidden from people. For instance, some staff of FIs knowingly lend concessional loan products at the market rate and pocket the difference.

The information shared is sometimes incorrect, or inadequately communicated and hence, misunderstood. This has effects on the implementation of a project, for example,

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19 Full additionality is where the loan granted would have otherwise not been granted without the support of the guarantee. Partial additionality is where the size of the loan would have been significantly reduced had there not been the guarantee.

20 This topic came out in more than half of the interviews conducted.

when beneficiaries take a concessional loan and treat it as government hand-out. In this case, the returns to investment will be profoundly affected. In this case, if it is a project that is refinanced through beneficiaries paying back loans, then the project ceases because the payback will be minimal, and the bank's claim will drain the credit facility quickly. So, potential beneficiaries will lose out. Where there is no credit guarantee, it is the bank that is most affected, since it will not realise its returns. The solar loan project has been a victim, where project evaluations acknowledged limited marketing and hence, low absorption (Office of the Auditor General, 2013).[21] Low absorption is linked to the fact that not many people have adequate information on how to access blended facilities. This reduces the number of beneficiaries. It is further exacerbated by the relatively stringent prerequisites for accessing funding which renders many would be beneficiaries' ineligible. Many recipients who took the solar perceived it to be a government aid to the people (UECCC, 2016), and yet they were required to pay 70% of the total cost of the solar to the bank. In some areas, beneficiaries did not make an effort to pay back the loans, so the bank had to claim UECCC. If people were well sensitised under the solar loan facility, mostly those willing to pay the 70% would have opted into the project. Low absorption at grassroots is partly attributed to the fact that few grassroots people get access to information on blended projects, so not many can demand funds from the projects. This is exacerbated by the relatively stringent prerequisites that disqualify many grassroots people from being eligible to benefit

At the domestic level, sources of long term blended financing are still limited (World Bank, 2017), especially from the domestic private sector. Most credit institutions provide short term financing of between 3 to 5 years. This tends to limit large investments that require a more extended grace period before borrowers can start paying back loans. It is also to be noted that Uganda's equity market is highly undeveloped. Uganda security stock exchange has only 16 listed companies, and barely half of them are domestic.

21 Information on blended facilities is not adequately reaching the people, especially at the grassroots level. As a result, many would be beneficiaries miss out on the opportunities. This study established, through interviews that sometimes information is deliberately hidden from people, example some staffs of FIs knowingly lend concessional loan products at the market rate and pocket the difference.

The limited listing of private companies means that many unlisted companies may be unable to attract the kind of equity financing they need to expand their investments in development projects.

There are implementation challenges, especially in project preparation, monitoring and accountability. Apart from energy projects, many projects do not do feasibility studies. Projects also lack inadequate monitoring and evaluation frameworks, and others have had irregularities in following set procedures. An audit of the Microfinance Support Centre Limited found that concessional loans totalling UGX 7.6 billion were paid out to clients without signing Memorandum of understanding (MoU) (Office of the Auditor General, 2014). This has led to a high loan default rate (38%). Under the ACF, Bank of Uganda (BoU) was given the responsibility of physically monitoring and evaluating the programme, but according to the bank, this is not within their mandate (Office of the Auditor General, 2013). BoU ended up not monitoring ACF, consequently increasing the risk of loss of scheme funds. Loan variances amounting to over USD 2 million was recorded by PFIs and BoU, where figures reported by the two institutions did not match.

Many blended projects have also faced severe project delays, which tend to add costs to the plans, compromise value for money as well as put programme/project goals at risk. Delays are attributed to weather shocks, legal, regulatory and political issues, among others. The GET Fit Programme, for example, was immensely delayed due to legal and regulatory issues (GET Fit Uganda, 2015). The transmission line infrastructure project Nile Equatorial Lakes Subsidiary Action Plan (NELSAP), Mbarara-Nkenda/Tororo-Lira and Mputa/Hoima-Fort-Portal-Nkenda projects, implemented by UETCL) were all scheduled to start in 2008 but were delayed for over seven years because of difficulties in acquiring land (Office of the Auditor General, 2015a). While lessons have been learnt, reforms are still in process; for example, there have been proposals to amend the land act to fasten land acquisition for public (development) usage.

In a nutshell, a number of implementation gaps exist, mostly linked to technical inadequacy which affects the projects' expected schedules and outcomes. Improving them requires the concerted efforts of all actors designing blended projects. The need for technical support should always be adequately assessed and considered where necessary across blended facilities. This will help address gaps including project delays, corruption, or limited bankability of projects.

