UGANDA
GREEN ENTERPRISE
FINANCE ACCELERATOR

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UGEFA IMPACT ASSESSMENT 2024

Greening the Ugandan Finance Ecosystem through SME Investments

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List of Acronyms

BDS	Business Development Support
EBITDA	Earnings before interest, taxes, depreciation, and amortization
EU	European Union
FT	Fulltime (employees)
GDP	Gross domestic product
MSMEs	Micro-, small-, and medium-sized enterprises
NDPIII	Uganda’s Third National Development Plan
PFI	Partnering financial institution
PRS	Partial Repayment Scheme
PT	Part-time (employees)
SMEs	Small- and medium-sized enterprises
TIV	Total Investment Volume
UGEFA	Uganda Green Enterprise Finance Accelerator
UGGDS	Uganda Green Growth Development Strategy
UGX	Ugandan Shilling
USD	United States Dollar

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1. Introduction

The Uganda Green Enterprise Finance Accelerator (UGEFA) has made significant strides in addressing the critical financing needs of green small and medium-sized enterprises (SMEs) in Uganda since its inception in 2020. This report encapsulates the multifaceted impacts of UGEFA's support, drawing from comprehensive data and insights collected between November 2020 and March 2024 in enterprise documents, stakeholder interviews, and surveys with enterprises, business development advisors and banks.

During the implementation of UGEFA, 206 enterprises received capacity building for accessing (debt) finance. As of June 2024, 88 loans have been facilitated through UGEFA, with a total amount of funding of 26.9 billion UGX (7.3 million USD) raised by UGEFA-supported enterprises through UGEFA Partner Financial Institutions (PFIs). A detailed overview of the support offered to SMEs, banks, and business advisor support (BDS) organisations as well as accompanying numbers and figures can be found in the following chapters.

Chapter 2 provides an overview of the challenges green SMEs face in Uganda and provides further context to UGEFA and its objectives. Additionally, an overview of the UGEFA portfolio of green SMEs is provided and the impact methodology is explained.

Chapter 3 highlights UGEFA's capacity building efforts to tackle the "missing middle" finance gap for green SMEs. In particular, the outputs of the capacity building are linked to resilience and growth outcomes among participating green SMEs. The capacity building workshops are designed to equip SMEs with the skills to overcome common challenges related to accessing finance such as integrating financial management mechanisms into their operations, navigating the complexities of debt financing, and developing financially sound and environmentally impactful growth plans. UGEFA has supported the resilience and growth of green SMEs, with participant enterprises having increased their yearly revenue by 38% on average from 2019 to 2022. Among those surveyed, 70% of SMEs have met or exceeded their growth expectations.

In Chapter 4, the focus shifts to the work with banks, emphasising the challenges and accomplishments in extending green and climate finance to the SME sector. The chapter also explores the results of blended finance instruments to scale green finance in Uganda. UGEFA's collaboration with financial institutions has shown to facilitate increased access to finance for green SMEs, with 58% of SMEs accessing debt finance through the UGEFA programme being first time-borrowers. For every 1 USD of UGEFA grant finance spent, an estimated 3.77 USD of private capital was leveraged.

Chapter 5 delves into the support provided to BDS Providers, underlining the need for targeted green SME support to address specific needs and challenges in the green economy. The current landscape of BDS Providers in the green entrepreneurial ecosystem is reviewed, providing a clear picture of the support systems in place for green SMEs. Then, a closer look is taken into how the support and training of BDS Providers has impacted the growth of their organisations and quality of BDS support for green SMEs. 74% of BDS Providers participating in the survey mentioned that they have developed new projects or project proposals to support green enterprises. UGEFA's support have resulted in a significant increase in the availability of tailored support for green SMEs, with an estimated 95% of BDS Providers now offering support for SMEs in green sectors (before the training, 69% indicated offering this support).

The report concludes in Chapter 6, with lessons learnt and an overall conclusion on the impacts created by UGEFA. Key takeaways include the importance of tailored financial products, the need for continuous capacity building of green SMES, and the benefits of developing collaborative networks to extend quality BDS.

Overall, UGEFA has had a transformative impact on the green entrepreneurial ecosystem in Uganda through increasing the availability and quality of tailored support, fostering collaboration, and most importantly, expanding access to finance. This impact extends beyond the SMEs themselves: BDS Providers have improved the quality of their support, developing new projects and offerings tailored to the needs of green enterprises. Financial institutions, through UGEFA's collaboration, have broadened their capacity to offer green finance, including to first-time borrowers and SMEs in regions outside the central region. UGEFA's approach has also encouraged a shift toward blended finance models, further leveraging private capital to scale green finance. Together, these efforts have strengthened the ecosystem for green enterprise development, creating a network of resilient businesses, skilled advisors, and engaged financial institutions—all working toward a shared goal of driving sustainable economic growth.

2. UGEFA in a Dynamic Landscape of Green Enterprise Development

2.1. SMEs and the Missing Middle Finance Challenge

Small and medium enterprises (SMEs) constitute the backbone and economic engine of nearly every economy. They make up over 95 percent of registered businesses worldwide, generate more than 50 percent of employment and contribute over 35 percent to the Gross Domestic Product (GDP) in emerging markets.[1]

Furthermore, SMEs contribute to the diversification of the local economy, promote innovation, and provide access to products and services at a local community level. In particular, they bear an enormous potential to foster green and circular economies by providing access to sustainable goods, technologies and services as well as driving low-carbon and green innovation in existing sectors. [2]

For the government of Uganda, SMEs are a fundamental source of employment creation and economic growth. This is recognized in Uganda's Third National Development Plan[3], where SMEs are considered a key part in the development of the private sector. About 1.1 million micro, small, and medium enterprises (MSMEs) provide employment for 2.5 million people, which in turn contributes to 80% of manufactured output or 20% of GDP, underlining the importance of these enterprises for the Ugandan economy.[4]

Profile of MSMEs in Uganda

The Uganda Bureau of Statistics provides the following definition for MSMEs in Uganda

	No. of employees	Capital Investment	Annual Sales Turnover
Micro	<5	<10M UGX	<10M UGX
Small	5-49	10-100M UGX	10-100M UGX
Medium	50-100	100-360M UGX	100-360M UGX

Despite their importance in generating economic activity, innovation and employment, SMEs are underserved by financial institutions.[5] To scale their business and increase competitiveness in the local market, SMEs require capital to grow and scale. However, they often struggle to find sources for this capital. Requiring higher ticket sizes than typically provided by microfinance institutions, but often not demonstrating the growth trajectory that attracts equity investors, SMEs face a "missing middle" finance gap.[6] The credit gap for formal SMEs is estimated globally at more than 1 trillion USD and over 2.6 trillion USD when considering informal SMEs.[7]

UGEFA is founded on the basis that commercial banks have the capital and infrastructure to bridge this gap if given the right incentives and support. Currently, commercial banks face high transaction costs when extending finance to green SMEs, stemming from time-intensive loan appraisal processes and lower expected returns due to the smaller ticket sizes of SMEs compared to larger enterprises. SMEs

1 World Bank (2017). What's Happening in the Missing Middle?.
2 Zhironkin, S. & Cehlár, M. (2022). Green Economy and Sustainable Development: The Outlook.
3 National Planning Authority (2020). Third National Development Plan (NDPIII) 202/21 – 2024/25.
4 National Planning Authority (2020). Third National Development Plan (NDPIII) 202/21 – 2024/25.
5 World Bank (2017). What's Happening in the Missing Middle?.
6 OECD., & United Nations Capital Development Fund. (2020). Blended Finance in the Least Developed Countries.
7 World Bank (2017). What's Happening in the Missing Middle?.

are perceived as risky by financiers due to a lack of business documentation and history, a lack of robust financial documentation and solid financial management systems as well as fluctuating cashflows.[8]

In addition to challenges shared with conventional SMEs, green SMEs encounter unique obstacles to accessing finance. For instance, their investments often require longer time horizons to yield returns due to, for example, longer research and development cycles of green products or higher upfront costs of investments. A lack of existing data on the market demand and financial returns of these innovative green business models complicates their financial evaluation.

Lastly, a fragmented entrepreneurial ecosystem amplifies the challenges faced by green SMEs. These enterprises often struggle to access tailored financial support and capacity-building initiatives from intermediaries such as incubators and accelerators, as well as banks and other financers, hindering their growth and long-term sustainability.

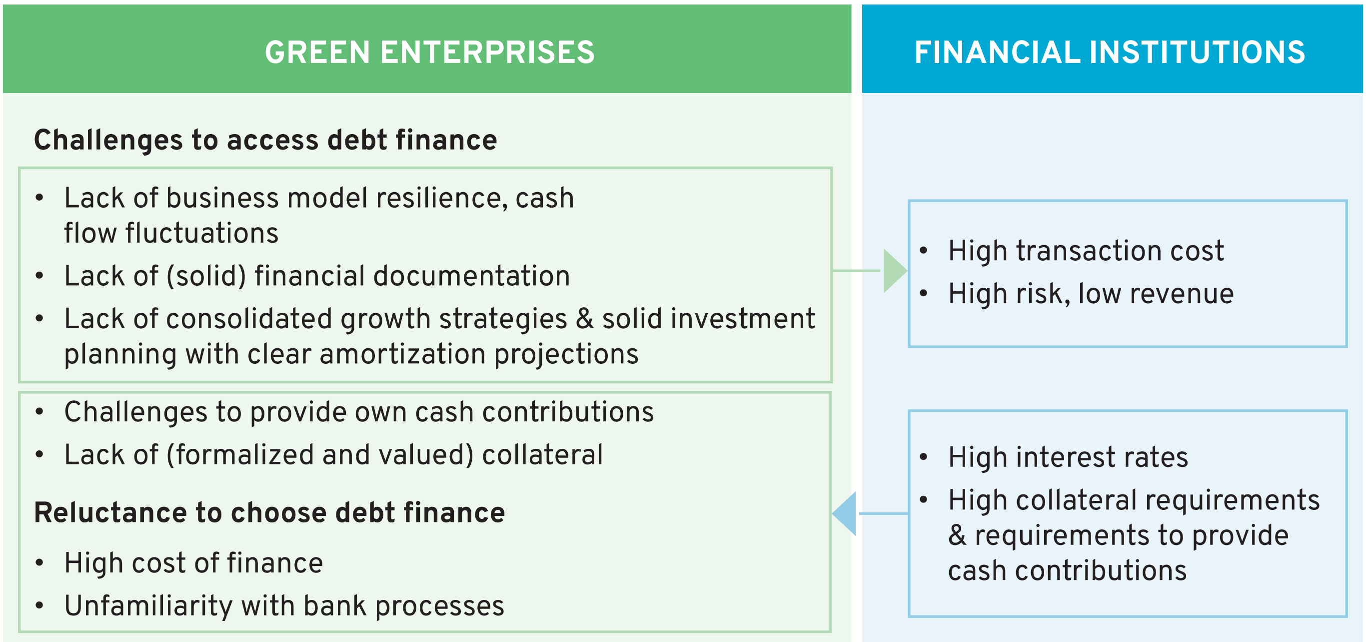


Figure 1: Access to finance challenges faced by SMEs and financial institutions.[9]

2.2. Green SME Investments for the Shift to Sustainable Development

Unlocking finance for green SMEs is critical for the transition to a green and inclusive economy in Uganda. Uganda's main export good is gold (45% of all exported goods), indicating a high dependence of Uganda's trade revenue on a non-renewable resource.[10] Contributing to economic diversification away from non-renewable resources, SMEs create value locally, showing potential for promoting sustainable and green growth at a local level. In 2017, the Ugandan Government developed the Uganda Green Growth Development Strategy to provide a roadmap for enabling green finance to drive the growth of a green economy. In this strategy, clean energy, waste management, and sustainable tourism, among others are identified as key sectors for investment.[11]

8 UNCDF (2021). Addressing the "Missing Middle" Challenge in Least Developed Countries.
9 Compiled by the UGEFA team.
10 Statista (2024). Uganda: Shares of the most important export goods in total export trade in 2020, broken down by SITC product segment.
11 National Planning Authority (2017). Uganda Green Growth Strategy.

Sectors such as waste management, green manufacturing, and sustainable transport require large investments to enable a sustainable transformation towards a green economy. Uganda faces an average financing gap of 1.3-2.2 billion USD per year to fulfil the country's climate finance needs.[12] To support Uganda to achieve its Nationally Determined Contribution (NDC) targets, a total investment of 880 million – 2.3 billion USD in the sector of clean energy alone is required.[13] [14] Given the constrained availability of public funds for green finance, the private sector plays a key role in providing and investing into climate action. This underlines the need for innovative financing mechanisms to leverage private finance to fill this funding gap.

Developing innovative financing mechanisms necessitates close collaboration with financial institutions, particularly banks, as they represent pivotal stakeholders on the private finance supply side and possess wide-ranging infrastructure to make investments across the country. Banks have the capacity to furnish SMEs with a wide range of ticket sizes, whereas equity investors often offer sums exceeding the needs and absorptive capabilities of most SMEs due to higher transaction costs for due diligence and portfolio management. Instead of directing substantial funds towards larger enterprises, with, for example, a 1 million USD investment, distributing smaller capital allocations (e.g., 10 instances of 100,000 USD or 100 instances of 10,000 USD) among numerous SMEs concurrently can yield a wider spread of impact, notably in terms of fostering job creation and expanding the market reach of green products and services.

UGEFA provides a comprehensive approach to promote and facilitate the flow of finance to green SMEs from both a supply and demand side. The project approach combines finance-focused capacity building support for SMEs, aiming at creating a pipeline of bankable green enterprises, with funding facilitation instruments, which are implemented in collaboration with local commercial banks. UGEFA improves access to and lowers the cost of finance for the SMEs through a blended finance mechanism where UGEFA provides a partial repayment grant of up to 33% of the loan ticket size for immediate repayment after successful disbursement of a loan to the SME. Tailored capacity building formats also target financial institutions, and BDS Providers, aiming to promote conditions conducive for green SMEs to become spearheads of green growth in Uganda.

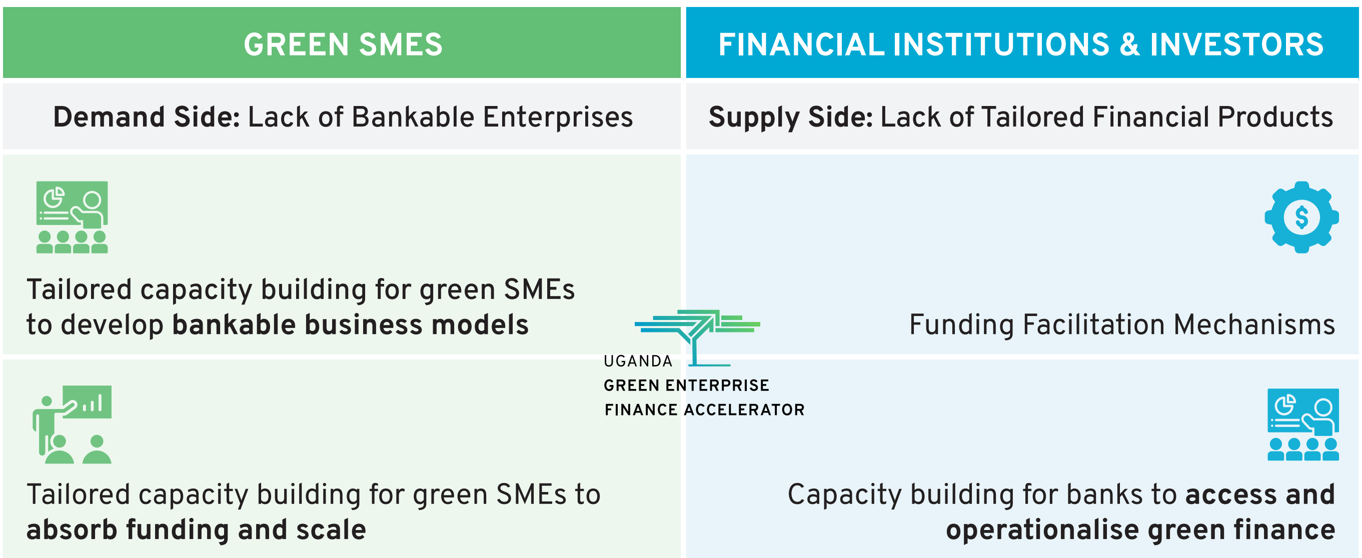


Figure 2: Combined capacity building support and financial facilitation

12 AfDB (2023). African Economic Outlook 2023.
13 AfDB (2023). African Economic Outlook 2023.
14 UNDP (2019) The Business Case For The Private Sector Engagement In Climate Action: Background Report Uganda.

2.3. The UGEFA Enterprise Portfolio & Impact Methodology

2,686
Registrations

704
Full applications

206
Selected

Green SMEs were selected to join UGEFA's capacity building support through a 2-stage selection process based on key eligibility criteria including revenue, age of the enterprise and green activities (see below), and against assessments of the quality of business and financial systems in place, growth and impact potential, capital needs, and overall financial history.

Eligibility criteria for the enterprise to join the capacity building support were:

- Operating in the target sectors of UGEFA (clean energy, green manufacturing, sustainable tourism, waste management, sustainable transport).
- Registration
- A proven record of operations, including being in operation for more than 2 years.
- A record of revenue generation that indicate an ability to absorb and repay a loan of 10,000 – 100,000 USD, including 10,000 USD annual turnover for the previous year.
- The potential to scale their green impacts and generate jobs.[15]
- A tested product or service and interest in growing the enterprise.

Between November 2020 and March 2024, 2,686 enterprises registered for UGEFA, of which 206 green SMEs were selected and supported.

The largest sector represented in UGEFA is clean energy, comprising a total share of 42% (87 enterprises), followed by the green manufacturing sector with 33% (69 enterprises) of all supported green SMEs. The sectors of waste management, sustainable tourism, and sustainable transport were represented by a share of 16% (32 enterprises), 6% (12 enterprises), and 3% (6 enterprises) respectively.

This report aims at capturing insights and assessing the impacts of UGEFA. It examines how the supported green SMEs have benefitted from UGEFA and whether access to finance was improved, enabling green enterprises to create positive social, economic, and environmental impacts. For that, this report takes a closer look at the outputs, outcomes, and impacts of the project activities. In order to comprehensively assess the results of the project, the report focusses on three target groups: green SMEs, local commercial banks and BDS Providers.

Two levers were used by UGEFA to scale green enterprise impacts: collaboration with the local financial sector to provide growth finance, and collaboration with Uganda's business development ecosystem to provide targeted support to growing enterprises. Regarding the collaboration with the financial sector, UGEFA provided technical assistance to commercial banks and set up innovative funding facilitation mechanisms alongside partnering financial institutions (PFIs) to tackle green SME finance barriers. Regarding the collaboration with the business development ecosystem, UGEFA supported to strengthen organisational capacities, tools and approaches to provide tailored support to green SMEs in Uganda, with an objective of building a conducive ecosystem for green SMEs across all regions of Uganda.

15 UGEFA used a scale of green impacts to ensure that participant enterprises are engaged in green business activities – either by providing green products or services, or by greening the production processes. This scale of green impacts and associated criteria has been developed using research and frameworks from the Sustainable Banking Network (IFC), EU Sustainable Finance Taxonomy, Dalberg, the European Commission, the UN World Tourism Organisations, Endeva, and the Climate Technology Centre and Network. It also leverages the over 15 years' experience of the SEED programme in supporting green enterprises across the world.

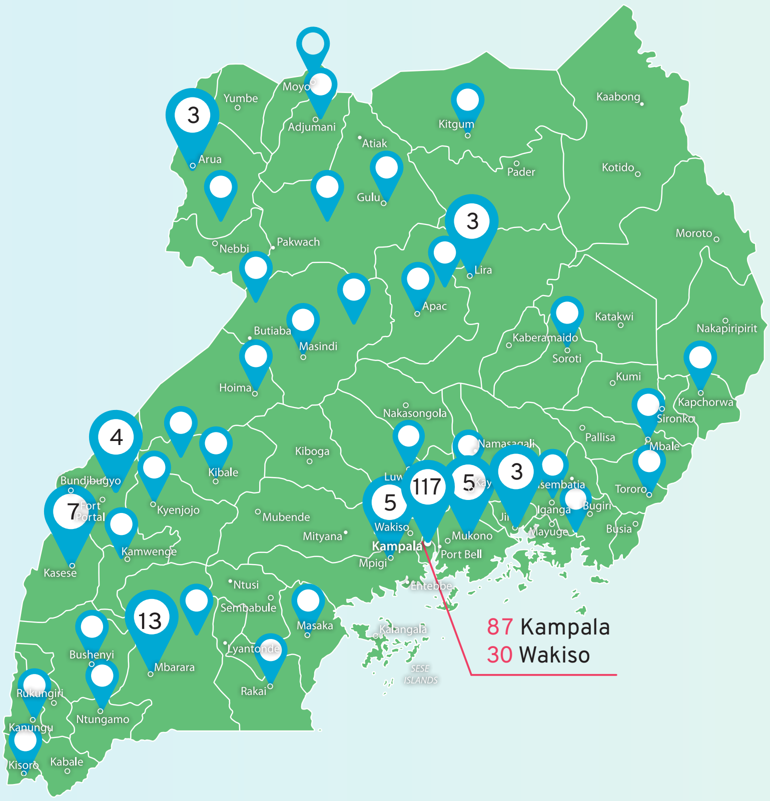
Enterprise Portfolio Overview

Number of enterprises per sector

Median annual revenue (2021, in USD) (n=147)

Average number of employees

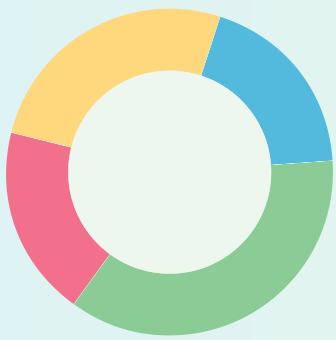
16.8 full-time | **9** part-time



ENTERPRISE LOCATIONS

Adjumani	1	Kole	3
Apac	1	Kyegegwa	1
Arua	3	Kyenjojo	1
Buliisa	1	Lira	3
Bushenyi	1	Luwero	1
Gulu	1	Masaka	1
Hoima	1	Masindi	1
Iganga	1	Mayuge	2
Jinja	3	Mbale	2
Kabarole	5	Mbarara	13
Kampala	87	Moyo	1
Kamwenge	1	Mpigi	5
Kanungu	2	Mukono	6
Kapchorwa	1	Nebbi	2
Kasese	7	Ntungamo	3
Kayunga	1	Nwoya	1
Kibaale	2	Rakai	1
Kiruhura	1	Soroti	2
Kiryandongo	2	Tororo	2
Kisoro	2	Wakiso	30
Kitgum	1		

Previous external financing



26% Enterprise has received prior loan that is currently under repayment

19% Enterprise has received a prior loan 1-5 years ago that was repaid; Enterprise has received equity finance

19% Enterprise has not received any external funding

36% Enterprise has received grants below 5000 USD or finance from family or friends

This assessment measures impact by tracing the logic of the UGEFA Impact Theory of Change, outlined in the visual and text below. This theory of change shows pathways to achieve the overall objective of UGEFA:

Contribute to green economic growth and employment in Uganda through strengthening green and inclusive SMEs in sectors such as sustainable energy, tourism, urban waste management, manufacturing, and transport and mobility, therefore contributing to private sector development in the priority areas of the Uganda Green Growth Development Strategy (UGGDS) of energy, urban planning, transport, as well as biodiversity conservation and natural resource management.