Provisions should be made to conduct feasibility studies, especially for big infrastructure projects because they have more extensive effects on the community and economy; this should be planned at the inception stage of the project. Blended facilities should consider awareness creation as a key strategy in their programming, to increase knowledge about their products. This should be packaged in ways that reach the majority of the target beneficiaries. Improving the operating environment for environment equity financing, for example through reducing withholding taxes for private equity firms would help improve competitiveness against countries like Kenya. Importantly, blended projects should consider matching blending packages to the income levels of their target beneficiaries. For example, where recipients are too poor, other packages like grants can be mixed with loans to make finances more affordable to them. Institutions like Uganda Banker's association needs to play a stronger role in coordinating private financial institutions to ensure that the market is somewhat levelled.

Opportunities

There is increasing interest by both local and international investors and financial institutions to invest in development projects. In the agricultural sector, the riskiest sector of Uganda's economy, more investors are embracing blended facilities and hence, coming into put money into the sector. For example, the aBi agricultural loan guarantee had only nine financial institutions participating in it in 2009, but by 2016, that number had increased to 17. This provides a chance for more players across the agricultural value chain and across the country to have access to credit on concessional terms for development. Specifically, it brings cheap credit within the reach of many people, but it does not necessarily make it easy to get the credit. Other factors like funding prerequisites also come in to play in as far as obtaining credit is concerned.

Uganda's government's interest, commitment and support to private sector-led development continues to incrementally enable a better environment for the private sector to thrive. Initially, the government's focus was mostly on public-private partnerships for energy and road infrastructure, but it is now expanding into areas like agricultural production through the agricultural credit facility (a line of credit for agriculture). In the interview with Uganda Development Bank, the interviewee stated that there had been talks already about the government setting up a broader national credit guarantee scheme. The fact that few private individuals (small enterprises) are aware of blended facilities means that the market for blended products may still be broad in Uganda and thus, the need to improve marketing, targeting, and awareness creation to get more people and entities participating.

There are several 'untapped' potential private players like the National Social Security Fund (Uganda's pension fund) and insurance companies who have hitherto preferred less risky investments. More blending facilities could be put in place to attract such kinds of corporate entities into development financing. Example guarantees targeting such agencies could entice them to consider putting more in targeted SDG investments.

Development partners (donors) and local financial institutions are the other key institutions empowering blended finance in Uganda. Support from donors has mainly come through financing and technical management of blended facilities. For example, aBi trust which is mostly financed by the Government of Denmark, SIDA, UKAID, and KFW. aBi's board is currently headed by the Danish International Development Agency (DANIDA). KFW on its part has been significant in providing technical support, for instance in the European Union funded GET-FIT energy Programme. Locally, private financial institutions like Centenary Bank, Pride Microfinance, DFCU Bank, among others have been key in providing the link between donor funding and final beneficiaries. These institutions have more experience, systems and the structures to manage credit-related programmes. The donors and the government, therefore, rely on them to deliver blended projects. They also contribute financially, sometimes through investing their capital upfront in a project and getting reimbursed later by a donor or government based on their agreement. This process injects in more capital that would not otherwise be available.

Development Impact

In 2003, Uganda's government established a national coordination framework for monitoring and evaluating all government programmes for impact. This strategy is supported by the National Integrated Monitoring and Evaluation System (NIMES) and a national M&E Working Group to implement it. This system (housed at the Directorate of M&E at the office of the Prime) coordinates M&E for policy and resource allocation with support from Uganda Bureau of Statistics (UBoS). This structure works with all government ministries and agencies to monitor and evaluate government policies and programmes for impact. The entire system is built to feed into the objectives of the NDP which is aligned to the SDGs. Nation-wide evaluation studies are also periodically done to track development progress, notably the Uganda National Household Survey that monitors Uganda's development performance on crucial development indicators across sectors.

At the programme/project level, more focus has shifted to outcomes other than output. M&E staff is available to track and evaluate projects which then feed into the national system[22]. The donor community has been one of the most significant influences in as far as M&E for development is concerned in Uganda. Most of the donor-funded projects have M&E plans in their design, which makes the evaluation for impact easier. As a result, donor projects implemented in partnership with the government has spilt

22 Worthy to note is that there has been an increasing recognition of the importance of M&E in Uganda as manifested in the number of new M&E job positions every week compared to other positions, both in government, NGOs and the private sector.

positive effects in terms of M&E capacity building for government employees. Impact assessments are conducted for projects and programmes, and reports are produced (some are available on websites). However, even with an existing government M&E system and donor support, not all development initiatives within the government are monitored and evaluated, for reasons including financial and continued technical capacity gaps. While capacity-building is increasing for M&E concerning impact, only a few people have benefited, and if they were to quit their jobs, it would be bad for projects and programmes.