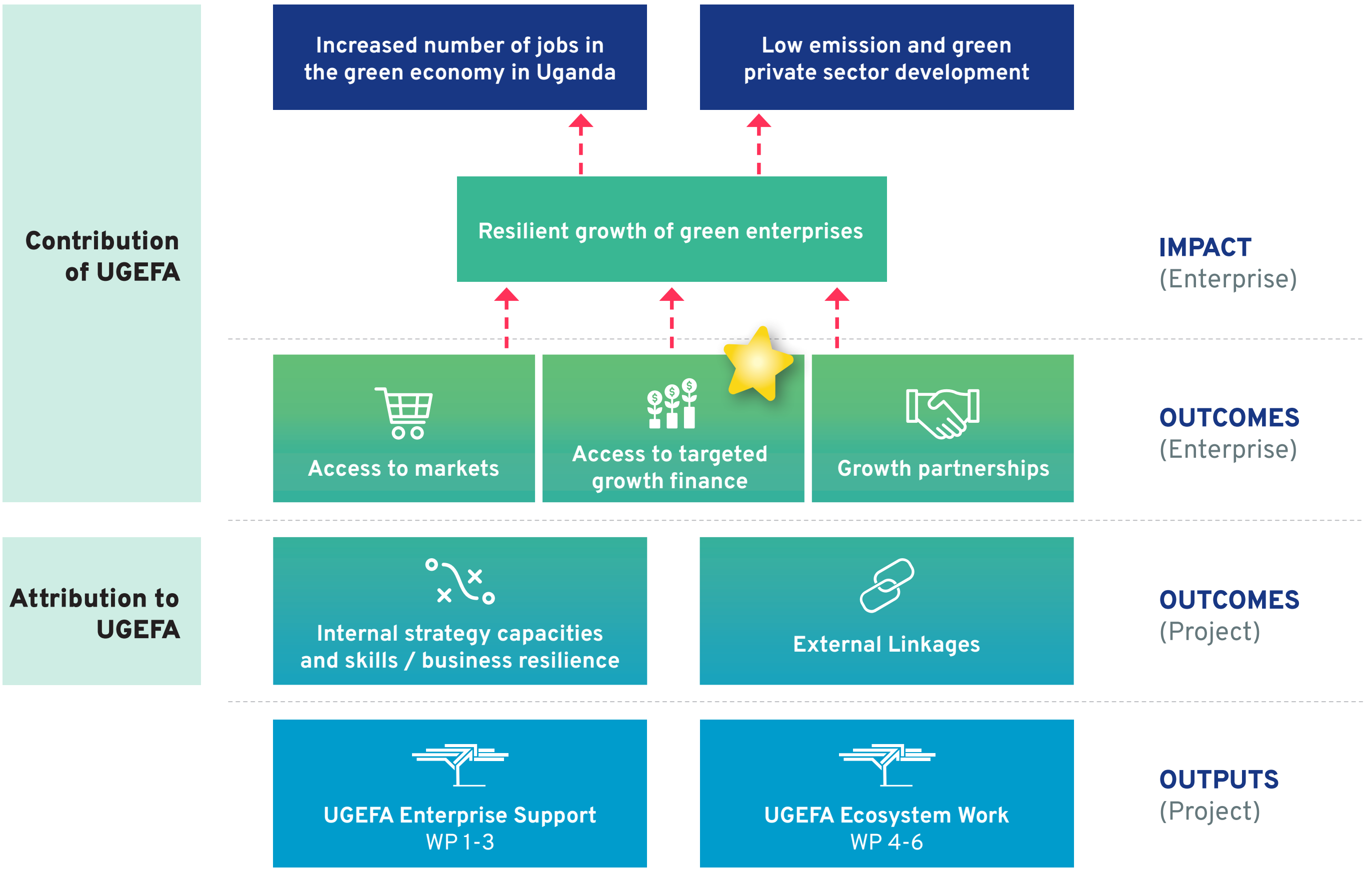


Figure 3: Theory of Change of UGEFA.

The UGEFA activities are intended to affect changes both within the enterprise and within the ecosystem to make favourable conditions for growth of the enterprises. These include outcomes of increased strategy capacities and skills within the enterprise as a result of the support received. They also include an increased number and awareness of ecosystem stakeholders or partners who are ready to offer services - financial, technical or other - targeted to green enterprises as a result of the ecosystem activities. Key metrics measured at this level include the number of beneficiaries reached and supported, the methodologies used, and the outputs of those activities. For enterprise support, these outputs include updated business plans, financial plans, impact dashboards, investment calculations and investment proposals. For ecosystem building, this includes new enterprise support instruments provided by banks and business advisors, as well as exchanges and knowledge sharing products in the green entrepreneurship ecosystem. The enterprise support activities are reviewed in Chapters 3 and 4 of this assessment. The ecosystem work with banks and BDS Providers is assessed in Chapters 4 and 5.

The enterprise and ecosystem support activities are intended to enable green enterprises to access key boosters for growth: external financing, access to national, regional and international markets, and partnerships that support them through sharing knowledge and resources. As a result of accessing key growth enablers, enterprises can scale their business, and therefore multiply their impacts. In this case, the resilient growth of green enterprises results in an increase of jobs (through suppliers, distributors and partners) in the green economy, as well as increased green products and services in the market that support a transition to a low emission, climate-smart economy, waste and pollution reduction, and support climate change adaptation and biodiversity protection. The crucial link for the Theory of Change - and therefore the focus of the impact assessment - is the link between the success of the project in supporting enterprises to grow, and the additional impacts generated by the enterprises by growing.

The assessment is guided by a set of hypotheses that address the links between intended outputs, outcomes and impact of the project. The impact assessment methodology uses both quantitative and qualitative methods, drawing information from existing touchpoints with enterprises and ecosystem stakeholders, and supplementing that information with follow up interviews and surveys. In the case of the SMEs, application forms, the business documents created during the capacity building, data from workshop evaluations, loan negotiation outcomes, and data gathered during an impact survey[16] which was conducted early 2024 were analysed. For banks and BDS Providers, a survey complemented by qualitative interviews was used.[17]

As much information is self-reported and enterprises may not have the capacity or resources to audit their impact monitoring and reporting, efforts have been taken to mitigate the potential effects of these limitations. At the end of the capacity building, impact metrics are reviewed directly with the enterprises to review and validate the indicators as much as possible. The information is triangulated, with comparisons to audited financial documents, information provided across different business documents, assessments of the Business Advisors, and assessments of applications by the UGEFA team.

For the purposes of this impact assessment, the data (qualitative and quantitative) that is collected at each of these stages has been analysed and categorised to assess the hypotheses. Each response, from both enterprises and ecosystem stakeholders, has been anonymized and - where possible - aggregated to protect the confidentiality of information collected.

The aggregation of impact data from the enterprises is possible due to a set of pre-selected impact indicators that are reported on by the enterprises as part of their impact dashboards. The enterprise impact indicators are selected from the IRIS Impact Indicators of the Global Impact Investing Network and categorised by sector.

The information in the next chapters draws on the data collected from the touchpoints and the impact survey of 2024 to draw insights about UGEFA and the impacts of the enterprises.

16 124 enterprises responded to the impact survey.

17 29 BDS Providers responded to the survey and 3 banks provided information in a qualitative interview.

3. Cultivating Change – Highlighting UGEFA Capacity Building for Green SMEs

3.1. Tackling the Missing Middle Finance Challenge

UGEFA's capacity building programmes aim at equipping SMEs with the tools, knowledge, and strategies necessary to overcome missing middle financing challenges while improving visibility, networks, and internal management systems with the ultimate objective of increasing bankability, resilience and growth. The following sections explore the outputs, outcomes and impacts of the capacity building provided by the UGEFA programmes, shedding light on the challenges encountered by SMEs and how UGEFA has assisted in addressing them.

UGEFA Catalyser	UGEFA Accelerator
Financial readiness and growth capacity building • **Approach:** 3 hands-on interactive workshops (13 days) in groups of 10 SMEs to build business and financial readiness for external financing and growth • **Method:** Facilitated by local BDS providers using adelphi's toolification methodology adapted to the Ugandan context • **Themes:** Refinement of business plans, impact and financial plan topics, development of investment project	**Post-investment capacity building** • **Approach:** 2 group-based interacitve workshops (5 days) of post-investment capacity building after receiving external finance to support enterprises with financial management and scaling their contributions to job creation and a green economy • **Method:** Facilitated by local BDS providers using the same methodology as in the Catalyser and refined for post-investment support • **Themes:** Investment management, implementation of business expansion, scaling operations and impact

Figure 4: Capacity building formats offered in UGEFA.

A core objective of the capacity building is to provide tools and approaches that benefit the participant SMEs beyond the duration of the workshops. The "toolification" approach, developed by SEED over 20 years of working with green SMEs, and refined for UGEFA-specific needs, empowers workshop participants and their SMEs to develop their own solutions for current and future challenges.[18] To build financially sustainable and resilient enterprises, the capacity building approach of UGEFA aims to transfer knowledge, build skills, and encourage an entrepreneurial attitude. The group-based workshops are essential to bringing various experiences, opinions, and ideas to the table to enable the participants to broaden their perspective and develop new solutions through discussions with other entrepreneurs.

Besides accessing affordable and appropriate finance (mentioned by 110 enterprises in the survey), enterprises also deal with a variety of other challenges. Information about the top challenges provided by entrepreneurs in the impact survey gives a clear picture on what hampers the growth and resilience of the green SMEs in Uganda.

18 Read more here: White Paper on Toolification for Next Generation of Business Development Support

Challenges related to infrastructure and technology were mentioned by 69 participating enterprises in the survey (56%). Infrastructure challenges may make it harder for SMEs to reach new markets and distribute products, which is also reflected in the third most prevalent challenge, where 55 enterprises indicate challenges to access markets (44%). The fourth most named challenge is access to research and development. This may result in high operational and research and development costs, affecting the SME's ability to implement climate-smart business models that involve new technologies, and to evolve in a dynamic market.

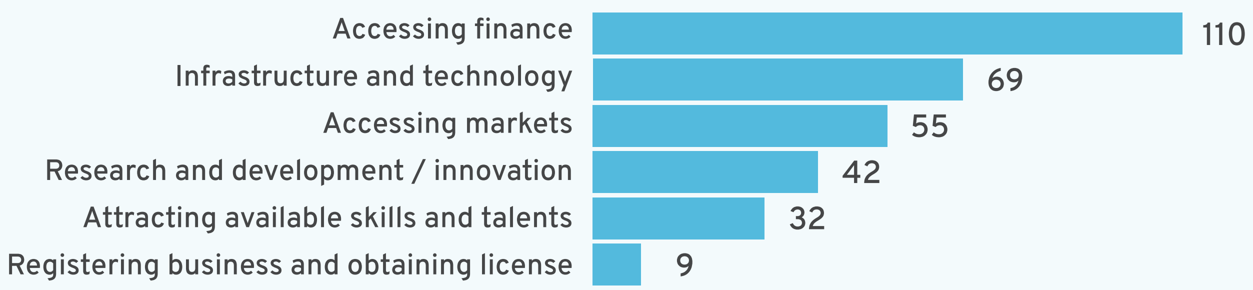


Figure 5: Top challenges faced by SMEs in their operation over the last years.[19]

UGEFA has supported the participating SMEs to tackle some of their most pressing challenges, such as access to finance or access to markets. In total, 83% of the SMEs participating in the impact survey indicate that UGEFA has supported them to address the principal challenges that they face in their work as entrepreneurs. The capacity building has helped to increase financial and investment readiness in several ways:

83% of SMEs
agree that UGEFA has supported them to address these challenges

- **Refining the business model**: The capacity building provided SMEs with support and tools to optimise their business models, making them more attractive to financiers and with new approaches to reaching markets and extending their distribution. 71% of enterprises indicated that UGEFA supported them to a large extent to refine their business model.
- **Strengthening internal processes**: SMEs were equipped with tools and knowledge to streamline operations, improve organisational structures and systems, and boost efficiency. In one tool, for example, the SMEs reviewed their organisational structure by identifying departments and defining roles, mapping the structure, and assessing the relationships to identify points of improvement. With another tool, the SMEs analysed their value chain to monitor and improve value chain efficiency and effectiveness. 65% of enterprises indicated that UGEFA supported them to a large extent to strengthen their internal processes.
- **Improving risk management**: SMEs were supported to develop strategies to identify, assess, and mitigate risks more effectively, thereby raising confidence to take on debt finance, raising awareness about the risks taken on when raising finance, and developing strategies to mitigate these risks. 57% of enterprises indicated that UGEFA supported them to a large extent to manage their risk more deliberately.

19 Multiple answers possible. n=124.

To what extent has UGEFA supported you to address challenges through the following approaches

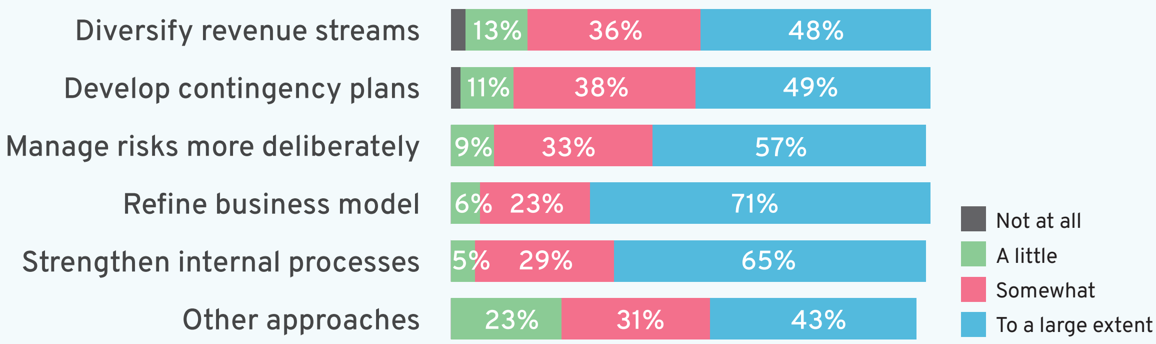


Figure 6: UGEFA's contribution to tackle the specific challenges faced by the SMEs.[20]

UGEFA also tackled a variety of cross-cutting topics to improve the SMEs' financial readiness. The workshops conducted as part of the capacity-building initiative focused on key areas essential for enhancing the financial readiness of SMEs. The participants indicated the most relevant topics that were addressed in the capacity building, of which the top three include:

- **Value proposition and impact:** articulating a value proposition effectively and highlighting the social and environmental impact of their initiatives.
- **Financial planning:** developing robust financial plans, budgets, and forecasts to support their growth objectives and decrease transaction costs for banks for SME financing.
- **Green growth and investment planning:** aligning investment strategies with environmental objectives to accelerate positive environmental impacts and link financial inflows to climate outcomes.

Most relevant addressed topics from the workshop

Figure 7: Most relevant topics for the SMEs from the capacity building workshops.[21]

20 n=100.
21 In absolute numbers. Multiple answers were possible. n=124.

The most relevant topics named by the participants, especially value proposition and impact, underline the capacity building need of the SMEs to build meaningful and commercially-viable business models contributing towards green growth (55% of participants). Participants also found significant relevance in the construction of solid financial and investment plans (47% and 44%) and developing other core business skills such as marketing.

Robust financial management systems and financial documentation constitute key requirements of financial institutions. 209 of 246 workshop participants (85%) agree that UGEFA has helped to further develop their financial management systems while 86% of participants point out that their knowledge of financial reporting and analysis has improved.

85% of workshop participants agree that UGEFA has helped to further develop their financial management systems

The workshop supported the SMEs to improve overall financial literacy the most (96% of participants noted an increase in knowledge), followed by knowledge of risk mitigation strategies (95% of participants). UGEFA-supported SMEs also profited from increased business knowledge for planning their finances and investments (94% each). Altogether, the capacity building provided a solid foundation for the improvement of the bankability and resilience of the SMEs, as will be explored in more detail in the following Section 3.2.

84% of SMEs pointed out that they made new partnership or connections during UGEFA programme support

To enable future partnerships and expose the SMEs to a larger market, UGEFA has also supported the SMEs well to increase visibility among groups such as clients for their products and services, potential partners for cooperation, and funders. SMEs were able to forge important connections and partnerships for growth and financing: 84% of the survey participants were able to make new partnerships or connections during UGEFA support, including the capacity building workshops but also during further support offers such as networking events. UGEFA further helped to increase SMEs' visibility to clients, potential partners such as other SMEs, and potential funders by 47%, 50%, and 51%, respectively.

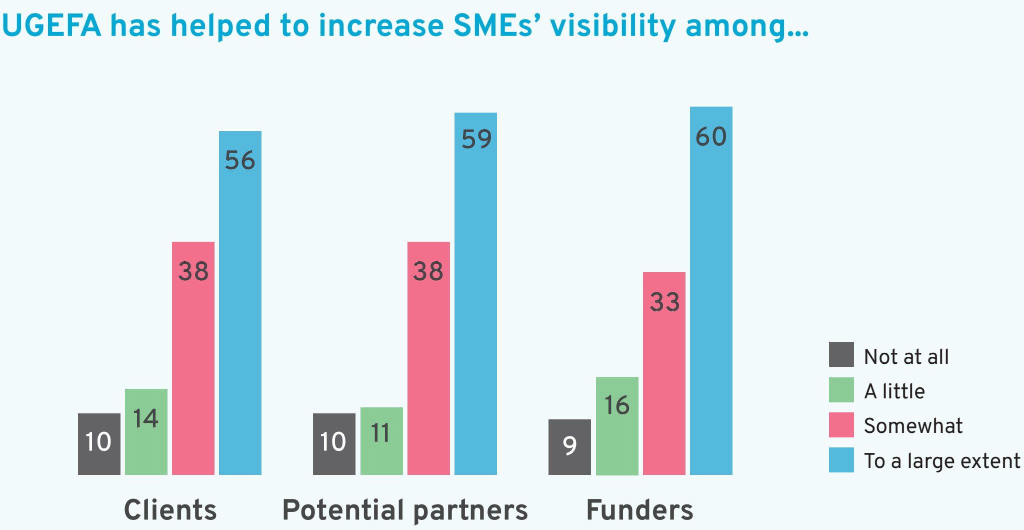


Figure 8: UGEFA support to increase the SMEs' visibility among certain stakeholder groups.[22]

22 The answers are in absolute numbers. n=118.

First, the SMEs managed to make connections with potential clients. This increases their ability to compete in the market and improve sales.

Second, the SMEs forged many connections with potential partners for further business development support or other businesses to cooperate with. This allows them to potentially overcome other hurdles not addressed in depth during the UGEFA workshops such as challenges with infrastructure and technology, through receiving sector-specific or technology-focused training, or by partnering with other SMEs to find solutions to their common problems.

Third, the SMEs made connections with potential funders, which, as one of the most important aspects of the project, enables increased access to finance. The connections and visibility from the UGEFA support empower the SMEs to find an adequate provider to their financing needs and to choose the best option for their financing needs.

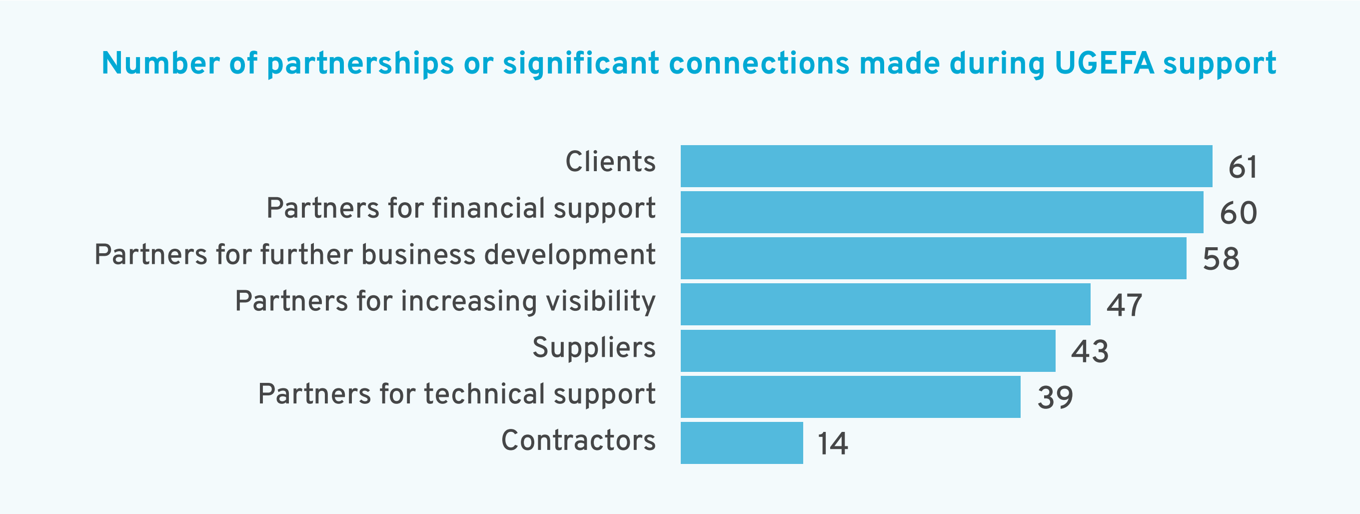


Figure 9: Number of partnerships or significant connections made by enterprises during UGEFA support.[23]

Sustained impact is also achieved by the SMEs' ability to access further support to tackle other challenges. 61% of the survey participants accessed further support programmes. The participants agreed that the enterprise documents created during the capacity building were the most helpful when applying and getting accepted for further follow-up support (67%), followed by knowledge acquired during the training (65%), and contacts made during the UGEFA support (55%).

61% of SMEs have participated in further support programmes following UGEFA support

The challenges faced by SMEs, particularly those associated with green business models and sustainable investments, are significant and multifaceted. Through UGEFA's capacity building approach, SMEs have been equipped with the necessary tools, knowledge, and strategies to navigate these challenges effectively, with 83% of SMEs attesting to its effectiveness in addressing their primary challenges. By empowering SMEs with the necessary resources and networks, UGEFA helps set up SMEs to access the support they need in the long run.

23 Multiple answer possible. n=99.

3.2. Spurring Resilience and Growth

Since the start of UGEFA in 2020, disruptions such as the Covid-19 pandemic have affected businesses globally and hurt local economies. These disruptions are further complicated by ongoing and accelerating climate change. In this context, SMEs are presented with the challenge to adapt to these structural shifts for business survival through building financial reserves, and having capability to reinvent, innovate, and adapt to these structural shifts. The World Economic Forum Resilience Consortium emphasises that resilience is a strategic requirement to maintain long-term sustainable and inclusive growth, with the lack of resilience in public and private stakeholders impacting annual GDP growth by 1 to 5 percent globally.[24] Business resilience is one of the key intended outcomes of UGEFA capacity building, as outlined in the Theory of Change (see Figure 3).

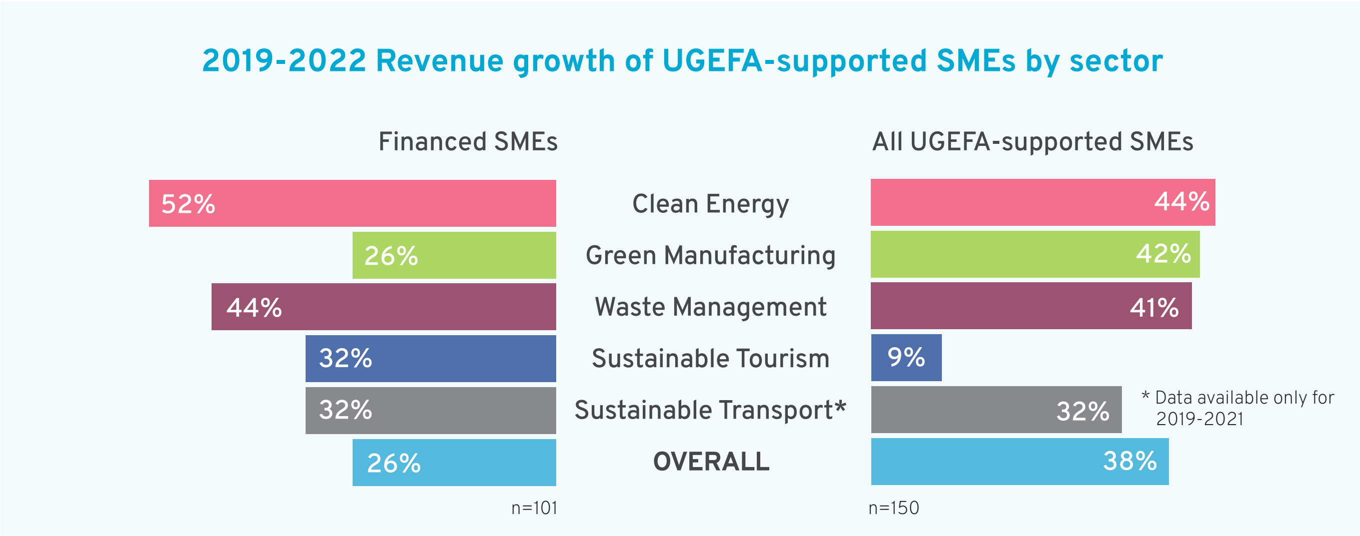
In the Ugandan context, global disruptions have had significant impacts on local SMEs. Due to supply chain issues, for example, enterprises in sectors such clean energy had difficulties sourcing solar energy products, and sustainable tourism enterprises had less customers because of global and local travel restrictions.[25] For these enterprises to survive, they require knowledge, skills and finance to develop increased resilience.

To build the capabilities of dealing with disruptions due to economic shocks or natural disasters, SMEs require investment in preventative measures to better deal with such disruptions. One measure may be improving operational flexibility by diversifying suppliers and lowering dependence on specific supply chains or specific geographic regions. To further mitigate supply chain issues, the SMEs may also invest into building a stockpile of inputs and products, thereby being able to bridge longer time periods of disruptions.[26] The following section explores the contribution of UGEFA's capacity building approach to encourage SME growth and resilience through supporting access to finance and improved business operations.

Participating SMEs have been able to keep steady revenues despite the implications of the Covid-19 pandemic. Overall, the enterprises have demonstrated a high potential for growth, having increased their yearly revenue on average by 38% from 2019 to 2022.[27] SMEs which acquired financing after the UGEFA support, including from non-UGEFA partner financial institutions and other types of finance, demonstrate a yearly revenue growth of 26% on average from 2019 to 2022.[28]

Particularly in the clean energy sector, above average growth can be observed for SMEs. Financed SMEs demonstrate an average yearly revenue increase of 44%, while all supported clean energy SMEs demonstrated a 52% average increase, which could indicate that enterprises in the sector were able to successfully serve growing market demand. Despite being significantly affected by the pandemic, sustainable tourism enterprises displayed stable revenues, indicating a high-level resilience of these enterprises. Sustainable tourism enterprises that received finance show a larger difference in average revenue growth compared to the overall portfolio of tourism enterprises (32% vs. 9% for all supported tourism SMEs).

24 Brende, B. & Sternfels, B. (2022). Resilience for sustainable, inclusive growth.
25 Insights based on the analysis of UGEFA-supported SMEs.
26 Brende, B. & Sternfels, B. (2022). Resilience for sustainable, inclusive growth.
27 The revenue data covers a subset of the 206 supported SMEs. For 150 SMEs sufficient revenue data was available.
28 The revenue data was available for 101 of 106 SMEs that were financed by a UGEFA partner bank or a non-partner bank.



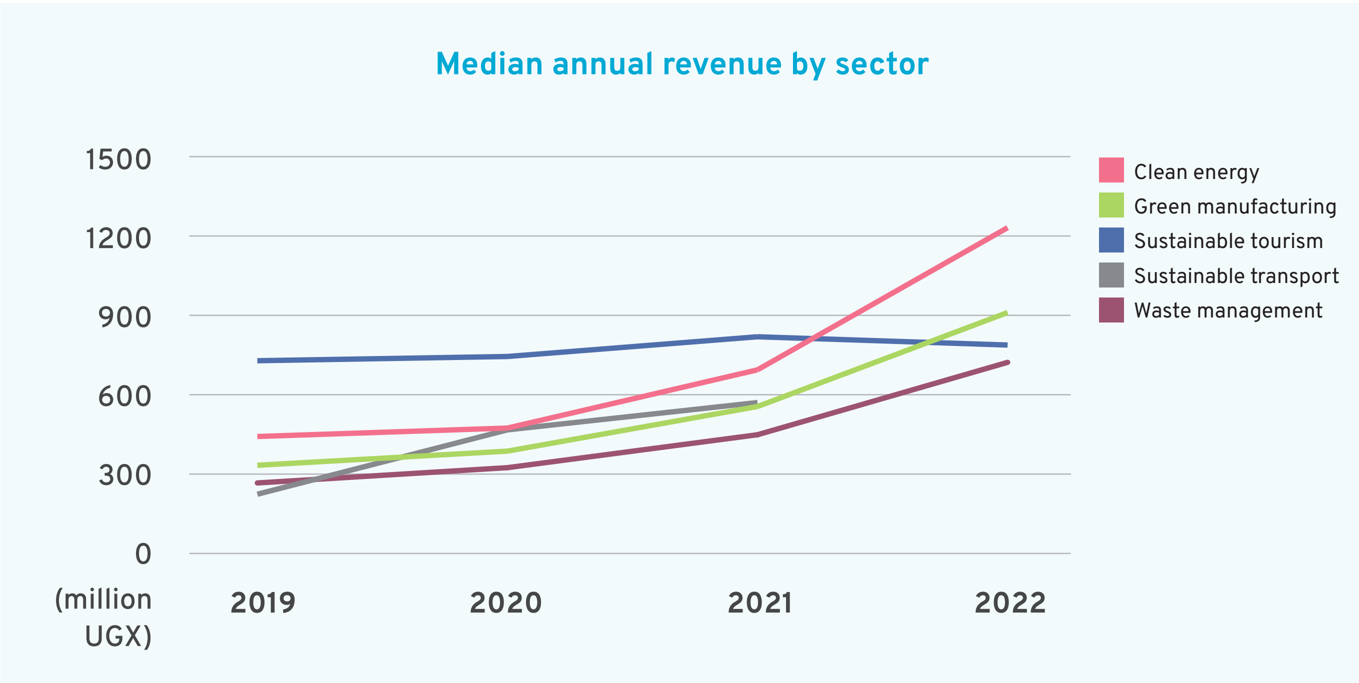


Figure 10: Median annual revenue of UGEFA-supported green SMEs.[29]

In comparison, between 2020 to 2023, Ugandan businesses overall registered strong declines in annual revenue. The number of taxpaying businesses with revenues between 50 Million UGX and 500 Million UGX decreased from 10,562 to 1,784 businesses. The higher income brackets registered decreases as well, indicating many struggling businesses with decreased revenues or a higher closure rate of businesses.[30] UGEFA-supported SMEs were able to grow and continue operations comparatively more than other enterprises in a challenging business environment.

This achievement of growth was further reflected in a self-assessment by the enterprises, where the majority of SMEs participating in the survey believed that their enterprise growth met or exceeded their expectations (70%). Confidence in enterprise growth therefore appears optimistic. In contrast, overall confidence of SMEs in business growth evaluated by Mastercard in 2023 was lower, standing at a total of 66% optimistic SMEs in Kenya and around 60% optimistic SMEs on the African continent.[31]

29 n=150.
30 Monitor Uganda (2024). Businesses register sharp decline in annual incomes.
31 Mastercard (2023). Mastercard SME Confidence Index: 76% of SMEs in Africa project similar or increased revenue in 2023.

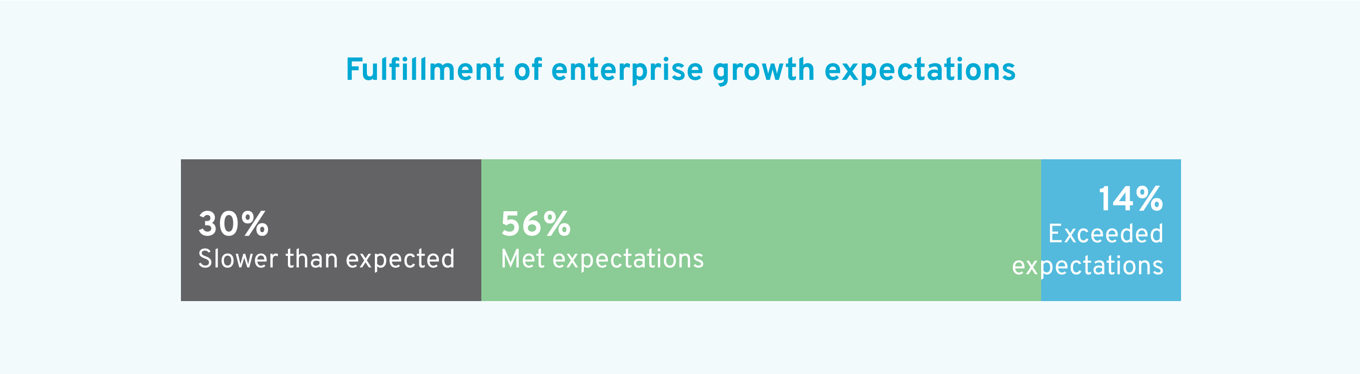


Figure 11: SME satisfaction with attained growth.[32]

One reason behind the significant growth of UGEFA-supported enterprises could be linked to the growth strategies put into place by the enterprises, which mainly focused on low risk pathways for growth.[33]

86% of participating SMEs sold their products and services to a new customer segment within their existing markets, thus increasing their market share. The ability of these SMEs to attract new customer segments suggests effective use of marketing resources, improved sales strategies, and potentially increased customer loyalty and retention. This **market deepening** strategy is typically associated with lower risk since it builds upon existing operations and market knowledge.

Around 64% of supported SMEs indicated that they developed a new product or service. The pursued product development strategy focuses on creating new products or services for existing markets to meet evolving customer needs. The **development of new products or services** can lead to value creation within their sector, and supply of niche products that respond to diverse customer needs. It can also enhance the SMEs' ability to innovate and remain competitive.[34]

About 66% of SMEs mentioned that they have accessed new markets within Uganda after the UGEFA support as part of a **market development** growth pathway. 21% have accessed markets in a new country such as Kenya, South Sudan or the Democratic Republic of Congo. Expanding into new markets can provide several benefits, including increased sales opportunities, revenue growth, diversification of markets, and access to new ideas, products, and methodologies which may boost productivity. [35]

The growth paths of the SMEs supported by UGEFA suggest a strategic approach to growth that balances risk and opportunity. The larger focus on market deepening and product development as lower risk strategies indicates a preference for leveraging existing capabilities while introducing innovations to stimulate growth. The expansion into new markets, both within and outside Uganda, for some enterprises demonstrates a willingness to explore new opportunities despite the potential challenges, however carries higher risk – especially outside Uganda.

32 n=113.
33 Peterdy, K. (2023). Ansoff Matrix.
34 OECD (2017).
35 Allianz Trade (2021). What are the advantages and disadvantages of expanding your business?

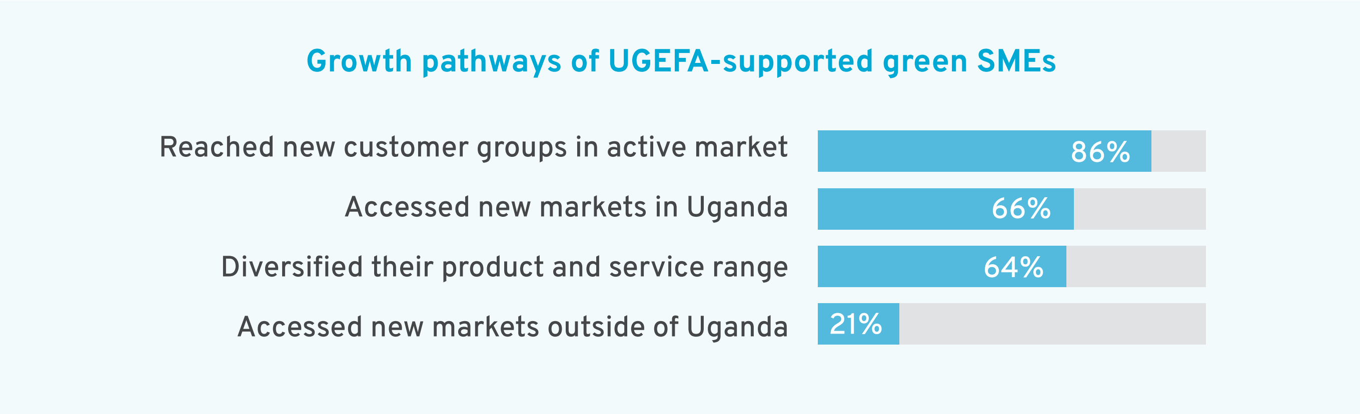


Figure 12: Growth pathways of UGEFA-supported green SMEs.[36]

UGEFA-supported SMEs pursued funding to support their growth strategies. A total of 106 enterprises managed to successfully access funding[37]. Loans are a significant source of funding for UGEFA-supported SMEs, underlining the strong role for debt finance in financing the viable and sustainable investment opportunities of green enterprises. In total, UGEFA-supported SMEs have managed to raise 32.5 billion UGX (8.2 million USD) in financing, of which 90% is debt finance (29.2 billion UGX; 7.9 million USD) and 10% is external grant money (3.4 billion UGX; 914,208 USD). Meanwhile, the SMEs are also pledging an own contribution of 15.6 billion UGX (3.9 million USD) in their investment projects, totalling 39.2 billion UGX (10.6 million USD) of private sector capital leveraged through the UGEFA support as of June 2024.[38] An average of 370 million UGX (100,000 USD) of private capital per enterprise was leveraged.

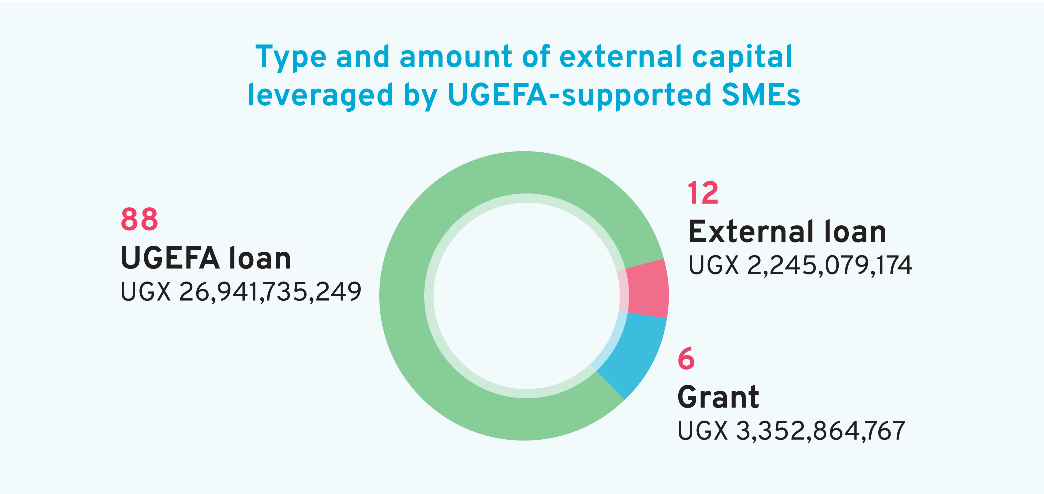


Figure 13: Total amount of external capital leveraged by SMEs after UGEFA capacity building support.[39]

The high number of loans accessed through UGEFA's partner financial institutions (88 loans) indicates that UGEFA's capacity support and funding facilitation are well-tailored to the needs of green SMEs. The lower number of external loans (12 loans) may reflect the challenges green SMEs face in accessing diverse financing sources or a high cost of finance, thereby demonstrating a gap in the market for such specialized green financial products. In terms of average ticket sizes, the SMEs with UGEFA-facilitated loans have acquired an average of 306 Million UGX, while externally accessed finance averages at 311 Million UGX.

36 Multiple answer were possible. n=95.
37 As of June 2024.
38 Due to the UGEFA grants coming from public sources, it is not counted into the private sector capital leveraged here.
39 n=106.

UGEFA-supported SMEs have varying capital expenditure (CAPEX) and operational expenditure (OPEX) needs. In the growth strategies developed during the capacity training, SMEs indicated how the funds acquired through external finance would be spent. Enterprises focusing on market deepening (86%) require on average more OPEX than CAPEX (335.5 million UGX vs. 221.8 million UGX) to implement measures such as increased sales and marketing activities. For enterprises with a focus on product/service development (64%), the average requirement for CAPEX is much higher than OPEX needs (601 million UGX vs. 156.4 million UGX) due to, for example, machinery and equipment needed to establish new product lines. For market development (60%), the SMEs require on average more OPEX to, for example, rent new regional offices or hire sales agents for their products (316.4 million UGX vs. 123.6 million UGX).

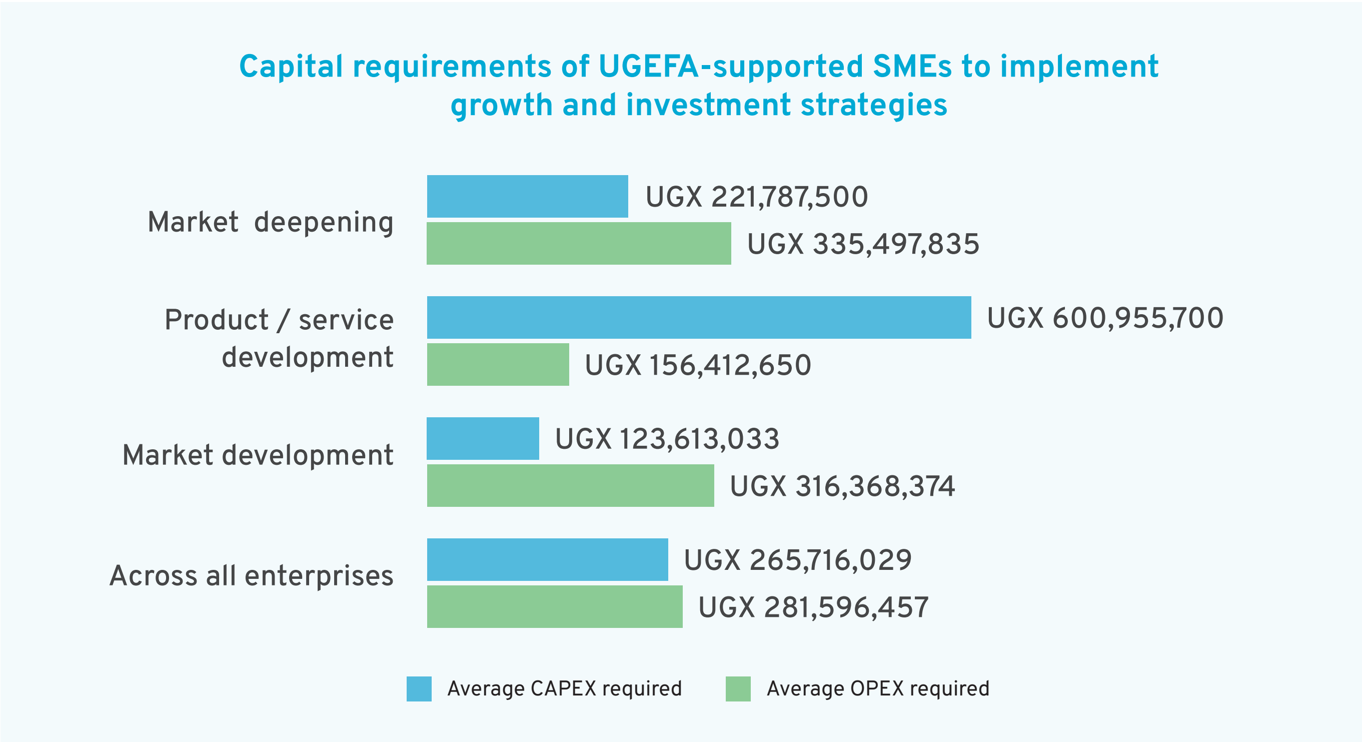
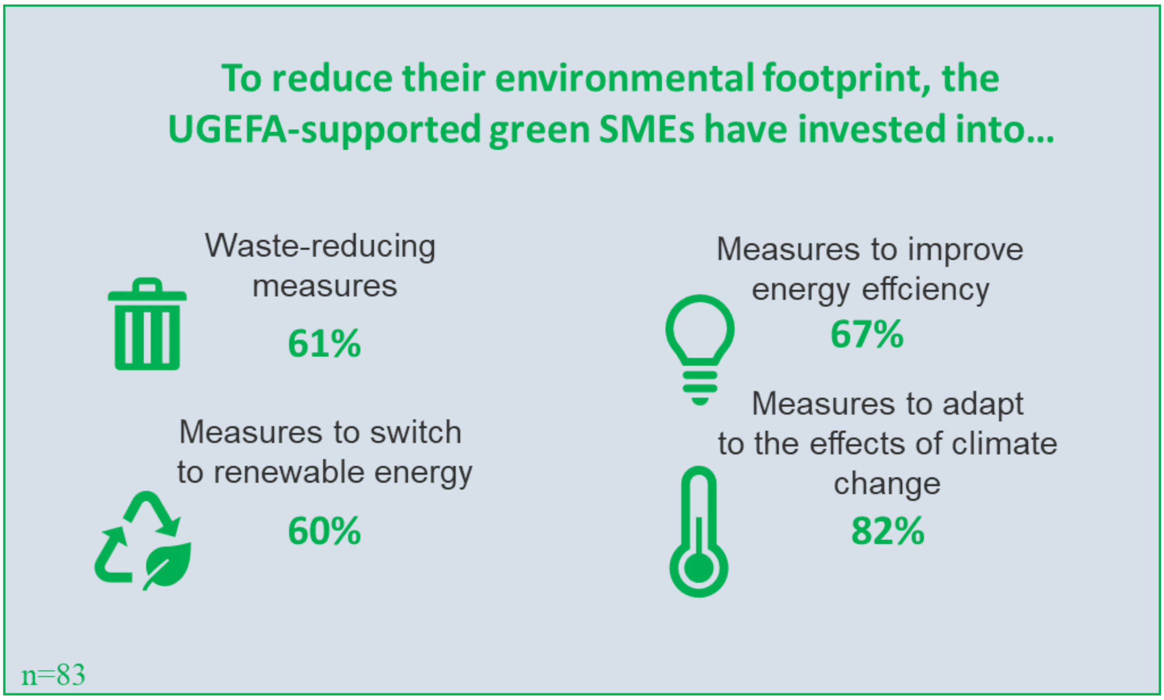


Figure 14: Capital requirements of UGEFA-supported SMEs to implement growth and investment strategies.[40]

Besides investments in growth, external finance was used by SMEs to reduce their environmental footprint. 60% of the SMEs invested into switching to renewable energy sources within their business operations. This includes investments in solar mini-grids, solar home systems (SHS), solar water pumps, or other solar-powered appliances, which contribute to a reduction in carbon emissions and reliance on non-renewable energy sources. Furthermore, 67% of the SMEs invested in measures to improve the efficiency of their power usage. This encompasses investment into a range of assets such as clean cooking stoves, biomass briquette production, energy storage systems, or energy-efficient lighting. These investments reduce energy consumption and lower operational costs, contributing to the financial health and resilience of the SMEs.