Government policies are evaluated, but no actions are taken to share the findings to the public.

Limited dissemination of learnings represents a gap in the government M&E system. This affects accountability, for example, government policies are evaluated, but no actions are taken to share the findings to the public. As a result, people are not aware of the government's evaluation efforts. Furthermore, the government's unseen efforts in widely sharing evaluation results contribute to this unawareness, misinformation and unaccountability. The other gap originates from off-budget support, meaning funded projects outside the scope of the national budget. These projects do not have a country-based coordinating framework, and as a result, players are scattered, and their actions are not coordinated[23]. It is therefore quite difficult to measure the aggregate effect of their work.

In summary, monitoring and evaluation for impact are taking place both within government, among NGOs, and within the private sector. However, this study cannot

23 An interviewee from a donor agency strongly asserted that the donor community in Uganda is quite scattered and doing uncoordinated things.

confidently conclude that M&E for impact is done for all projects and programmes. M&E is done on a case by case basis, contingent to programme design, availability of funds and technical capacity within a programme. Dissemination or sharing of impact results is still limited, which shields government and actors alike from accounting to users or beneficiaries. It is important for recipients to build a culture of demanding M&E feedback from relevant stakeholders, but this also requires programmes to develop feedback mechanisms that foster constant contact between beneficiaries and relevant stakeholders. Nevertheless, assessment of development impact is a practice that continues to be widely accepted and adopted within government and among other local players. There is still need to build more capacity for M&E within the government, even more in pushing the government to appreciate the role of M&E information sharing for accountability.

Conclusion

This study sought to examine existing data and evidence on blended finance in Uganda. Specifically, it aimed to identify evidence on how blended finance is being used to mitigate risks and attract private investment for the SDGs. Its second objective was to contribute to a community of practice that can help shape the actions of governments, investors, and practitioners concerning the risks and opportunities of applying blended finance at the local level in Uganda.

On the usage of blended finance, it was observed that key institutions taking part are government, donor agencies and private/commercial financial institutions. Blended facilities are mostly targeting the agriculture, energy, and transport sectors. All these three are key growth sectors for the economy. Public-private partnerships are the most common form of blending taking place, and within it, the guarantee is the predominant instrument. There are also other instruments like matching grants and credit lines. Safeguards have been employed to cover exposure risks such as political instability, breach of contract, transfer restriction, expropriation, war and civil disturbances. MIGA majorly finances the energy and agriculture sector. A significant amount of blended facilities is also targeting financial institutions. Here, both government and development partners have used credit guarantees to reduce risks such as loan default or to reduce the cost of credit to attract commercial finance from banks and credit institutions. This has seen banks increase their share of funding to SDG related investments. There are also smaller projects, involving matching grants where beneficiaries are required to contribute 50% of the total amount needed. This has helped to reduce project costs.

While blended financing is taking place, it is fragmented, without an organised community of practice. Because of this, the idea of blending has not received an extensive publication and acknowledgement across sections of the population, especially low-income groups. This report is, therefore, one of the first elaborate knowledge products on blended finance in Uganda which can be used by interested individuals or parties to know more about blending in Uganda or to draw more support for the practice.

In addressing the above key questions, the study also assessed the risks, barriers and challenges related to blended finance in Uganda, Opportunities for blended finance, and how the development impact of blending is being captured. The following were observed:

Risks, barriers and challenges related to blended finance in Uganda

The possibility of unfair competition among banks, corruption, different banks targeting the same individuals as beneficiaries, blended projects leaving out the poorest of the poor because they are not bankable, and political disturbances were found to be key risks. Capacity gaps in programme implementation and monitoring and evaluation, project delays, inadequate sources of long-term finance, information gap especially to low-income groups, and the high cost of domestic credit were identified as key challenges to blended finance. On that account, there is a need for more technical support to project implementation, especially in building systems. More could still be done to improve coordination between banks to promote fair competition, widen awareness creation on blended facilities, and matching blending packages with income levels.

Opportunities for blended finance

Private investors currently have a keen interest to invest in development in Uganda. Primarily due to the relatively stable political and macroeconomic environment. There is also strong political will supporting the private sector. Last, fund agencies like the National Social Security Fund and private insurance companies have not yet been exploited for blended finance. They could still be incentivised to invest more in SDG related development.

The development impact of blending is being captured

There are monitoring and evaluation frameworks in place across institutions. However, government M&E systems are not as robust as that of the donors. This is because of the low technical capacity for M&E. Government officials are also reluctant to providing accountability, and as a result, dissemination of M&E findings for learning is limited. More technical support for M&E in government is required. Programme beneficiaries should also be empowered to make efforts in demanding feedback about results from relevant stakeholders.

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Appendices

Appendix 1. List of Interviews

Organisation	Date of Interview
Post Bank	19.04.2018
Centenary Bank	23.04.2018
Heifer International	06.04.2018
Uganda Development Cooperation	07.05.2018
Private Sector Foundation Uganda	22.05.2018
Pearl Capital Partners	04.06.2018
National Planning Authority	27.03.2018
Uganda Energy Credit Capitalization Company	05.06.2018
Microfinance Support Centre	18.04.2018
USAID in Uganda	29.05.2018
UNCDF in Uganda	24.05.2018
Swedish International Development Agency (SIDA-Uganda)	07.06.2018
Uganda Development Bank	04.04.2018

Appendix 2. Case Studies

Table A1: Case Studies

Name of the project	Implementation period	Implementing agency	Sources of finance	Total Amount	Pre-feasibility	Intended Outcome	Completion status
1)National Union of Coffee Agribusinesses and Farm Enterprises (NUCAFE) (UNCDF, 2018)	On-going (UNCDF, 2018)	NUCAFE	Primary: NUCAFE Supplementary: Uganda Development Bank, UNCDF Source: Interview with UNCDF Uganda	Governments of Denmark and Uganda, SIDA, UKAID, KFW, Crossroads, and 17 local financial institutions	Is there a pre-feasibility done? IRR? Commercial viability conducted	Enhance farmers' capacity to participate in the coffee value chain improves entrepreneurship and household incomes, improve livelihoods, rural development and innovators for employment creation (UNCDF, 2018)	On-going Source: Interview with UNCDF Uganda

Table A2: Terms of finance of specific cases and by instrument

Instrument	Grant element	Interest Rate	Down Payment	Repayment period	Grace Period	Conditionality	Exposure to exchange rate shocks	Loan-grant conversion (if any)	Other terms
Grant Loan Technical Assistance Source: Interview with UNCDF Uganda	USD 225,000	12% UGX denominated loan 9% for USD denominated loan Source: Interview with UNCDF Uganda	UGX 100 million Source: Interview with UNCDF Uganda	5 Years Source: Interview with UNCDF Uganda	1 year Source: Interview with UNCDF Uganda	Debt for capital managed through collateral management of the coffee procured Source: Interview with UNCDF Uganda	Received in which currency: UGX and USD Repaid in which currency: UGX and USD Note: Part of the loan was in dollars and part in shillings, each will be paid back in the currency they were borrowed. NUCAFE's market for the coffee is predominantly foreign, and as such, there is less concern about exchange rate exposure Source: Interview with UNCDF Uganda		

Table A3: Assessment Framework of specific cases

Accountability/transparency mechanism	Monitoring and evaluation mechanism	Measures to capture development impact	Spill over effects (if any)	Anything else?
Open call for proposals to the public Independent appraisal process of applications. Source: Interview with UNCDF Uganda	Projects are aligned to UNCDF thematic focus areas and follow up project progress through completion. Source: Interview with UNCDF Uganda	There are a monitoring and evaluation framework in place overseen by UNCDF to track and report on the impact. Source: Interview with UNCDF Uganda		

Name of the project	Implementation period	Implementing agency	Sources of finance	Total Amount	Pre-feasibility	Intended Outcome	Completion status
Talian Company Limited Source: (UNCDF, 2018)	On-going (UNCDF, 2018)	Talian Company Limited (UNCDF, 2018)	Primary: Talian Company Limited Supplementary: UNCDF , AgDevCo (UNCDF, 2018)	By Sources Talian Company Limited: USD 31,250 UNCDF: USD 195,000 AgDevCo: USD 515, (UNCDF, 2018)	Is there a prefeasibility done? IRR? Commercial viability conducted (UNCDF, 2018)	Increase processing capacity and expand storage facilities for maize and cassava (UNCDF, 2018)	On-going (UNCDF, 2018)

Table A4: Terms of finance of specific cases and by instrument

Instrument	Grant element	Interest Rate	Down Payment	Repayment period	Grace Period	Conditionality	Exposure to exchange rate shocks	Loan-grant conversion (if any)	Other terms
Grant Loan Technical Assistance (UNCDF, 2018)	USD 260,000 (UNCDF, 2018)						Received in which currency: Repaid in which currency:		