A notable 82% of the SMEs have adopted climate adaptation measures, either with the communities they operate in, or to make their own operations more resilient to the adverse effects of climate change: This includes initiatives like afforestation, the use of climate-resilient crops, the installation of water-efficient irrigation systems (e.g. rainwater harvesting or waste water recycling) or beekeeping to promote biodiversity which enhances the ecosystems' ability to adapt to climate change.

40 n=81.



Investments to reduce the environmental footprint vary slightly according to the growth pathway of the SME. For SMEs focusing on market deepening, most have invested into measures to adapt to climate change (27%). Meanwhile, SMEs focusing on product or service development were more likely to have invested in waste-reducing measures (29%), followed by energy efficiency measures (27%). Finally, with regard to market development, SMEs have most frequently invested in energy efficiency measures (29%), followed by switching to renewable energy as their main source of energy (26%).

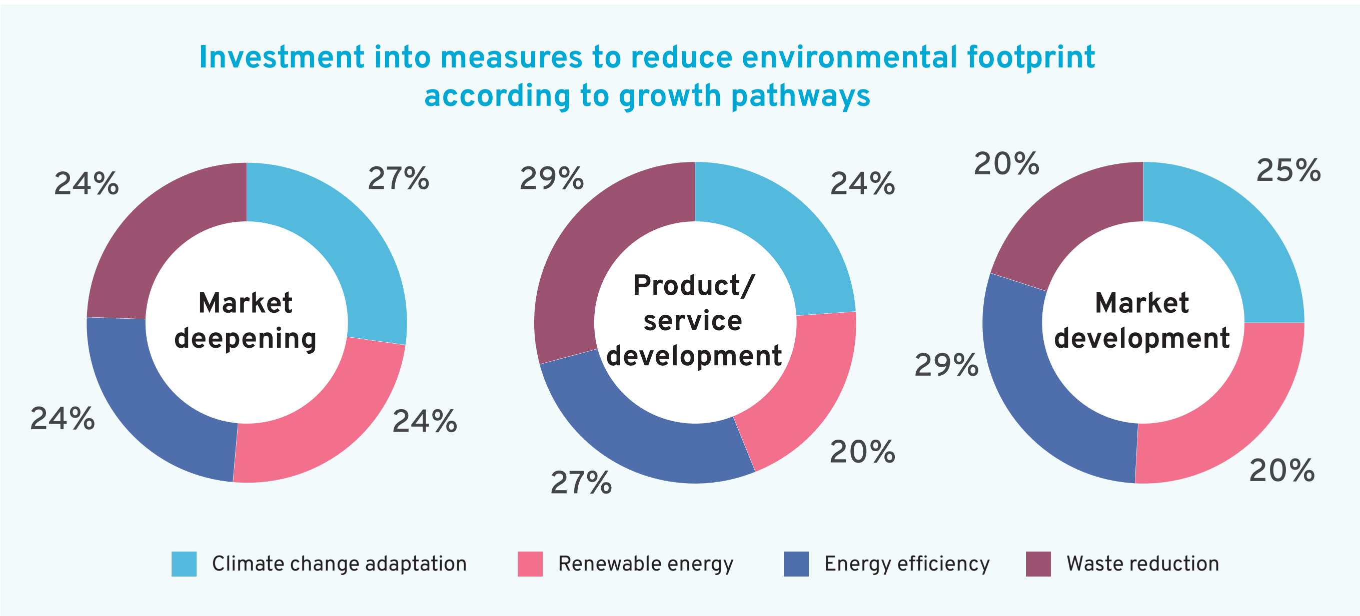


Figure 15: Investments to reduce the environmental footprint according to SMEs' growth pathway[41]

Overall, the data presented implies that the majority of UGEFA-supported green SMEs ensure that their investments have a positive environmental impact. Their investments in renewable energy, energy efficiency, waste-reducing, and adaptation measures contribute to the reduction of their environmental footprint and position them as leaders in the transition towards a sustainable and resilient green economy.

41 n=83.

3.3. Impact Achievements of the UGEFA-supported Enterprises

UGEFA has played an important role in facilitating funding for green SMEs in Uganda, thereby fostering their increased growth and resilience. The enterprises supported by UGEFA have not only contributed to economic development but have also made substantial strides in positively impacting environmental sustainability and social inclusion in Uganda.[42] As described in the Theory of Change in section 2.2, capacity building and support to access finance are intended to foster resilient growth as an outcome. This growth is then expected to drive further positive impacts, including the creation of new jobs and a reduction in negative environmental impact.

Social Impact

Through the growth of the UGEFA-supported SMEs, they have been able to expand their operations for which they require new hires. The enterprises have generated a total of 587 new full-time jobs, with at least 206 positions (35.1%) held by women, demonstrating a commitment to gender inclusivity in the workforce. Additionally, 723 new part-time jobs have been created, with women occupying at least 187 of these roles (25.9%). Each supported green SME created 6 jobs on average during or after the support.

The creation of 1,428 temporary/casual[43] jobs, with at least 425 being filled by women (29.8%), further underscores the employment opportunities provided by these SMEs. Indirect job creation along the value chain has been remarkable, with a total of 43,874 jobs generated across various activities:

Suppliers & manufacturers	Distribution and logistics	Construction & real estate
34,306	2,452	275

Professional services	Retail and sales	Hospitality and catering	Education and training
748	4,770	95	1,228

The quality of jobs has also been a focus of the SMEs, with training[44] provided to 1,176 full-time employees, 385 part-time employees, and 785 temporary/ casual workers of a total of approximately 9,688 employees (24.2%) This investment in human capital not only enhances the skills of the workforce but also contributes to the overall productivity and sustainability of the enterprises. Women's employment rates within these enterprises vary by employment status, with women in UGEFA-supported SMEs on average making up 48% of full-time employees, 43% of part-time employees, and 37% of casual employees. Overall, women

42 All impacts in the section were measured from the start of the capacity building in November 2020 with several follow-ups, the latest having been done in February 2024. The sample size varies for each impact indicator. All enterprise impact data is summarized from what the enterprises provided, except for the total reduction of GHG emissions which is extrapolated based on the average of GHG emissions of the 32 SMEs that provided the data.
43 Temporary/ casual workers are hired for certain tasks such as harvests or to assemble products and are often only working on a seasonal basis.
44 Trainings are mostly for job-related skills in production or for financial management, accounting etc.

make up around 51.5% of the total working age population in Uganda,[45] however, there is a large disparity by sector, with women employment in agriculture around 71.6%, 24.7% in services and 3.6% in industry.[46] UGEFA-supported enterprises are therefore contributing to women's employment, but could also increase the participation of women along their value chains to reflect further inclusive quality job creation.

Environmental Impact

Environmental impacts achieved by the UGEFA-supported enterprises are as follows:

Waste reduction efforts have led to **18,777 tons** of waste being prevented from entering the environment, equalling around 6% of waste generated in Kampala on a yearly basis.

Recycling initiatives have processed **18,295 tons** of waste, further mitigating environmental pollution.

9,886,570 trees have been planted by supported green SMEs, contributing to reforestation and carbon sequestration efforts, amounting to an estimated 18,724 football fields of area afforested.

Sustainable land management practices have been implemented on **59,126 acres**, with an additional **65,134 acres** indirectly influenced, promoting biodiversity and soil health and accounting for 2.66 times the size of Kampala.

Energy savings of **895,766 kWh** have been made, reducing reliance on non-renewable energy sources and lowering operational costs, saving the yearly average energy consumption per capita for 4,166 Ugandans.[47]

Water conservation measures have saved **15,388,721 litres** of water, highlighting the SMEs' commitment to resource efficiency, saving the estimated daily water usage of 291,453 Ugandan households.[48]

Greenhouse gas emissions have been significantly reduced, with an estimated **2,657.4 tons** of CO_2 equivalent saved, which translates to a reduction of the per capita emissions of 24,158 Ugandans in 2020.[49]

The environmental metrics reflect the tangible benefits of the SMEs' commitment to sustainability, showcasing their contribution to waste reduction, energy savings, and the fight against climate change. The impact of these enterprises extends beyond their immediate operations, influencing the broader Ugandan context where the SME contributes significantly to employment and GDP. As Uganda continues to prioritise green growth, the success of these SMEs underscores their potential to drive this change.

45 UBOS (2021). The National Labour Force Survey 2021.
46 World Bank (2024). Employment by sector (%).
47 Energypedia (2023). Uganda Energy Situation.
48 Monitor Uganda (2023). Ubos report highlights gross water input spike.
49 Destatis (2024). Key table Carbon dioxide emissions per capita.

4. Financing Sustainability – Highlighting Collaboration with Uganda's Banking Sector

4.1. Challenges in Sustainable Financing

Green finance in Uganda is an emerging field that holds the promise of driving sustainable economic growth while addressing environmental challenges. In Uganda, green finance is gaining traction as part of the government's commitment to sustainable development, as outlined in the country's Third National Development Plan (NDPIII) for 2020/21 - 2024/25.[50] The plan emphasises the importance of green growth and the role of financial institutions in supporting this transition. Financial institutions in Uganda are at the forefront of this transformative shift, however face specific risks and barriers when engaging in green finance. These challenges stem from both market dynamics and the perceptions of green SMEs and their investments.

1. **Market and Credit Risks**: Green SMEs often commercialise new technologies or business models that may not have a proven track record in the country, leading to higher perceived credit risks. Financial institutions may find it challenging to assess the viability and profitability of these projects due to a lack of expertise, experience and historical (market) data.[51]
2. **Regulatory and Policy Risks**: The regulatory environment for green finance is still evolving, with potential changes in policies, incentives, and standards that can affect the profitability and stability of green investments. Financial institutions must navigate this uncertainty, which can be a deterrent to providing green finance.[52]
3. **Technical and Expertise Risks**: There is a significant knowledge gap in understanding and evaluating the technical aspects of green business models and technologies. Financial institutions may lack the in-house expertise to assess environmental impact and the technical feasibility of these projects.[53]
4. **Reputation Risks**: As green finance is closely tied to environmental and social governance (ESG) criteria, financial institutions face reputation risks if the projects they finance are not genuinely sustainable or if they fail to meet the expected environmental standards.[54]
5. **Liquidity Risks**: Green projects often require long-term investments with longer payback periods, leading to liquidity constraints for financial institutions. There can therefore be a mismatch between the long-term nature of these investments and the short-term liquidity requirements of banks.[55]
6. **Operational Risks**: Implementing green finance initiatives may require changes to existing processes and systems within financial institutions. This can involve additional costs and operational challenges as institutions adapt to new requirements for green financing.[56]

50 Government of Uganda (2020). Third National Development Plan (NDPIII) for 2020/21 - 2024/25.
51 IFC (2023). Challenges of Green Finance. Private Sector Perspectives from Emerging Markets.
52 Battiston, S., Dafermos, Y., & Monasterolo, I. (2021). Climate risks and financial stability.
53 IFC (2023). Challenges of Green Finance. Private Sector Perspectives from Emerging Markets.
54 Battiston, S., Dafermos, Y., & Monasterolo, I. (2021). Climate risks and financial stability.
55 IFC (2023). Challenges of Green Finance. Private Sector Perspectives from Emerging Markets.
56 Battiston, S., Dafermos, Y., & Monasterolo, I. (2021). Climate risks and financial stability.

In the context of Uganda, where the economy is heavily reliant on agriculture and natural resources, and where gold represents a significant portion of export revenue, the transition to green finance is particularly challenging. The financial sector must balance the immediate economic benefits of traditional industries with the long-term sustainability (and profitability) returns offered by green investments.[57]

The transformative character of green finance, however, offers many opportunities, including:

1. **Investment Opportunities and New Revenue Streams:** The transition to a green economy offers numerous investment opportunities such as financing infrastructure projects or sustainable technologies (e.g. solar energy, energy-efficient real estate, electric vehicles). Green finance allows financial institutions to tap into these emerging markets and sectors, thereby creating new revenue streams which diversify the financial institutions' existing portfolio. [58] [59]
2. **Customer Demand and Regulatory Compliance:** The demand for green finance products from consumers and businesses continues to grow. Governments worldwide are enforcing stricter environmental regulations and providing incentives for green investments. Adapting ahead of these new regulations by adopting green finance practices guarantees compliance and positions the institution well for the future economy and market demands.[60]
3. **Risk Management and Resilience:** Investing in green projects could support financial institutions to mitigate risks associated with climate change. By financing green initiatives, financial institutions reduce their exposure to industries vulnerable to environmental regulations and physical climate risks. This proactive approach to risk management is crucial to avoid potential financial damages caused by adverse weather events.[61]
4. **First Mover Advantage:** Financial institutions that adopt green finance strategies early can gain a competitive edge and future-proof their operations by aligning to global economic trends. They could position themselves as leaders in a rapidly growing markets, capable of offering innovative financial products and services that meet evolving regulatory and consumer demands, thereby taking advantage of the commercial opportunity of the sustainable economic transition. Financial institutions that fail to adapt may face declining market relevance and increased financial risks.[62]

With these opportunities in mind, financial institutions can unlock the potential of green finance, support the growth of green SMEs, and contribute to the sustainable development of Uganda and the East African region. By cooperating with local banks in Uganda, UGEFA supports the stakeholders on the financial supply side to overcome challenges to providing green finance, and capitalise on the resulting opportunities.

57 IFC (2023). Challenges of Green Finance. Private Sector Perspectives from Emerging Markets.
58 Santander (2021). Green finance: the path to a sustainable future for banking.
59 KPMG (2023). Banking on the climate transition.
60 KPMG (2023). Banking on the climate transition.
61 KPMG (2023). Banking on the climate transition.
62 Cocheo, S. (2023). Green Finance Is Key Growth Opportunity for Banks in 2023.

Green Finance Developments in Uganda since 2020[63]

Uganda's green finance landscape has evolved significantly since 2020, with the growing need for sustainable investments highlighted by global climate challenges. Key drivers of this transformation include government initiatives like the Uganda Vision 2040 and the Uganda Green Growth Development Strategy (UGGDS), which emphasise sustainability. In response to a significant green growth finance deficit identified in these initiatives, various financial products such as green loans and blended finance mechanisms have emerged to bridge funding gaps for sectors like clean energy, sustainable agriculture, and waste management.

Several Ugandan commercial banks have introduced green financial products, with clean energy being a key sector due to its high demand and favourable investment returns. New sectors like green manufacturing and sustainable tourism are also gaining traction. Despite these advancements, challenges remain, particularly around scaling green finance to regions outside of the central region and expanding sectoral coverage. The Ugandan government and financial institutions are increasingly aligning their strategies with national sustainability targets to meet the country's green growth objectives.

In order to facilitate the flow of finance to green SMEs, UGEFA closely collaborates with local financial institutions, specifically commercial banks. UGEFA follows a two-pronged approach: firstly, origination support is provided to partner financial institutions (PFIs), through a pipeline of bankable green SMEs which have been carefully selected and screened against a set of (green) eligibility criteria and supported through comprehensive capacity building activities to reduce transaction costs and risks for banks. Secondly, technical assistance is provided to financial institutions through Green Finance Academies on the topic of green and sustainable finance for financial stakeholders.

During several UGEFA Green Finance Academies, participants from the PFIs were asked to name the main challenges they face to deploy green finance. The most commonly cited challenge is the struggle of the banking sector to understand the business models and technologies behind green SMEs, which in turn makes the appraisal processes to provide finance a difficult and lengthy process with increased transactional costs for the banks (second most common challenge). These technical and expertise skills, as outlined above, make the banks more cautious when dealing with SMEs, preferring to deal with more familiar business models with lower transactional costs. Low awareness or interest of the banking sector in deploying green finance is the third most commonly named challenge by the participants. Less commonly encountered challenges of the banking sector were the pipeline and bankability of green enterprises. Through cooperation with the financial institutions by establishing a funding facilitation mechanism, providing a pipeline of green SMEs, and building capacity through the Green Finance Academy, UGEFA aims to reduce these overall transactional costs for the financial institutions, making it easier to appraise green loan applications in the future.

63 The full case study conducted by the UGEFA team is available in a separate publication.

Main challenge of the banking sector to deploy green finance

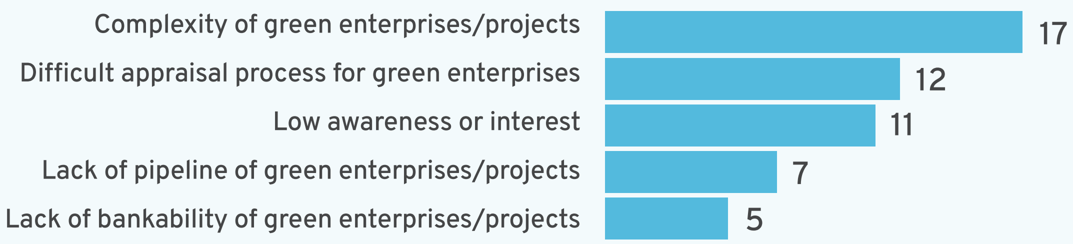


Figure 16: Main challenges of banking sector to deploy green finance as shared by participants of the Green Finance Academy.[64]

4.2. Banking Beyond the Conventional Customer

Green SMEs, characterized by their innovative and green business models, represent an unconventional client segment that is gradually reshaping the financial landscape.

The primary challenge faced by financial institutions is the technical complexity of many green SMEs. These businesses frequently employ innovative technologies and operate within emerging sectors that are not yet fully understood by financial actors. The lack of familiarity with these new business models and the technologies they employ can result in increased appraisal times and higher transactional costs for banks. This expertise gap can lead to a cautious approach to green financing, with financial institutions preferring to engage with more familiar, less complex business models that present lower transaction costs. Financial institutions often lack the pipeline of bankable green SMEs, limiting the financial institutions' ability to develop a track record of dealing with and understanding green SMEs.

UGEFA provides a pipeline of carefully selected and supported bankable green SMEs to reduce transaction costs and risks for PFIs and increase their exposure to green SMEs and business models. The UGEFA selection approach has been aligned to the threshold-based approach used by commercial banks to select recipients of loans. Rather than comparing the applicant enterprises to each other and choosing the most promising, the selection approach identifies non-financial and financial selection criteria, and uses thresholds to determine acceptance into UGEFA's capacity building and funding facilitation. The selection criteria categories are as follows:

- Basic Eligibility Criteria (e.g. sector, registration, years in operation, turnover etc.)
- Team & Expertise
- Business Model
- Environmental, Social, Economic Impacts
- Investment Plan
- Internal Operation and Financial Systems
- Financial Status
- References

64 Participants were able to choose one option. n=52.

A second crucial element of UGEFA's support to tackle the challenges on supply of finance is the funding facilitation mechanism. The funding facilitation mechanisms were conceptualised and designed by UGEFA to blend debt finance with grant funding. It is designed in a way that the mechanism interferes as little as possible with the PFIs' normal operations, but can be easily integrated into existing systems and processes. PFIs can use their regular loan products, conditions, and processes and use the funding facilitation mechanism as a supportive instrument to reduce the costs of lending for both the institution and the SME.

The Partial Repayment Scheme (PRS) Grant: Once a UGEFA-supported green SME successfully obtains a loan from a PFI, UGEFA provides an up-front repayment grant equal to 1/3 of the loan amount directly to the PFI. Over the loan period, the enterprise repays the remaining amount of the principal and associated interest directly to the PFI. Through this mechanism, the overall effective cost of finance and collateral requirements for SMEs are reduced. For the PFIs, this funding facilitation mechanism also decreases financial risks.

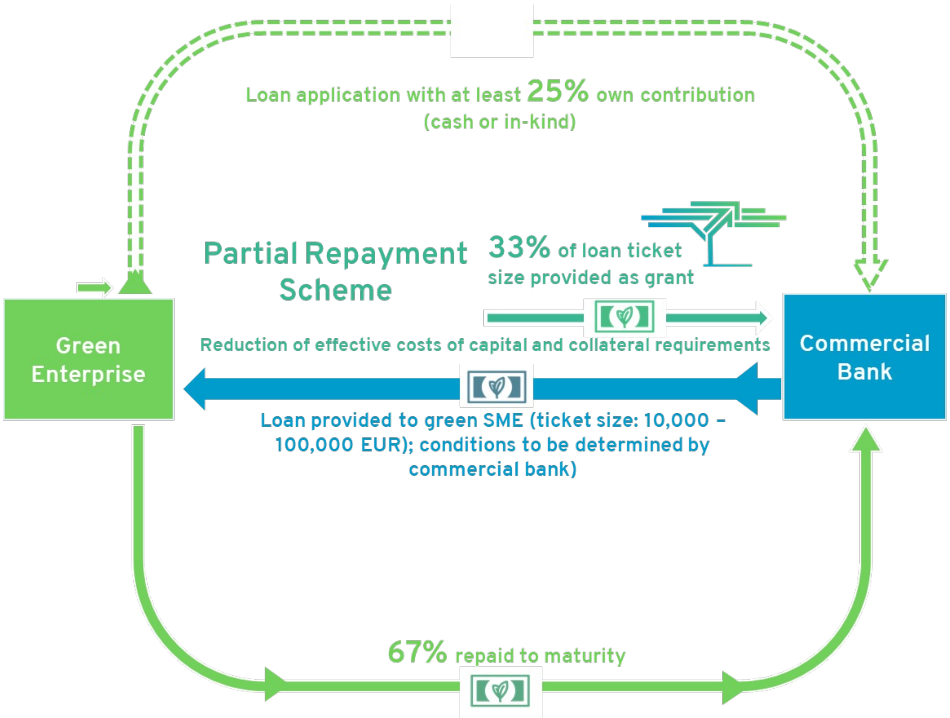


Figure 17: Partial Repayment Scheme visualized.

In the funding facilitation component of the project, UGEFA collaborates with six commercial banks: Equity Bank, Yako Bank, Opportunity Bank, dfcu Bank, NCBA Bank, and Stanbic Bank. To assess the outputs of the funding facilitation and report on the progress made with regards to bridging the missing middle finance gap, the UGEFA team engaged in discussions with these banks, gathering information on the overall loan appraisal processes, new bankable clients, and rates of non-repayment.

A total of 148 green SMEs was referred to the PFIs as new bankable clients[65], out of which 138 completed their loan applications.[66] 37 SMEs were referred to a second PFI after being rejected by the first PFI, or for other reasons. At the time of this report, 88 of the completed applications have been approved, indicating an approval rate of approximately 63.8%, while the remaining applications are either pending or have been rejected.

65 The remaining 58 SMEs of the portfolio decided to not pursue the loan for several reasons, such as the financial situation, lack of collateral, or the pursuit of alternative funding sources.
66 The overall number of completed loan applications was reported to the UGEFA team by the PFIs.

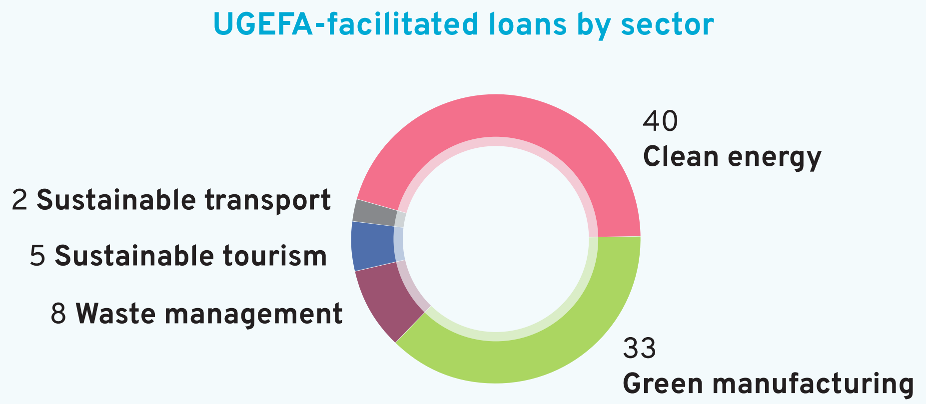


Figure 18: Number of loans facilitated through UGEFA partner banks by sector.[67]

With 88 SMEs financed by the PFIs through the support of UGEFA's funding facilitation, a sizeable number of new bankable clients have been successfully referred to financial institutions. An estimated 58% of these SMEs have accessed a commercial bank loan for the first time.[68] The largest groups of new bankable clients originate from the clean energy and green manufacturing sectors, which also represent the two largest groups in the UGEFA portfolio. However, the PFIs have also indicated interest in other sectors, having disbursed a total of 15 loans to SMEs in the sectors of waste management, sustainable tourism, and sustainable transport. Through the diverse array of referrals by UGEFA, the PFIs are able to decrease their future transactional costs by assessing green SMEs with varying business models.

A decrease in the overall time from the matchmaking of interested SMEs to the PFIs can be observed. The process includes filing an application for a loan, collecting the necessary documents, valuation of collateral, and then the final appraisal process at the PFI. While the whole process lasted 11.8 months on average for SMEs referred to PFIs by UGEFA between 2021 and 2022, it improved to 6.42 months on average for referrals made by UGEFA from the beginning of 2023. Among the PFIs, the duration varied between 4.8 and 11.3 months for the whole time period. Overall, this indicates that both SMEs through the capacity training as well as financial institutions through the collaboration with UGEFA have in some cases managed to lower the transactional costs of attempting to access and provide finance.

5 out of the 88 approved loans experienced repayment difficulties, accounting for 5.7% of all loans. The rate falls within the general range for all types of loans shared by the financial institutions, which is approximately 3-8% overall and 3-9% for SMEs.[69] This suggests that the risk of repayment difficulties for green SMEs is not higher compared to regular SMEs or other commercial customers, which in turn may increase the financial institutions' confidence in providing loans to green SMEs.

67 n=88.
68 Based on data available for 69 of the financed SMEs.
69 Rates were shared in interviews with UGEFA PFIs,

Innovations from Green Finance Academy

To address the challenges of sustainable finance, innovations for the existing financial value chain are needed. UGEFA provides several innovations to facilitate financing along the financial value chain. The Partial Repayment Scheme grant serves as a blended finance instrument to facilitate the flow of finance to green SMEs and leverage private capital. The UGEFA team is developing an Eligibility Checking Tool for Green SMEs, which assists the financial institution in assessing the eligibility of SMEs for green financial products by determining whether a business model is considered green.

Figure 19: Financial value chain demonstrating the flow of finance[70]

As part of the UGEFA Green Finance Academy, participating financial institutions have developed further ideas for innovations along the financial value chain. Some of the innovative ideas to promote sustainable finance are as follows:

1. **Credit line to SACCOs:** To improve access to solar energy solutions for informal businesses such as small-scale agribusinesses and smallholder farmers, finance will be provided to solar energy providers in collaboration with community-based organisations such as Savings and Credit Cooperative Societies (SACCOs). Through this collaboration, the financial institution's investment will be de-risked since SACCOs assume the risks associated with refinancing the loans and non-repayments. They also bring a strong understanding of the informal sector business landscape and familiarity with informal sector businesses.
2. **DigiCredit:** The solution will allow people to receive small green loans via their mobile phones to directly purchase green products. This solution provides a green credit solution that is user-friendly and can be easily adopted by all segments of the population. An application presents a list of pre-qualified suppliers of green technology products to which payments are made directly. This makes it easier to connect green manufacturers, wholesalers and consumers of green products.
3. **Green Mortgage:** The Green Mortgage is a specially tailored product that focuses on green housing. Real estate groups receive money as a loan to build the green houses. The green houses will then be bought or rented to end users. The focus is on building energy-efficient and climate-resilient homes.

The UGEFA Green Finance Academy's methodology and highly collaborative facilitation style supported the co-creation and development of these innovative green financing solutions. To increase the chances of implementation of these products and ensuring the longer-term impact of the innovation processes, additional technical support for the financial institutions is needed to further develop selected innovations.

70 Adapted from UGEFA's Green Finance Instrument Design tool.

UGEFA's efforts to provide capacity-building support to green SMEs and to refer a pipeline of bankable green SMEs to PFIs have therefore begun to yield tangible results. With 88 disbursed loans, there is evidence of the PFIs' progress with building a track record of their green SME customer portfolio. This suggests that PFIs are becoming increasingly comfortable with green business models and are further recognising the potential for sustainable profitability.

The reduction in transactional costs and overall time from an average of 11.8 months to 6.42 months for the process from initial referral to successful loan disbursement is an indicator of UGEFA's funding facilitation direct contribution in streamlining the financing process for green SMEs. Furthermore, the rate of repayment difficulties being within the general range for SMEs reported by PFIs demonstrates that the perceived risk of financing green businesses may not be as high as initially thought. This finding is crucial as it can help build confidence among financial institutions in providing loans to green SMEs, thereby supporting the growth of a sustainable and resilient green economy in Uganda.

UGEFA's collaborative approach with banks, its focus on capacity building, and its dedication to bridging the knowledge gap between financial institutions and green SMEs are accelerating access to finance for green SMEs. As outlined in this section, the direct outputs of UGEFA's capacity building and funding facilitation are new bankable customers for PFIs, an increasingly streamlined loan financing process for green SMEs, and an improved track record and knowledge with regards to green business models. This in turn could lead to outcomes such as an increased volume of funding for green SMEs, increased loan sizes, exposure to commercial bank loans as a new source of finance, and new or adjusted green loan products.

4.3. Accelerating Access to Finance for Green SMEs

To gain deeper insights into the relationship between the outputs of UGEFA and intended outcomes, a thorough analysis was conducted on the UGEFA-facilitated loans. This analysis provides a clearer picture of how access to finance for green SMEs has improved, how much private capital was leveraged through the public capital of the funding facilitation mechanisms, and how the cost of finance for SMEs was affected.

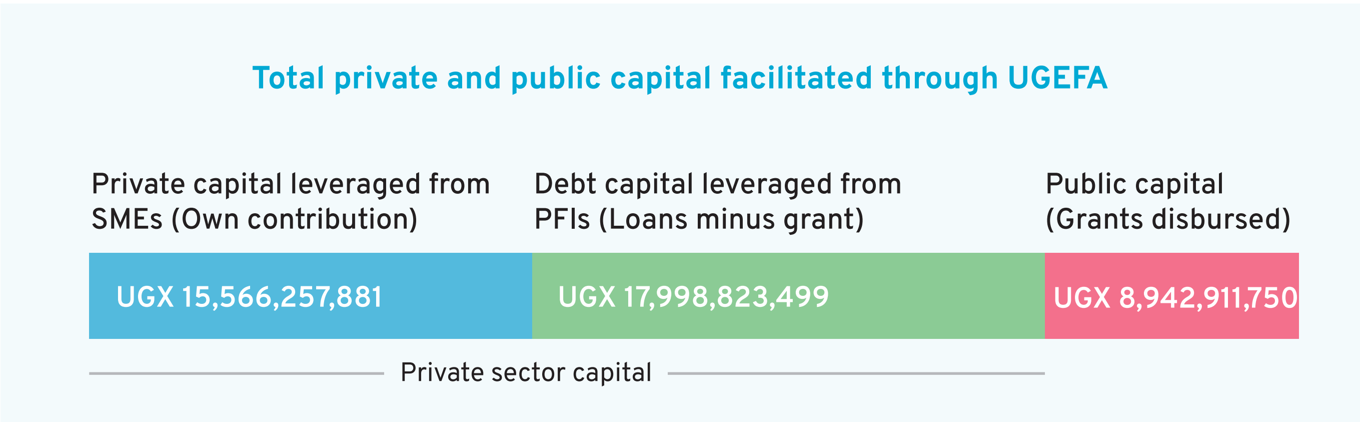


Figure 20: Total private and public capital facilitated through UGEFA's funding facilitation.[71]

As of June 2024, 88 loans had been facilitated through UGEFA, with a total amount of funding amounting to 26.9 billion UGX (7.3 million USD). The average loan ticket size is approximately 306 million UGX (82,446 USD). Of the total amount of funding, 8.9 billion UGX (2.4 million USD) were repaid by UGEFA as part of the Partial Repayment Scheme funding facilitation mechanism.

71 n=88.

Additionally, as part of the SMEs' investment proposal developed during the capacity building, each SME pledged own funds and/or in-kind contributions of at least 25% of the total planned investment volume. A total of 15.6 billion UGX (3.9 million USD) was pledged by the 88 financed SMEs as their own contribution. When this is added to the (close to) 18 billion UGX (4.7 million USD) of private sector capital leveraged through UGEFA, the total amount of private sector capital leveraged through the Partial Repayment Scheme funding facilitation mechanism totals 33.6 billion UGX (9.1 million USD).

The methodology to accredit the leveraged private sector funds to UGEFA

The Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC) has developed a methodology that provides detailed guidance on how to measure the amount of private sector funds mobilized through technical assistance (TA) for DAC's statistical reporting.[72] This methodology allows to determine whether the funds mobilised from the private sector can be accredited to the provided TA and to validate whether the private sector would not have decided to invest without the TA intervention. A screening questionnaire with four questions is used to determine to which extent a certain share of the private sector capital can be attributed to TA of the TA provider. The first two questions support to self-assess causality, while the other two questions help to determine whether there is a risk of double-counting.

The four questions are:

1. Was the TA service aimed to mobilise a financial flow as opposed to broader private sector development?
2. Is there evidence of a clear causal link between the TA and the private sector investment?
3. Was the TA provided close to or part of the financing stage of the project?
4. Are other official actors involved in the financing of the project well aware of the TA service, its role and financial value?

In the case of UGEFA, the TA service provided aims to facilitate debt funding to green SMEs. The funding facilitation mechanisms are designed to incentive the SMEs to pursue a loan by offering a partial repayment grant which reduces the overall cost of finance. Cost of finance among other challenges were principal reasons for SMEs to not pursue loans. Without the loans facilitated by UGEFA, the investments projects developed during the TA by the SMEs would have not been made to the same extent as with the loans. The TA to enable the 88 loans was provided between 2021 and 2023 and was part of the financing stage of the project. Through a thorough documentation and impact report of the project, other official actors are also aware of the TA service of UGEFA.

As all four questions can be answered positively, it can be determined that the private sector capital leveraged through UGEFA's funding facilitation can be attributed to the TA provided by UGEFA.

72 OECD DAC (2024). Converged Statistical Reporting Directives for the Creditor Reporting System (CRS) and the Annual DAC Questionnaire.

For **each USD** of public capital spent, **3.77 USD** of private capital was leveraged through UGEFA's funding facilitation

Overall, with public sector capital amounting to 8.9 billion UGX (2.4 million USD) spent, a total of 33.6 billion UGX (9.1 million USD) of private sector capital was leveraged through both SMEs and PFI contributions. This results in a ratio of 1:3.77, indicating that for every 1 USD of public capital, an estimated 3.77 USD of private capital was leveraged.

Besides the overall funding raised, further insights can be obtained by analysing the distribution of the loan size by sector and region. Sustainable tourism SMEs had the highest average ticket size at around 363 million UGX, indicating either a higher financing need for potentially capital-heavy investment such as eco-lodges or solar energy instalments, or a higher value of collateral at their disposal to obtain higher ticket sizes.

Average loan ticket size by sector

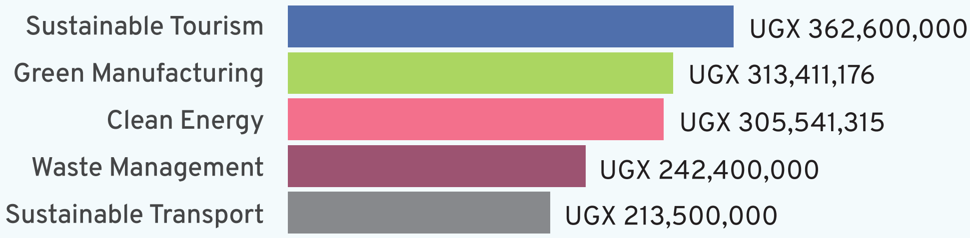


Figure 21: Average loan ticket size of financed UGEFA-supported SMEs by sector.[73]

Green SMEs in the Central region received the most funding, with around 14.2 billon UGX in total. The Western region follows in second place, with SMEs acquiring around 7.5 billion UGX in total. The Northern and Eastern region account for a total of around 5.2 billion UGX. When contrasting the Central region with the total of all other regions, the total sums differ by around 1.4 billion UGX (14.2 billion vs. 12.8 billion UGX), indicating that green finance is being distributed beyond the capital. The average ticket sizes for the region indicates that enterprises in the Northern region had the highest average loan ticket size with around 363 million UGX on average, followed by the Western region with 313 million UGX, indicating that these SMEs may have had more high value collateral available than SMEs in the Central region.

Distribution of obtained loan amounts by region

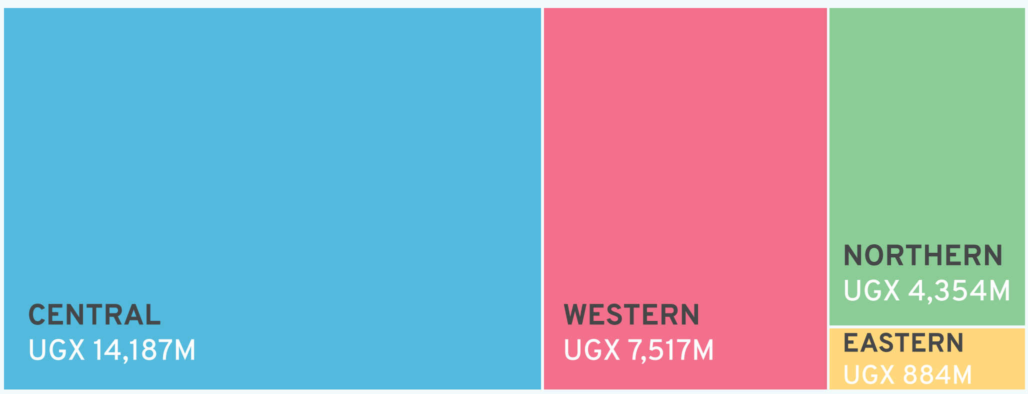


Figure 22: Regional distribution of obtained loan funding amounts.[74]

73 n=88.
74 n=88.

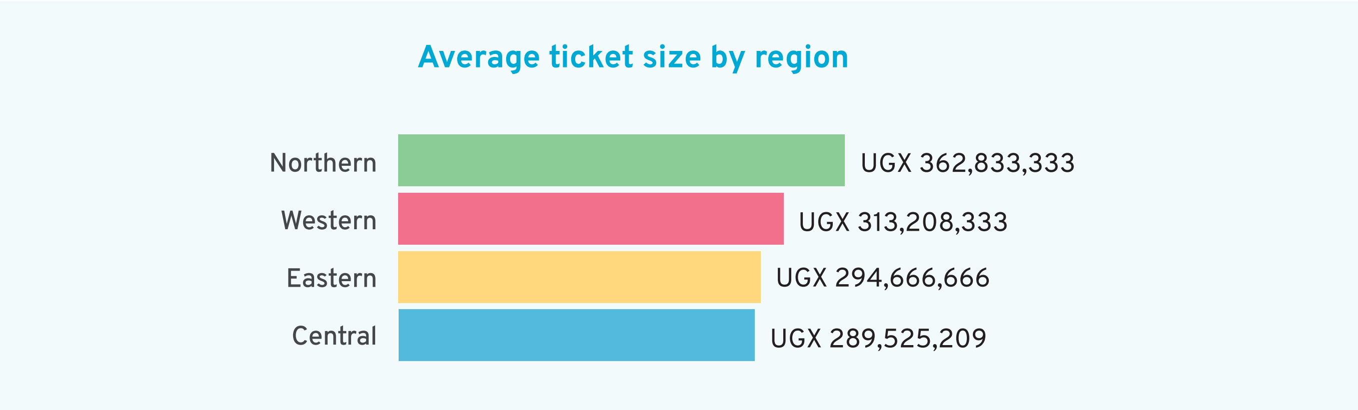
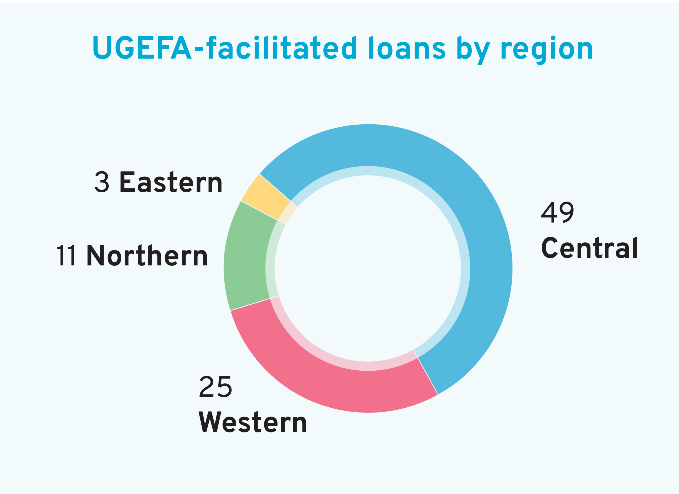


Figure 23: Average loan ticket size of financed UGEFA-supported SMEs by region.[75]

Challenges with infrastructure pose an additional barrier to SMEs, and a lower density of bank branches in more rural regions increases transaction cost for both SMEs and financial institutions, expounding challenges to show financial history and documentation needed for loan approval. Many SMEs that received a loan (58%) were accessed a commercial bank loan for the first time. Through the referral process, UGEFA also brought SMEs in lower population density regions in contact with the banks. From the survey responses provided by the SMEs, UGEFA was able to determine that SMEs in the Northern region especially profited from this approach, where 83% of financed SMEs (9 enterprises) were able to access a commercial bank loan for the first time, compared to 45% of SMEs in the Western region. For those who had previously acquired a loan, the average size of UGEFA-facilitated loans is similar to the average size of commercial loans raised before UGEFA (306 million UGX vs. 301 million UGX).



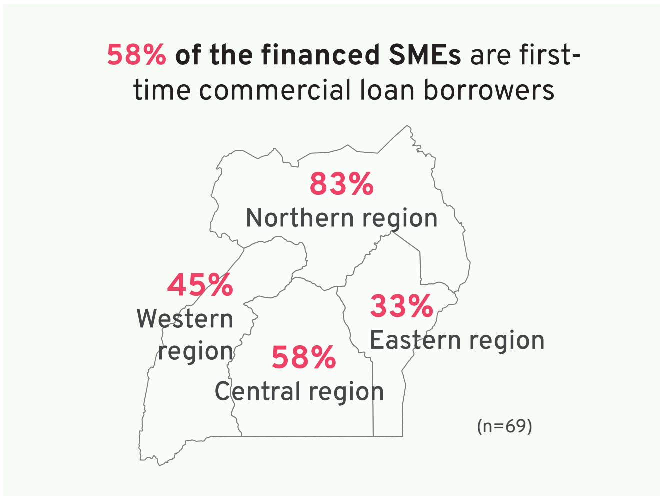


Figure 24: Regional distribution of UGEFA-facilitated loans.[76]

The largest percentage of first-time borrowers of commercial loans can be found in the sustainable transport and clean energy sectors (67% and 66%). On the other hand, none of the sustainable tourism enterprises are first-time borrowers. The differences between sectors may be explained by the level of innovation of the business models. SMEs in the sectors of sustainable transport and clean energy may use more innovative products and services which may not have such a large track record in the banks as tourism enterprises.

75 n=88.
76 n=88.

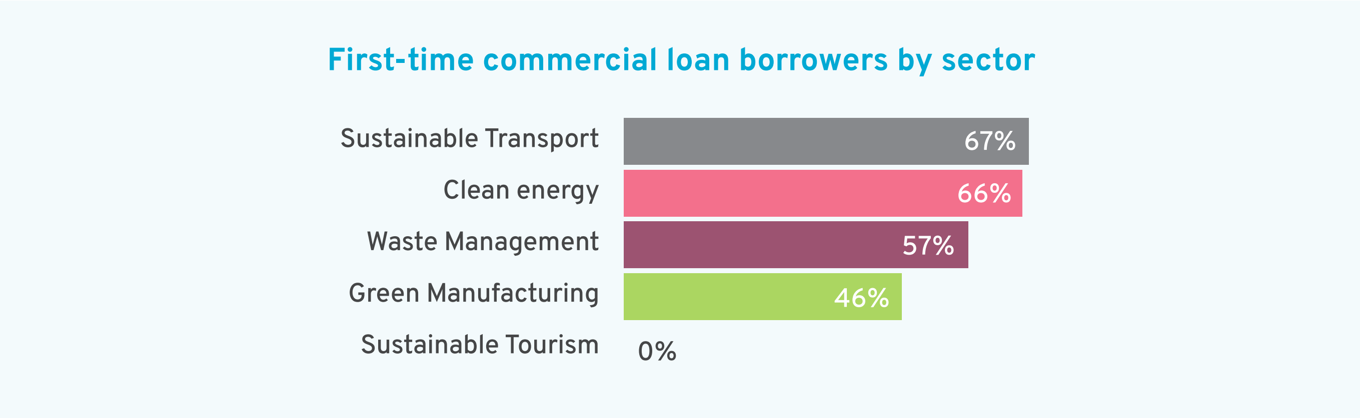


Figure 25: Sectorial distribution of first-time commercial loan borrowers facilitated through UGEFA.[77]

When comparing loan ticket sizes with revenue of the SMEs, the correlation between them is slightly positive, albeit rather low, as many SMEs with lower revenues also managed to obtain larger loan sizes. In these cases, it seems that other factors also had an important role determining the loan size, which may be, for example, collateral amount and availability.