Table A5: Assessment Framework of specific cases

Accountability/transparency mechanism	Monitoring and evaluation mechanism	Measures to capture development impact	Spill over effects (if any)	Anything else?
Open call for proposals to the public Independent appraisal process of applications. Source: Interview with UNCDF	Projects are aligned to UNCDF thematic focus areas and follow up project progress through to completion. Interview with UNCDF	There are a monitoring and evaluation framework in place at UNCDF to track and report on the impact Interview with UNCDF		

Name of the project	Implementation period	Implementing agency	Sources of finance	Total Amount	Pre-feasibility	Intended Outcome	Completion status
Biyinzika Poultry Farm	8 years Source: Interview with pearl capital	Biyinzika Poultry International Limited and Pearl Capital Source: Interview with pearl capital	Primary: Biyinzika Poultry International Limited Supplementary: Pearl Capital Source: Interview with pearl capital	By Sources Biyinzika Poultry International Limited: USD 3 million Pearl Capital: USD 1.2 million Source: Interview with pearl capital	Is there a prefeasibility done? IRR? Commercial viability conducted Source: Interview with pearl capital	To produce 1 million-day old chicks per year. This target has been met already Source: Interview with pearl capital	Partnership ended, Pearl Capital cashed out Source: Interview with pearl capital

Table A6: Terms of finance of specific cases and by instrument: (May be different by instrument e.g. in case of equity financing. Please mention source of information by item)

Instrument	Grant element	Interest Rate	Down Payment	Repayment period	Grace Period	Conditionality	Exposure to exchange rate shocks	Loan-grant conversion (if any)	Other terms
Loan Source: Interview with pearl capital		9% on the dollar Source: Interview with pearl capital		6 Years Source: Interview with pearl capital	1 year Source: Interview with pearl capital	Pearl Capital, the concession provider, gets a board membership in Biyinzika Poultry International Limited Source: Interview with pearl capital	Received in which currency: USD Source: Interview with pearl capital		

Table A7: Assessment Framework of specific cases (Please mention source of information by item)

Accountability/transparency mechanism	Monitoring and evaluation mechanism	Measures to capture development impact	Spill over effects (if any)	Anything else?
A fully established board of directors to which the enterprise reports. Source: Interview with Pearl Capital	Pearl Capital monitors and provides advisory services to the enterprise. No further mechanism beyond that was established. Source: Interview with pearl capital	No clear measures in place to track development impact. Source: Interview with pearl capital	Biyinzika Poultry International Limited has been able to set up a hospital, water facility, and bring electricity closer to its neighbouring community. It has also trained community members on poultry farming Source: Interview with pearl capital	

Appendix 3. Glossary

Word	Meaning
Bankability	A project or proposal that has sufficient collateral, future cashflow, and high probability of success, to be acceptable to institutional lenders for financing
Capital-intensive	A business initiative that requires large amounts of fixed asset investment such as equipment to produce a good or service
Collateral management	A method of granting, verifying, and giving advice on collateral transactions to reduce credit risk in unsecured financial transactions
Concessional Finance	Finance extended on terms that are substantially more generous than the market rate. Example giving a loan at 9% interest when the market rate is 20%
Debt for Capital	Raising capital through borrowing a loan
Development Finance Institutions	A financial institution often established by governments or charitable institutions to provide risk capital for economic development, for example, Uganda Development Bank
Fair competition	A free market in which all the players operate on a level playing field
Grants	Non-repayable funds or products are given by one party to a recipient
Gross Domestic Product	A monetary measure of the market value of all the final goods and services produced in an economy in a given period
Guarantee	The provision of third-party credit risk mitigation to lenders through the absorption of a portion of the lenders' losses in case of a default, usually in return for a fee
Lease premium	A lump sum upfront payment made by a tenant (investor) to the landowner.
Pooling of finances	Mixing finances from different sources to minimise risk. Example mixing a grant and a high-interest loan facility to extend cheaper loans
Principal outstanding	The amount left to pay on loan excluding interest
Public-Private Partnership	A commercial transaction between two or more public and private actors where the private party performs a function of the public actor on behalf of the public actor for a specified period. Example China Communications Company Limited building the Kampala express highway on behalf of the government of Uganda
Technical assistance	Non-financial assistance provided by specialists in the form of expertise, instruction, skills training, consulting services or transmission of working knowledge
Technical inadequacy	Lack of skills required perform in a field of expertise
Trickle down and multiplier effects	The ability of Project effects to vertically flow down to lower sections of the society
Venture capitalism	A form of financing that is provided by firms or funds to small, early-stage, emerging firms that are deemed to have high growth potential

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