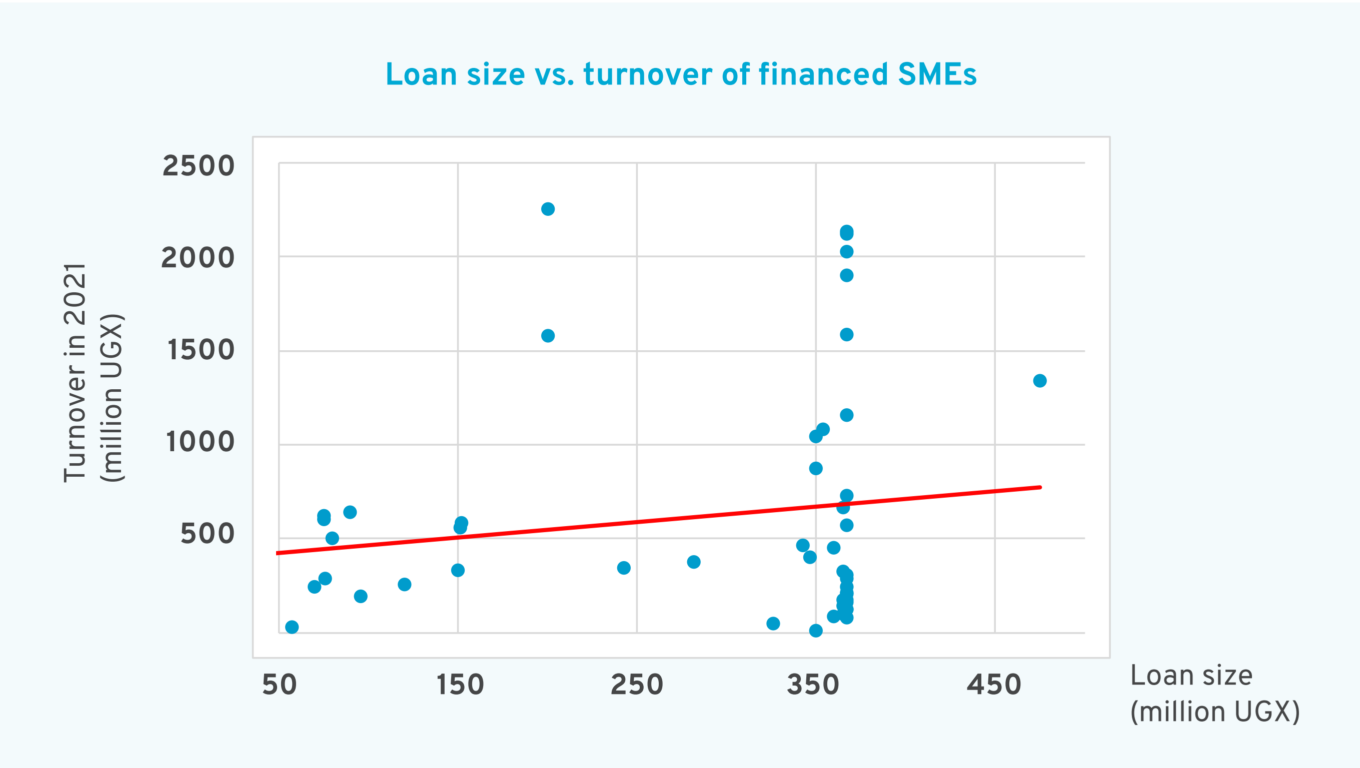


Figure 26: Loan ticket size compared with turnover of financed SMEs in 2021.[78]

Availability of collateral to secure a loan is often a common challenge SMEs face to access debt financing. UGEFA addressed this issue through the Partial Repayment Scheme, effectively lowering the collateral requirement by repaying 1/3 of the principal at the outset of the loan distribution. With 8.9 billion UGX (2.4 million USD) immediately repaid, meaning that the financial risk and collateral requirement for the 88 financed SMEs were lowered by an average of 101.6 million UGX (27,374 USD).

77 n=69.
78 n=51. SMEs were able to request loan sizes larger than 367 Million UGX if they had higher capital needs. However, the Partial Repayment Scheme grant is capped at 33,333 USD (33% of 100,000 USD).

The average collateral used by financed SMEs amounts to 408,984,444 UGX, indicating that these businesses have significant assets at their disposal to secure loans and that the banks require a high level of collateral. Developed land is the most commonly pledged collateral, with 17 instances out of 36, followed by undeveloped land, contracts, and cash covers, each with 4 instances.[79]

The average **valuation of collateral** used by financed SMEs is **408,984,444 UGX**

The preference for land as collateral reflects its perceived stability and value retention, making it a favoured choice for lenders . The diversity in collateral types, including cash cover, equipment, machinery, and vehicles, demonstrates the SMEs' ability to leverage various assets to support their financing needs. This diversity also indicates a level of flexibility in the types of collateral accepted by financial institutions, which is crucial for SMEs that may not have conventional assets to pledge.

Collateral used by financed UGEFA-supported SMEs

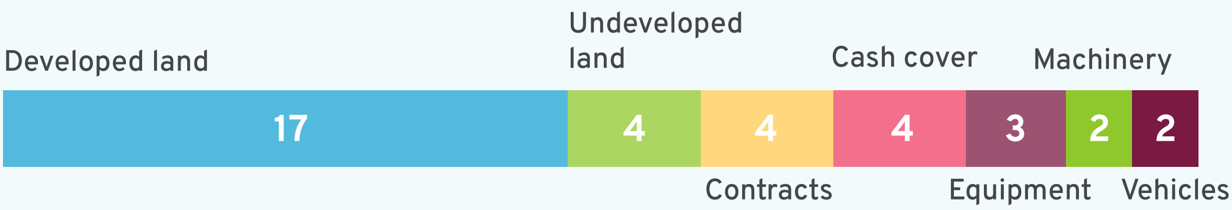


Figure 27: Collateral used by financed UGEFA-supported SMEs.[80]

Besides collateral availability, the cost of finance – driven largely by the interest rates - is an important decision factor for the SMEs when deciding to apply for a loan. UGEFA tackles this directly through the grant funding of the Partial Repayment Scheme: as displayed in Figure 29, through the immediate repayment of 33% of the loan, the principal to be repaid decreases and with that the total interest to be paid reduces as well. Overall, considering the average loan size of 306 million UGX, an SME may save an estimated 142.8 million UGX (38,443 USD) compared to a regular commercial loan without the UGEFA grant. The SME saves an estimated total of 102 million UGX principal (27,460 USD) and 40.8 million UGX interest (10,984 USD).[81] Compared to a zero-interest loan, an SME still may save an estimated further 20.4 million UGX (5,492 USD) under the UGEFA scheme. As made clear with this example, UGEFA significantly contributes to an overall reduction of the cost of finance for SMEs through the Partial Repayment Scheme funding facilitation mechanism.

79 36 SMEs shared the collateral information in the latest survey conducted by the UGEFA team in February 2024. Some of the financed SMEs did not participate in the survey or chose not to share the collateral data which is why this data does not reflect all financed SMEs.
80 n=36.
81 This calculation assumes of a repayment period of 3 years, and a commercial bank interest rate of 20% that is calculated yearly. In reality, the interest rates, loan conditions, and repayment schedule vary depending on PFI and underlying conditions of the businesses.

	Loan without UGEFA	Zero-interest loan	Loan with UGEFA
Total loan amount	306 million UGX	306 million UGX	306 million UGX
Principal to be repaid	306 million UGX	306 million UGX	204 million UGX
Principal repaid each year	102 million UGX	102 million UGX	68 million UGX
Total interest paid	122.4 million UGX	0 million UGX	81.6 million UGX
Total cost of loan to enterprise	**428.4 million UGX**	**306 million UGX**	**285.6 million UGX**

Figure 28: Example of a simplified loan & associated cost of finance assuming a 3-year repayment period and a 20% interest rate.

In conclusion, UGEFA has made steps to bridge the critical "missing middle finance gap" faced by green SMEs in Uganda by leveraging a combination of capacity building and funding facilitation mechanisms. Through the support, UGEFA has facilitated 88 loans totalling 26.9 billion UGX of debt funding, significantly leveraging private sector capital from SMEs and PFIs at a ratio of 1 USD of public capital spent and 3.77 USD of private capital leveraged. This initiative not only increased access to finance for first-time borrowers, but also reduced the cost of finance and collateral requirements. The project's success in creating a pipeline of bankable green SMEs and its positive impact on lowering financial risks underscores the importance of such integrated funding facilitation approaches using blended finance in fostering an increased volume of green finance and increased access to finance for green SMEs.

5. Connecting the Ecosystem – Highlighting UGEFA's Training of BDS Providers

5.1. The Status of BDS Providers in the Ugandan Entrepreneurial Ecosystem

5.1.1. Mapping the supported BDS Providers

BDS Providers play a crucial role in nurturing the growth and sustainability of SMEs, offering a range of services that include training, mentorship, market linkages, and technical assistance, which are essential for the development of a vibrant private sector, and more importantly, resilience and growth of SMEs. BDS Providers are integral to a sustainable transformation of the economy, providing the tools and resources that enable SMEs to overcome barriers to growth and competitiveness. As green SMEs grow in importance, so does the need to support BDS Providers in adapting their services to support green SMEs.

The landscape of BDS Providers in Uganda is diverse, encompassing non-governmental organisations (NGOs), government agencies, and private sector consultants. These entities work collaboratively to address the various challenges faced by SMEs, such as limited access to finance, capacity needs in business skill development, and the market access.

Developments in Business Development Services (BDS) for green SMEs in Uganda[82]

Since 2020, Uganda's Business Development Services (BDS) ecosystem has expanded its support for green SMEs, driven by the growing demand for sustainable business practices.

Before 2020, BDS support available to green SMEs was limited, with most services concentrated in the Central region. Despite the presence of business incubators and entrepreneurship hubs, there was a lack of tailored BDS for green SMEs, and most support services were generic, failing to address specific environmental impacts and sustainable business models. The BDS ecosystem was also fragmented, with little coordination between providers, leading to duplication of efforts.

In response to these gaps, initiatives like UGEFA started to address the specific needs of green SMEs. UGEFA introduced tailored training workshops through its Training of Trainers (ToT), equipping BDS Providers with the tools needed to target their support to green enterprises. By 2024, UGEFA had trained over 25 BDS Providers, fostering a supportive environment for green SMEs across all regions of Uganda.

Although improvements have been made, challenges remain. The BDS ecosystem still faces issues such as limited outreach in rural areas, lack of trust from SMEs, and the need for more integrated impact assessments. There is also a continued gap between BDS support and access to finance, which hinders the growth potential of green SMEs. However, the increasing focus on resilience and recovery in BDS training is helping SMEs become more resilient to external shocks, such as economic crises and environmental changes.

82 The full case study conducted by the UGEFA team is available in a separate publication.

Through UGEFA's Learn & Share component, UGEFA works directly with BDS Providers by providing dedicated Training of Trainers (ToT) programmes and toolkits to enhance the quality of their services. The ToTs are intended to strengthen the range and quality of services for green SMEs provided by BDS Providers in Uganda. Additionally, the UGEFA team selected participants of the ToT to provide support to green SMEs in the Catalyser & Accelerator project components of UGEFA.

An impact survey was shared with BDS Providers that had taken part in one of UGEFA's ToTs. 21 of 67 trained BDS Providers responded, showcasing valuable insights into the characteristics of the Ugandan entrepreneurial (support) ecosystem.

On average, BDS Providers have been providing consultancy support to enterprises for 6.5 years. Only one of the respondents' organisations has been providing consultancy services before 2010, indicating a generally young landscape of BDS Providers.

The median team size of the BDS Providers is around 5 full-time employees and 7 part-time employees. 80% of the responding organisations had less than 10 full-time employees. A large part of the BDS Provider workforce works part-time at their organisation and additionally provides services as an individual consultant. In other countries such as Ethiopia, India or Zambia, the average team size of BDS organisations is around 10 people, indicating that Ugandan BDS Providers tend to have slightly larger teams on average when counting both full-time and part-time employees.[83]

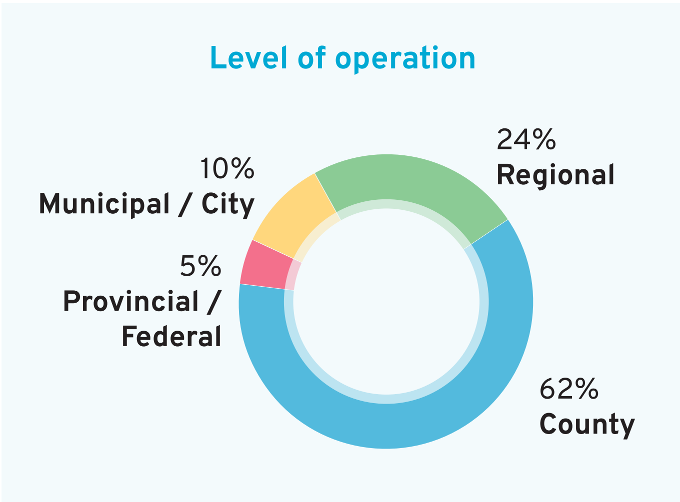


Figure 29: Geographic level of operation of BDS Providers.[84]

Of the surveyed BDS Providers, the majority work at the national level (62%), offering support to enterprises across Uganda. Few of the BDS Providers focus on the regional level (10%) and even less on a municipal level (5%). Almost a quarter of the BDS Providers (24%) operate in other countries, with the majority of countries located in the East Africa region. All of the organisations except one have their head office located in Uganda, the exception being located in the United Kingdom.

83 SEED (2022). Impact Insights: SEED 20 Year Flagship Impact Report.
84 n=21.

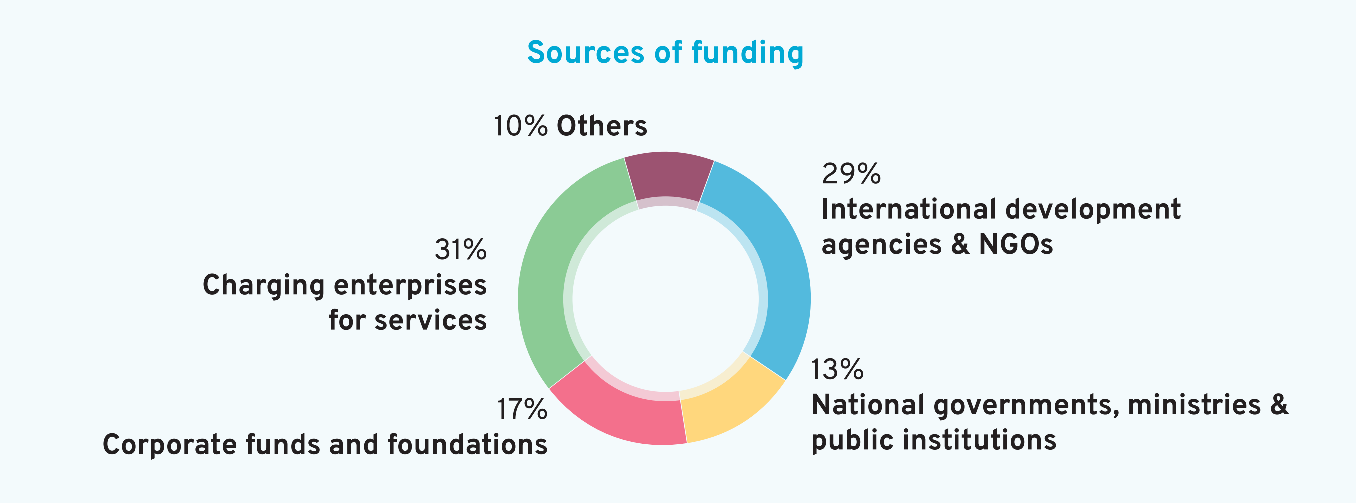


Figure 30: Funding sources of BDS Providers.[85]

BDS Providers draw their funding from a diverse array of sources, with a significant portion (42%) funded by international development agencies, non-governmental organisations (NGOs), national governments, and other public institutions. The largest share of funding for BDS Providers, however, is the revenue generated from fees charged to enterprises (31%). This underscores the ability of BDS Providers to operate on a market-oriented basis. Moreover, it highlights the demand for these services from enterprises themselves. 78% of all BDS Providers offered paid services to small enterprises, while 33% of all BDS Providers have also offered paid services to micro enterprises. Many enterprises appear to be interested and financially capable to pay BDS Providers to provide these services, demonstrating that SMEs recognise the value of these services. Nevertheless, with around 59% of BDS Providers relying on external funding sources, there is a need for BDS Providers to enhance their economic viability to achieve greater financial autonomy.

5.1.2. Type of enterprises supported by UGEFA-trained BDS Providers

The median number of total number of enterprises supported since the founding of the BDS Provider, is around 100 enterprises, translating to an average of 15 enterprises supported per year. The largest share of supported enterprises operates in agriculture (20%), closely followed by enterprises operating in the renewable/ clean energy sector (16%). Further important sectors that are supported by BDS Providers are in manufacturing, waste management, tourism, and transport (between 8 and 11% each). With a more minor focus, the BDS Providers support enterprises in construction or digital infrastructure (between 4 to 5%). Sectors mentioned under “Other” include enterprises focusing on education.

85 Multiple answers (48) were provided by respondents. n=21.

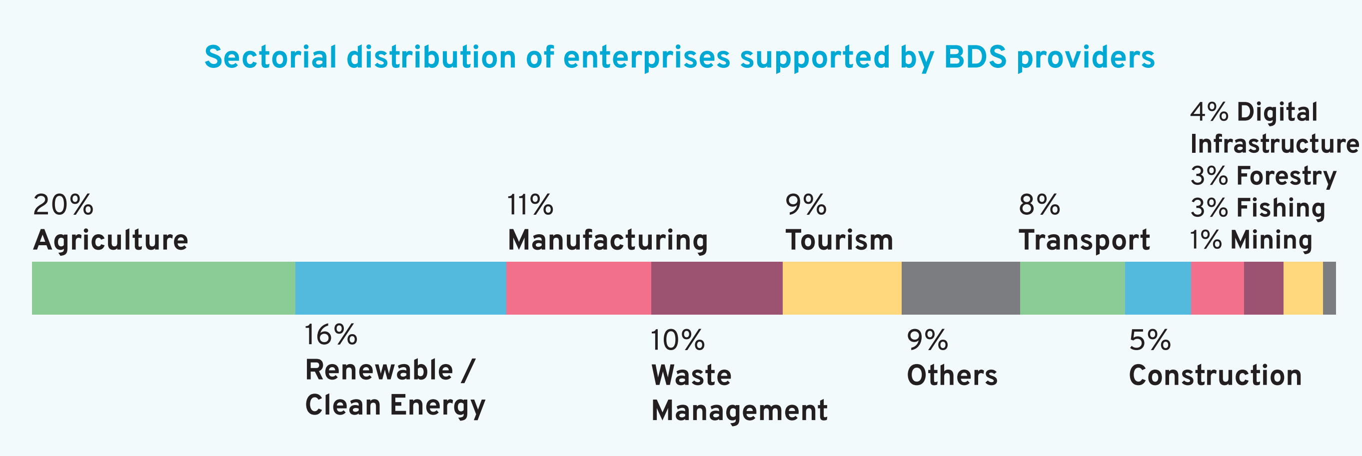


Figure 31: Sectors of enterprises supported by BDS Providers.[86]

The enterprise stage classification

The development of enterprises can be categorised into four distinct stages. Initially, enterprises are at the **ideation stage**, where the concept of the business model is formed but lacks a tangible product or a structured business model. Following this, enterprises transition into the **development stage**, where they focus on establishing production processes and conducting pilot projects, setting the stage for market entry. Subsequently, enterprises progress to the **growth stage**, characterised by operational production processes and increased access to markets and customers. During this stage, enterprises work on refining their operations and solidifying their product offerings. Lastly, the **expansion stage** sees enterprises scaling up their production and continuously diversifying their products, often accompanied by an expansion beyond their original production location.

Figure 32: Enterprise stages of the majority of BDS-supported enterprises.[87]

According to the survey data, the majority of enterprises supported by BDS Providers are in the development phase, accounting for 45% of total supported enterprises. This is a critical juncture where BDS Providers can offer support to lay the groundwork for robust and sustainable business growth. Meanwhile, a smaller proportion of supported enterprises are in the growth phase, with approximately one-third receiving support primarily at this stage, and around one-fifth are at the ideation stage. Enterprises in the expansion stage account for 5% of BDS-supported enterprises.

86 Multiple answeres were possible. n=20.
87 n=20.

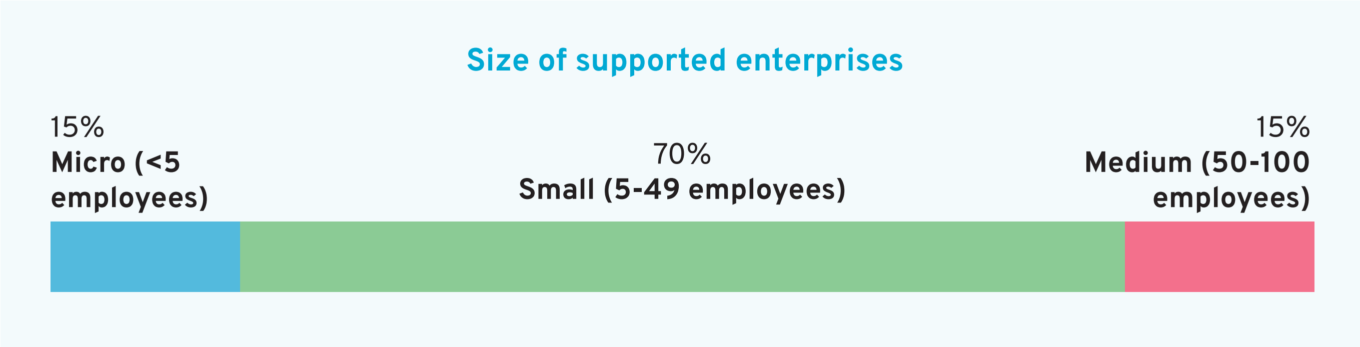


Figure 33: Enterprise size of BDS-supported enterprises.[88]

The largest share of supported enterprises among BDS advisors (85%) consists of micro- (1-4 employees) and small enterprises (5-49 employees). The main focus of BDS Providers are small enterprises (70%). Just 15% of the supported enterprises are medium enterprises (50 to 100 employees).[89]

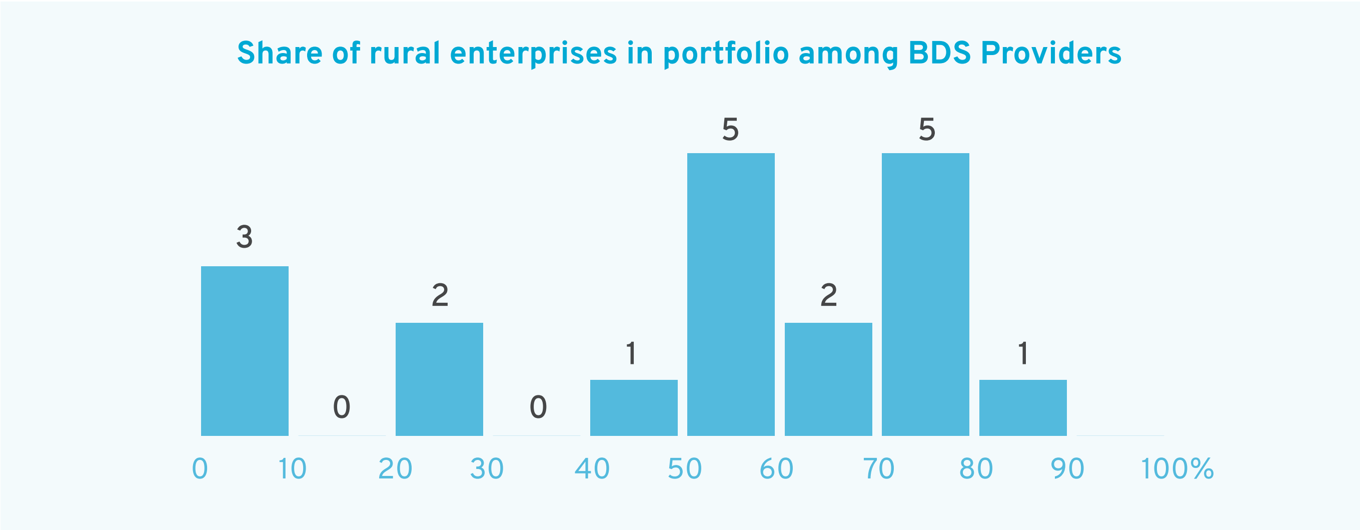


Figure 34: Share of portfolio of supported rural enterprises among BDS Providers.[90]

To distinguish further what kind of enterprises are supported by the BDS Providers, the survey asked about the percentage of supported enterprises in rural areas. Overall, the majority of BDS Providers have a larger share of rural enterprises than urban enterprises in their portfolio, with around 55% supported enterprises are based in rural areas.

Finally, the survey also inquired about the share of supported enterprises that are female-led or female-founded. On average, 42% of the enterprises are female-led or female-founded.

5.1.3. Type of services and engagement offered by BDS Providers and main challenges faced

BDS Providers play a dual role in bolstering the capabilities of the enterprises they serve. Internally, they provide a range of consultation services that aid in the development of various business aspects, offering guidance and expertise on a range of topics crucial for business growth. Externally, BDS Providers facilitate the interaction of enterprises with the broader business environment, aiding them in navigating relationships with stakeholders, forming partnerships, and positioning themselves competitively in the market.

88 n=20.
89 Large enterprises were omitted from the survey.
90 n=20.

When examining the specific support services offered by BDS Providers, the survey revealed that the most prevalent forms of assistance are in improving business plans and enhancing financial management, each constituting 19% of the services provided. Close behind, at 17%, is operations support, which includes technical advice to optimise production processes or other aspects of daily operations. These services align with the predominant stage of enterprise development that BDS Providers engage with—the development stage—where the formalisation of business operations and the establishment of robust organisational structures are paramount for entrepreneurs.

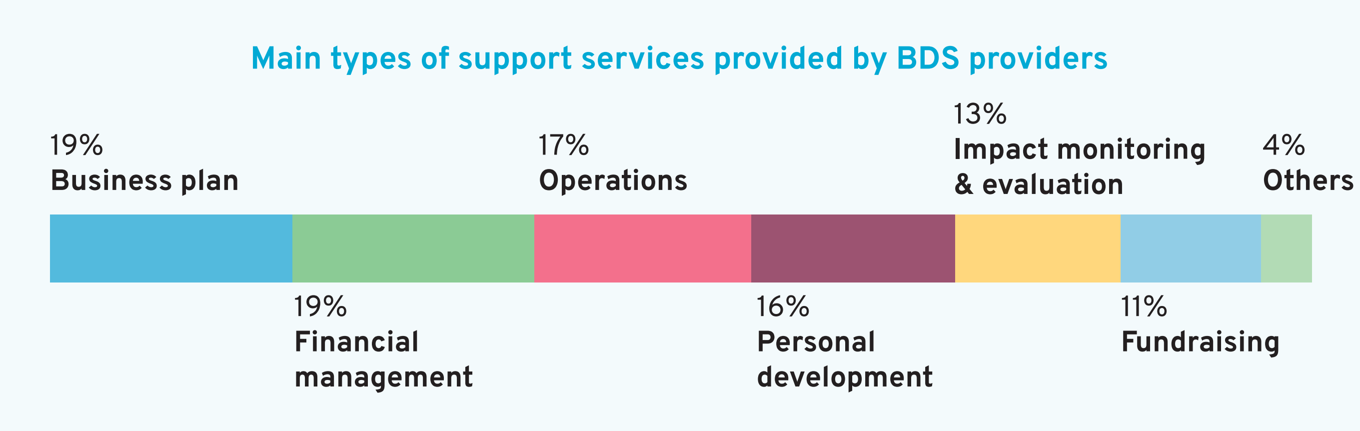


Figure 35: Main type of support services provided by BDS Providers.[91]

Fundraising support is offered by a smaller number of BDS Providers, with 11% of BDS Providers offering this service. Of these services, the largest share of fundraising support aims to help enterprises obtain a commercial bank loan (9 out of 10 respondents). Support to reach out to investors or grant application support is offered by 7 of 10 BDS Providers.

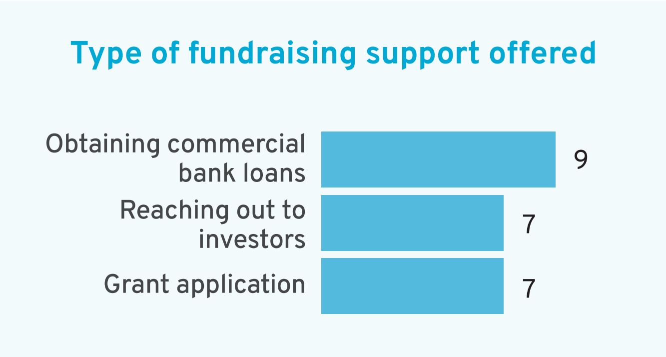
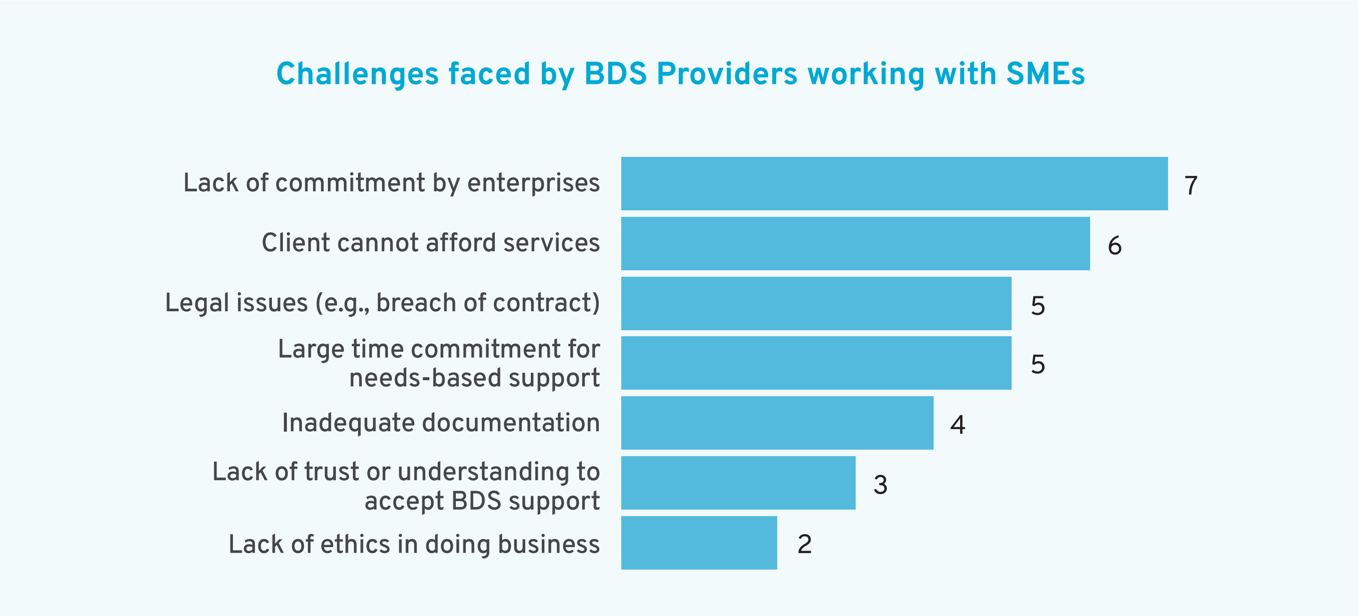


Figure 36: Type of fundraising support offered by BDS Providers.[92]

In their daily work, BDS Providers also face several challenges. The survey asked BDS Providers to name the three main challenges they face, which were clustered into several categories and separated by challenges with their clients and organisational challenges. The two largest challenges faced are a lack of commitment by enterprises and acquiring funding, both for their organisation as well as for the supported enterprises (13%). Other cited challenges were offering affordable services to the enterprises (11%), legal issues due to delayed payments or breach of contracts of clients, as well as a large amount of time needed to understand business needs, creating a need for frequent follow ups due to lack of enterprise commitment or documentation.

91 Multiple answers were possible. n=19.
92 Multiple answers were possible. n=10.



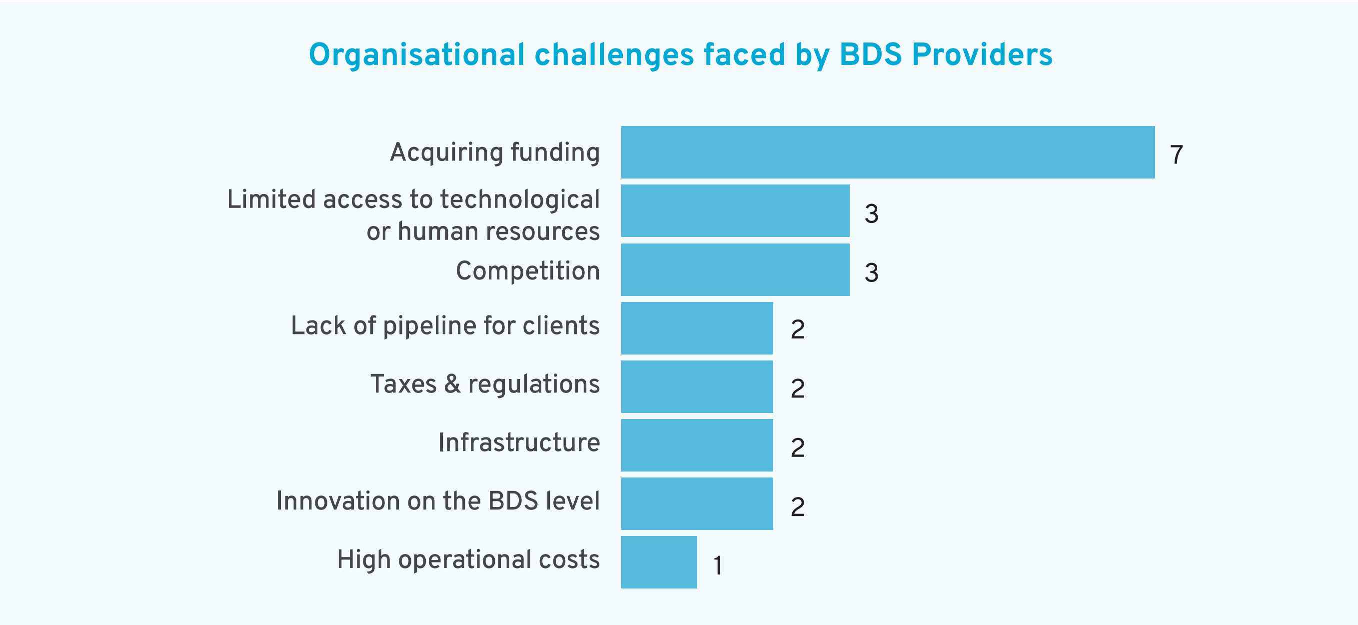


Figure 37: Main challenges faced by BDS Providers in their daily work.[93]

BDS Providers in Uganda primarily connect with others in the ecosystem by participating in network building events and working in associations/networks/professional bodies. Some of the most commonly named associations were the Private Sector Foundation Uganda and the Uganda Manufacturer's Association. While all BDS Providers engage in network building to varying degrees, the majority engage in it often or on a regular basis (89%). Working with financiers is also an important activity for ecosystem building, with 79% of BDSP providers engaging with financiers often or on a regular basis.

93 Each participant named 3 challenges. n=19.

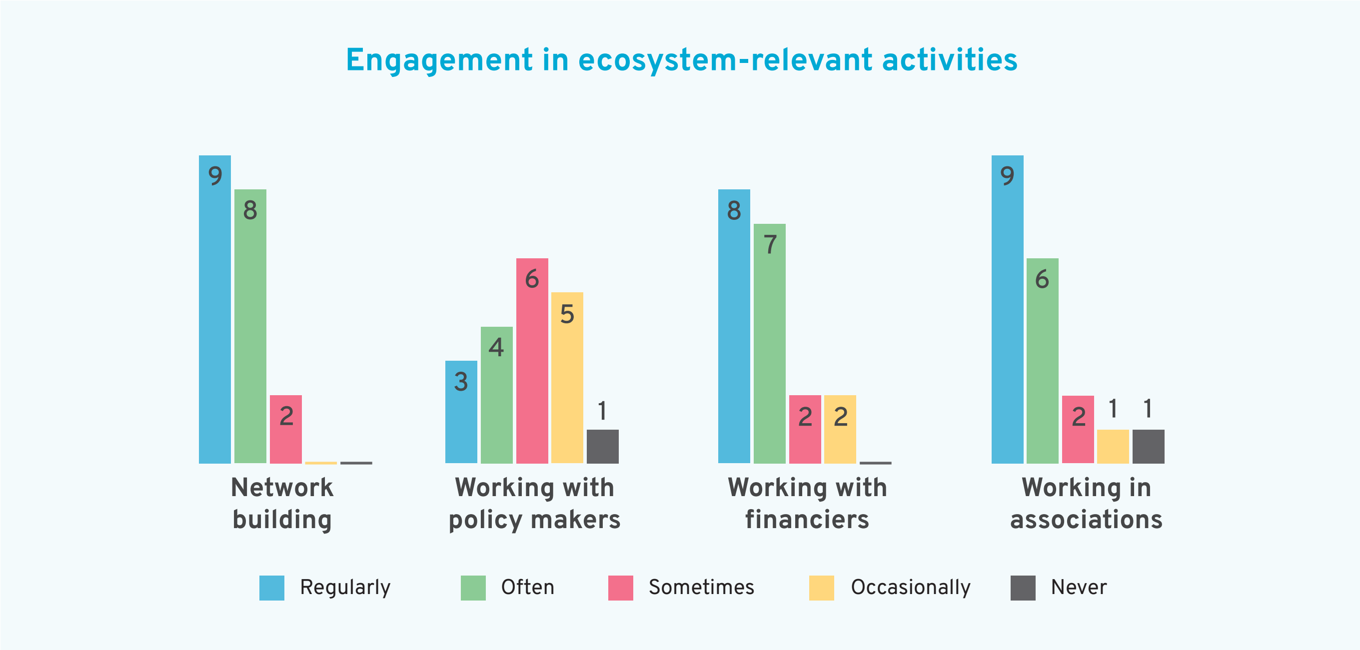


Figure 38: Engagement of BDS Providers in ecosystem-relevant activities.[94]

When it comes to engaging policymakers, however, BDS Providers are less engaged. Most BDS Providers engage with policymakers only sometimes (32%), with a small percentage engaging with policy makers often or regularly (16%). A minority of BDS Providers never engage with policymakers or associations (both 5%).

5.2. Enhancing BDS Providers' Position In the Ecosystem

In the dynamic landscape of BDS Providers in Uganda, the capacity building of trainers stands as a pivotal element in fostering sustainable entrepreneurship and economic growth. UGEFA implemented several comprehensive Training of Trainers (ToT) workshops to support BDS Providers with enhancing their knowledge, skills, access to tools, networks, and visibility. This section serves to highlight the outputs stemming from the implemented ToTs and then to connect them to outcomes and impacts. The survey conducted with BDS Providers provides the basis of assessing the impact of this work.

Regarding the enhancement of knowledge concerning green business models and technologies, the training provided significant benefits, with approximately 90% reporting substantial enhancements in their training skills. 74% of participants experienced significant support in connecting with other BDS Providers through the training.

94 n=19.

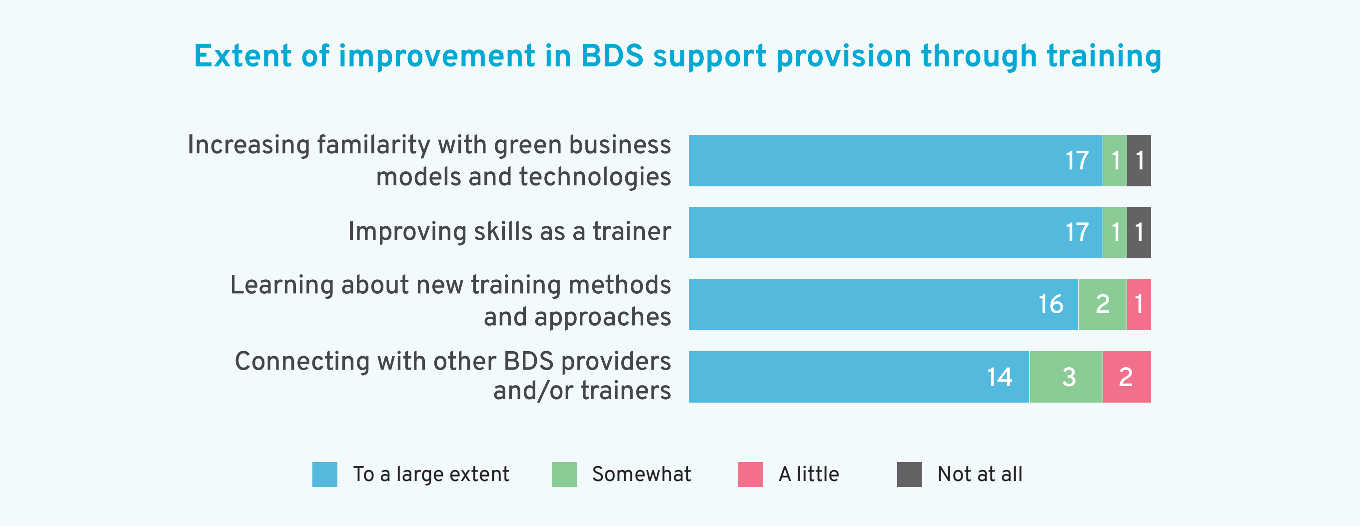


Figure 40: Extent of improvement in the provison of BDS support through training.[95]

The training also acted as a foundation for BDS Providers to acquire awareness about new training methodologies and approaches, a development acknowledged by approximately 84% to a significant degree. 73% of the BDS Providers integrate the UGEFA tools by mixing with other tools and methodologies during service delivery. 68% use the tools for addressing specific topics, such as financial management or organisational structures. Additionally, 42% of BDS Providers employ these tools to structure their own support delivery process.

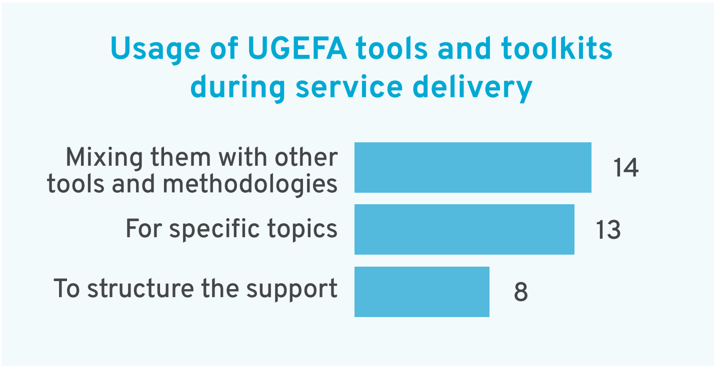


Figure 41: Usage of UGEFA tools and toolkits during service delivery by BDS Providers.[96]

The training additionally increased visibility of the BDS Providers among specific stakeholders. Notably, it significantly increased visibility among potential clients, mainly SMEs, with approximately 80% of BDS Providers. The increased visibility among potential partners such as other BDS Providers is also significant (68%), as well as 88% citing increased visibility with funders.

95 n=19.
96 n=19.

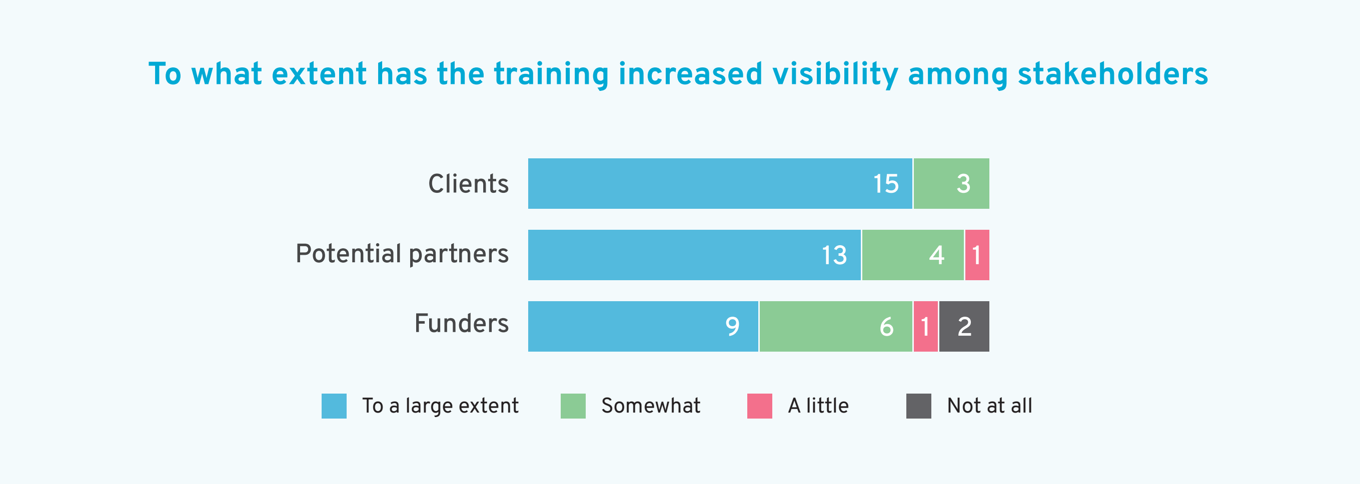


Figure 42: Extent of improvement of the visibility of BDS Providers.[97]

5.3. Enabling Better Support Systems for Green SMEs in the Ecosystem

This section is aimed at evaluating the connection of the training outputs with the intended outcomes and impact of the support provided. It assesses whether BDS Providers were able to acquire new clients or market opportunities, make new partnerships, or develop new tailored support services catering to green SMEs. This is then intended to increased availability of and quality of tailored support for green SMEs, thus creating a better support system for green SMEs in the ecosystem.

The survey asked BDS Providers about the changes their organisations had undergone following participation in the training. The aim was to assess the link between the training outputs and the intended outcome and impact of the support provided. The assessment evaluates whether BDS Providers experienced growth and improved the quality of their services through the acquisition of new clients or market opportunities, new partnerships or the development of tailored support services for green SMEs.

BDS Providers revealed a significant increase in support given to green SMEs. Prior to the training, approximately 69% reported supporting green SMEs: now, nearly 95% currently extend their support to SMEs in green sectors (see Figure 43). Before the training, BDS Providers allocated between 10-80% of their portfolio to the green SME sector with an even distribution among all organisations. However, post-training, the largest share of respondents (23.5%) indicated that their portfolios now comprise between 70 to 80% of BDS support for green SMEs. Overall, the green SMEs have a stronger weight in the BDS Providers' portfolio as of February 2024.

BDS Providers further reported an 196% increase in revenue between 2020 and 2023. Across the BDS Providers, the median revenue exhibited a negative trend from 2020 to 2021, experiencing a decline of approximately 38%. However, there was a notable resurgence in revenue growth thereafter, with the median revenue increasing by 130% from 2021 to 2022 and by 108% from 2022 to 2023. Despite challenges with decreased business due to the Covid-19 pandemic, BDS Providers demonstrated significant resilience and have been able to largely bounce back.

97 n=18.

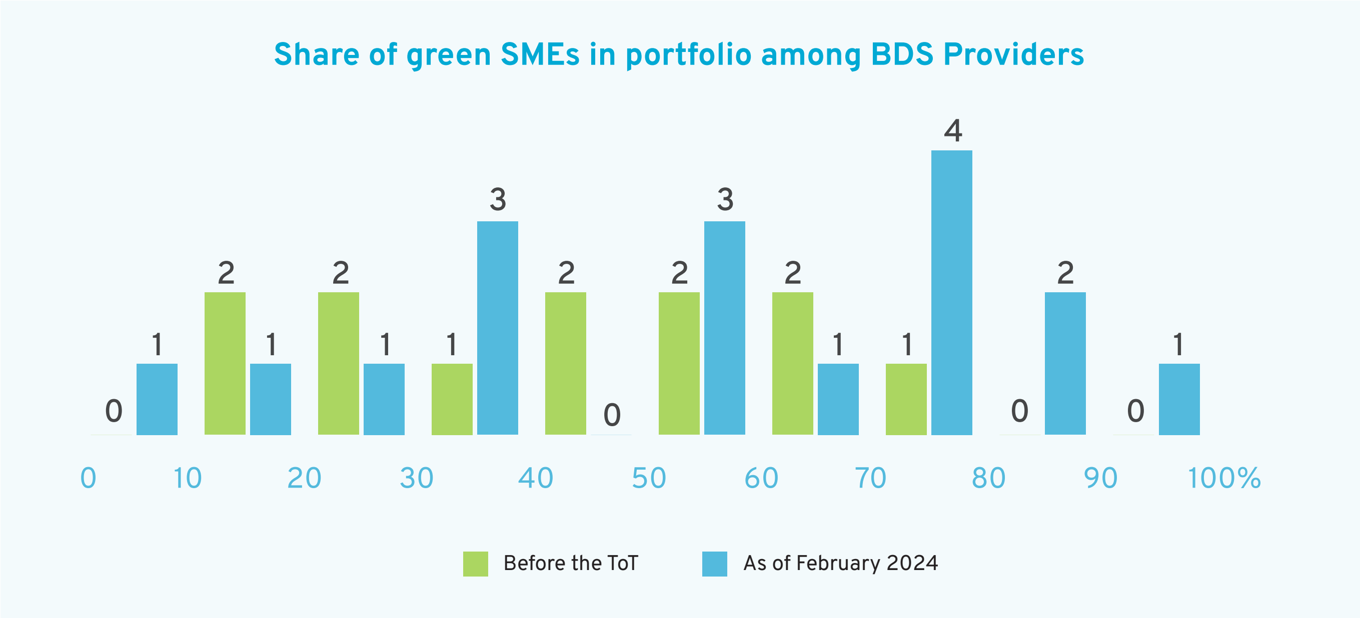


Figure 43: Share of green SMEs in BDS Providers' portfolio.[98]

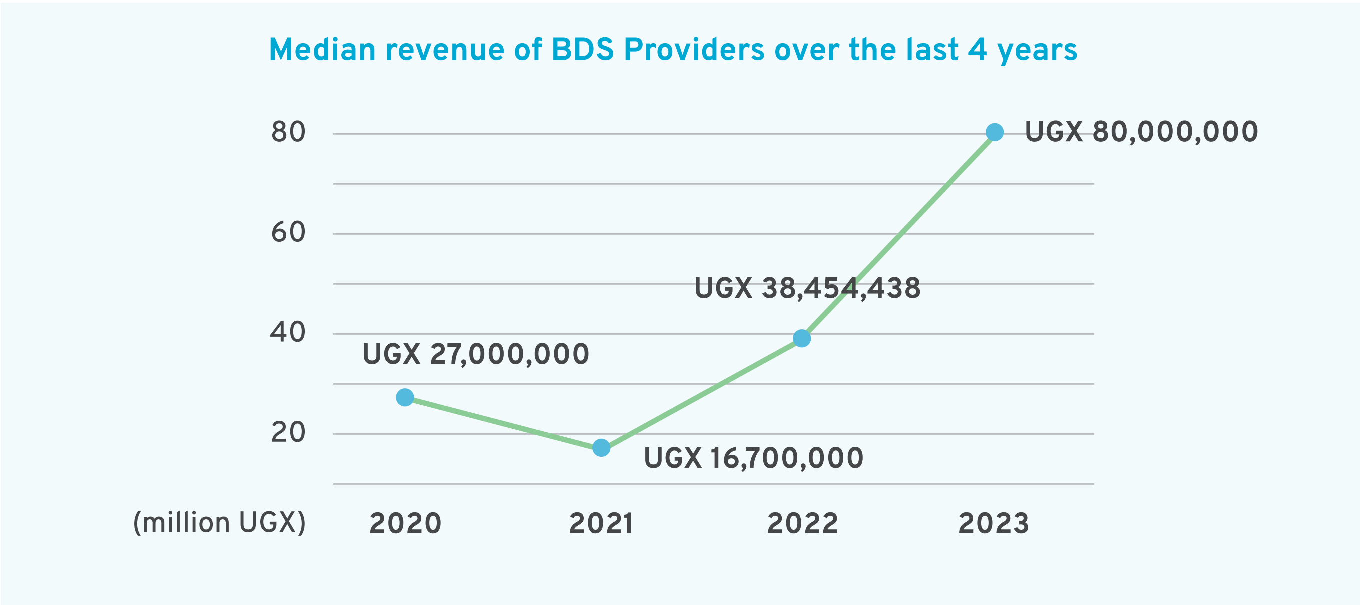


Figure 44: Median revenue of BDS Providers across the last 4 years.[99]

In terms of organisational growth, about 26% of BDS Providers increased their employee numbers, while around 53% maintained the same number of employees after attending the training. In total, 27 new full-time employees and 68 part-time employees were hired.

98 n=12 for before the ToT. n=17 for February 2024.
99 n=14.

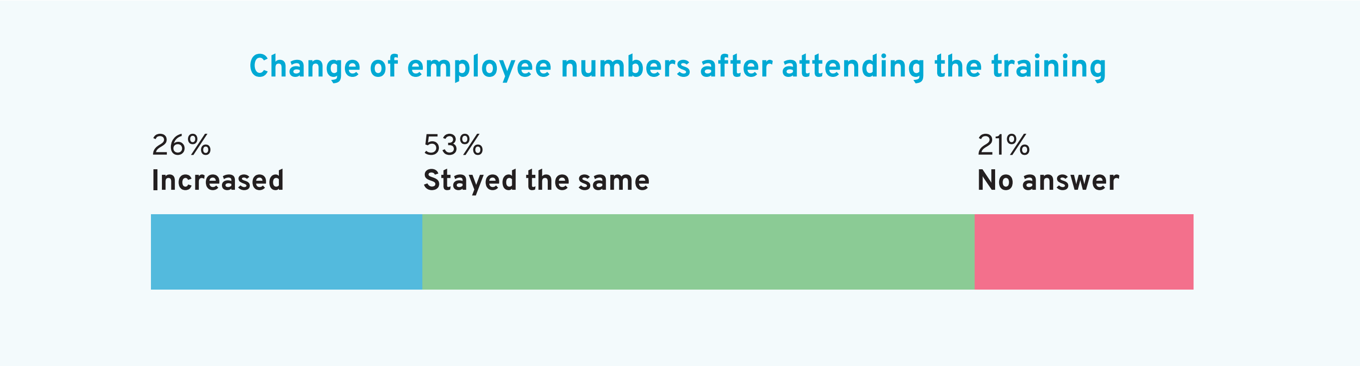


Figure 45: Employee changes at BDS Providers since attending the training.[100]

Additionally, BDS Providers developed several new support opportunities for green SMEs since joining the training. 14 of 19 respondents (74%) mentioned that they have developed new projects or project proposals to support green enterprises, indicating large interest on their side to build experience in that particular area. Around half of the BDS Providers developed new partnerships to support green enterprises and also developed new services for green SMEs.

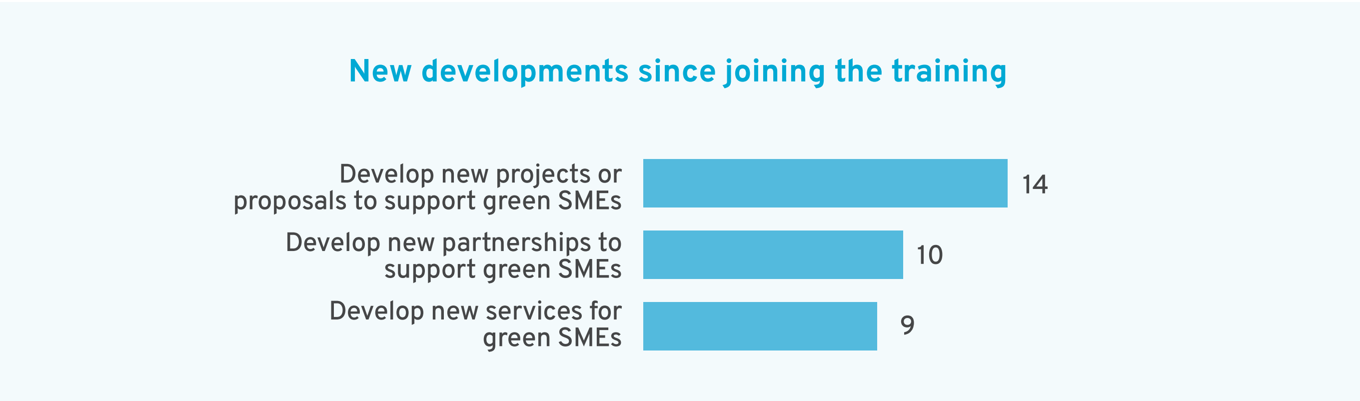


Figure 46: Newly developed support offers of BDS Providers for green SMEs since participating in the ToT.[101]

Looking more closely at the partnerships made, most respondents implemented trainings together to support green SMEs (70%). Half of the respondents worked on projects proposals together, while 40% shared knowledge about green SME support.

Figure 47: Results of partnerships made since the training participation by BDS Providers.[102]

100 n=19.
101 n=19.
102 n=10.

The survey further identified areas where BDS Providers predominantly offer support to SMEs (Figure 48). The primary form of support identified is building of knowledge and skills, a task the vast majority of BDS providers (83%) undertook to a large extent. Additionally, BDS Providers showed substantial involvement in aiding SMEs to construct growth plans within green sectors (72%). Another crucial are of activity involves facilitating SMEs in identifying opportunities to green their value chain and conduct business in green sectors (61%). Respondents demonstrated relatively lower engagement in areas such as attracting green finance, establishing partnerships within the respective sectors, and monitoring environmental impact (each 44%). This could be due to insufficient technical assistance. The least pronounced support was observed in assisting with the building of start-up teams (33%).

Lastly, to further evaluate improvement in the support provided to green SMEs, the UGEFA team inquired about the utility of the training in facilitating specific support for green SMEs (Figure 49). Nearly 90% of BDS Providers indicated that the training significantly enhanced their capacity to enhance the knowledge and skills of green SMEs. Moreover, the training played a significant role in aiding BDS Providers to identify green opportunities SME value chains and explore business prospects in green sectors (83% and 78% respectively). The training further increased BDS Provider capacity to support green SMEs in develop market entry strategies, foster partnerships within the sector, and monitor environmental impact (each 55%). Finally, approximately half of the BDS Providers noted that the training significantly contributed to their ability to assist green SMEs in securing green finance and establishing start-up teams.

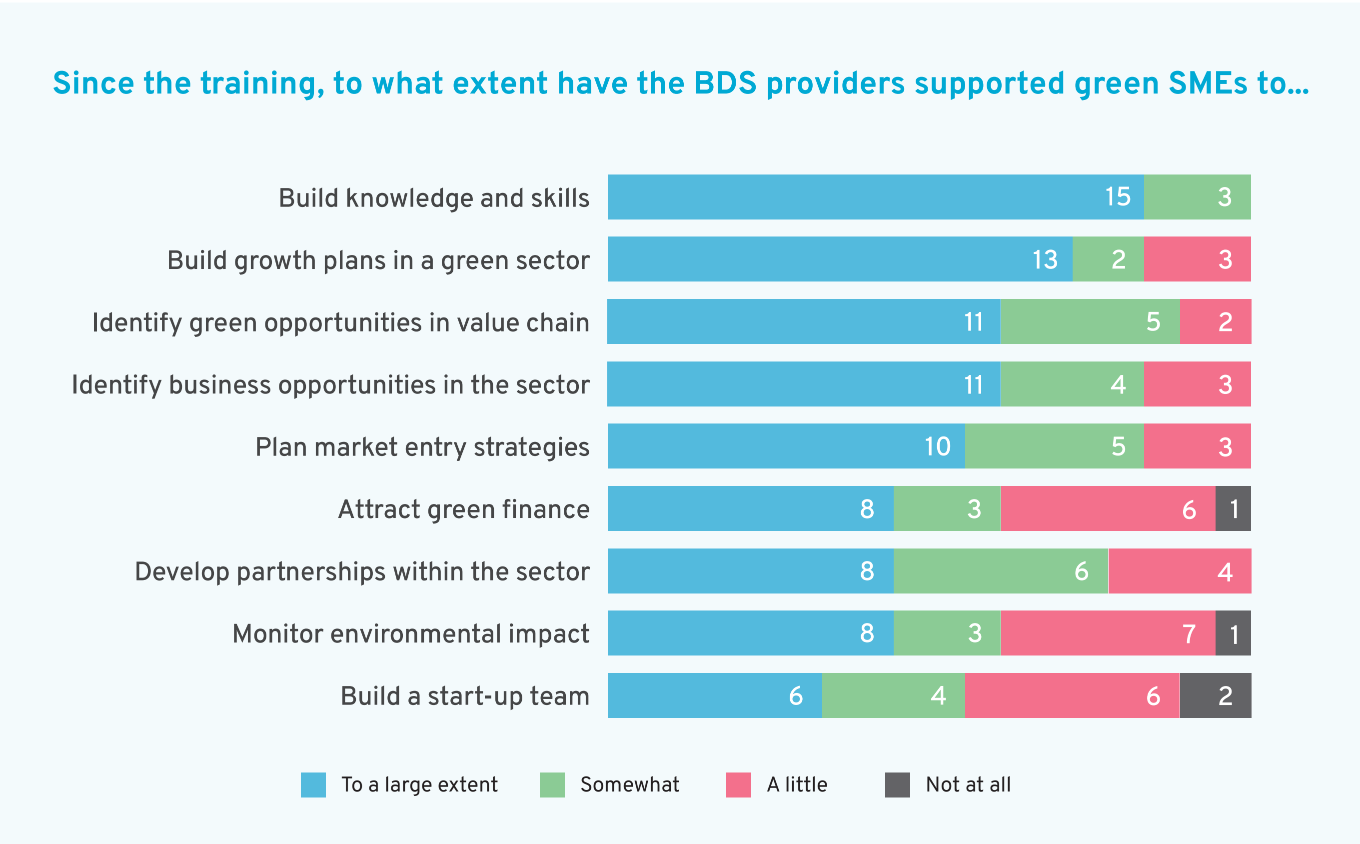


Figure 48: Type and extent of support offered by BDS Providers to green SMEs.[103]

103 n=18.

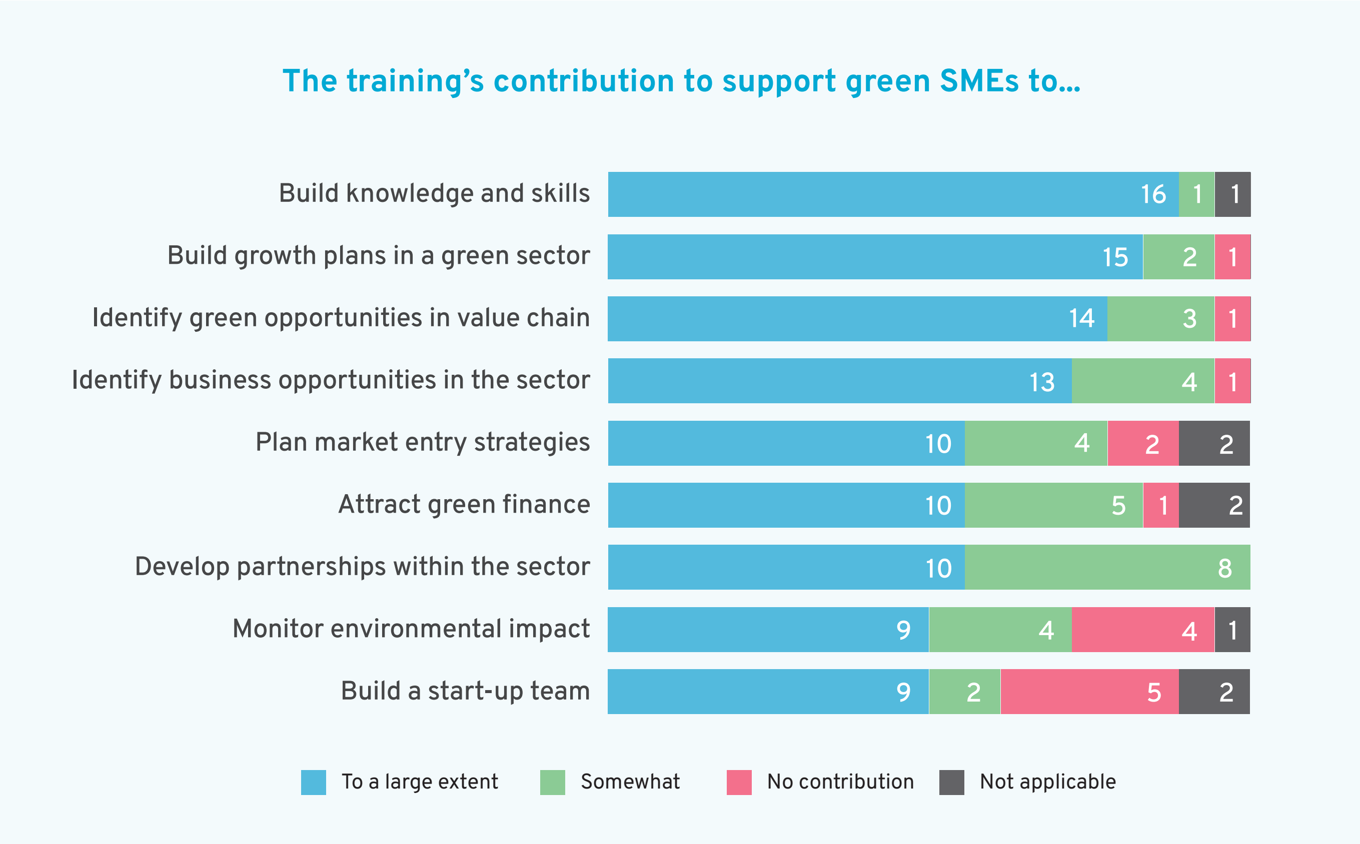


Figure 49: Contribution of the training to the improvement of support for green SMEs.[104]

In conclusion, the survey conducted with BDS Providers following their participation in the training reveals profound changes in their organisations and the support they offer to green SMEs. There has been a remarkable increase in engagement with green SMEs, with nearly all respondents now extending their support to this sector. This surge in support is further underlined by a significant rise in the proportion of green SMEs within the BDS Providers' portfolios. Despite facing challenges such as a decline in revenue in 2021 due to the Covid-19 pandemic, BDS Providers demonstrated resilience, with revenue growth observed in subsequent years. While partnerships with other stakeholders have been established, there remains room for further collaboration, particularly in developing new services for green SMEs.

104 n=18.

6. Conclusion and Lessons Learned

The findings from this impact report demonstrate the impact of UGEFA on the green SME sector in Uganda, and offer valuable lessons for future initiatives. UGEFA's support has enabled SMEs to access finance, which in turn supports their growth and resilience, positioning them as forerunners of green business practices and sustainable economic development. By addressing the missing middle finance gap, UGEFA has contributed to a conducive environment for green SMEs to thrive, enhancing the capacity of financial institutions to serve this emerging market and laying the groundwork for a sustainable and resilient green economy.

The Training of Trainers workshops implemented by UGEFA have further increased the availability and quality of tailored support for green SMEs. These workshops have not only improved the competencies of BDS Providers but have also fostered collaboration between stakeholders and leveraged synergies for new programmes and projects. This has contributed to the development of a better support system for green SMEs, ensuring that the entrepreneurial ecosystem in Uganda is on track to support the dynamic and evolving landscape of green SMEs.

From the project, several key lessons have emerged:

Working with green SMEs:

- **Combining non-financial and financial support.** The combination of non-financial and financial support in UGEFA has shown to be a promising approach to bridging the missing middle financing gap. This approach works by fostering close collaboration with both the local financial sector and Uganda's business development ecosystem. UGEFA's model creates a link between financial support and tailored capacity building that is key to unlocking finance for green SMEs. By preparing SMEs through tailored capacity-building formats, they become better positioned to access finance, enabling them to improve their sustainable business models and implement investment plans. This blend of support ensures that SMEs not only secure the necessary funding but also develop the skills to scale their businesses, and make growth investments effectively bridging the gap between investment readiness and actual financial access.
- **Balancing enterprise resilience with enterprise growth.** In the context of enterprise development, the sector discourse tends to focus more on driving business growth than improving enterprise resilience. Many incubators and accelerators focus on enterprises with significant growth potential and prioritise scaling their operations. Global crises (e.g. climate crisis, Covid-19 pandemic) have demonstrated the critical importance of enterprise resilience as well as growth. They have also shown the positive and sustainable impact that resilient, green enterprises can have. UGEFA-supported green SMEs have demonstrated steady growth, as evidenced by strong revenue growth despite external shocks (38% yearly average revenue growth between 2019 and 2022), their strategic investments in sustainability, and their ability to leverage external capital. Looking ahead, future support should emphasise resilience more centrally by encouraging SMEs to consider lower-risk, more stable growth strategies that can weather external shocks. This includes focusing on diversified revenue streams, sustainable resource management, and long-term planning to create a balance between stability and scalability.

- **Tailored Financial Instruments**. Innovative catalytic funding facilitation instruments are needed to unlock capital for green SMEs. As UGEFA's funding facilitation mechanisms have shown, targeted instruments can successfully be used to leverage private capital from both SMEs and PFIs to incentive investments into scaling green growth. To further enhance their impact, these instruments must also focus on increasing the accessibility and affordability of finance for SMEs by blending financial sources, which can help to leverage private sector capital at scale. Increased co-creation and continued technical assistance for PFIs on financial instrument development may contribute to tailor funding facilitation instruments further.

- **Offering post-investment support.:** in addition to offering capacity building support to enable SMEs to access debt financing, UGEFA has also provided SMEs with capacity building once they have successfully secured a loan. This post-investment support focuses on further strengthening the financial management of the SMEs and supporting their business expansion. The aim is to enhance the sustainability and scalability of the businesses post-investment, ensuring the investments yield long-term green growth. In future projects, this methodology will be refined to include more long-term tailored mentoring and sector-specific guidance, as well as monitoring frameworks that track progress over time. By refining these elements, future initiatives can improve the success rate of investment projects, offering valuable lessons for others looking to combine non-financial and financial support.

- **Peer-exchange mechanisms.** The global and complex challenges faced by green enterprises make collaboration, the creation of shared value, and collective action a crucial requirement for accelerating green growth. UGEFA provided formats for peer exchange, which were integrated into the capacity building components. These helped the SMEs to increase visibility and make new connections among clients, partners, and financiers. Going forward, future projects may enhance this practice, making it an even more prominent element and priority in its future enterprise support activities.

Working with financial institutions:

- **Tailored Financial Products.** Developing financial products that meet the specific needs of green SMEs is necessary to provide suitable financing options for green SMEs for their investments. For that, in-depth technical assistance for financial institutions is needed to provide them with the required expertise to develop, implement, and track the impact of these projects.

- **Combining participatory methods with dedicated follow-on support to develop tailored financing solutions.** The Green Finance Academy's methodology and highly collaborative facilitation style were instrumental in the co-creation and development of potential innovative green financing solutions. The combination of facilitated processes with training elements proved to be a crucial added value for the financial stakeholders involved. Additional technical support could extend the support provided, thereby increasing the chances of bringing the pilots to life and ensuring the longer-term impact of the innovation processes.

Working with business development support organisations:

- **Broader support portfolio for BDS Providers:** The project has demonstrated the importance of supporting BDS Providers in enhancing their service delivery. Regular BDS training-of-trainers workshops, either delivered in-country or digitally, have been key success factors of the project to implement the non-financial capacity building support. To further enhance this, it will be critical to broaden the portfolio and expansion of the service offering and modules taught. This necessitates the development of new modules aimed at conventional BDS Providers with an interest in green sectors, which will assist them in better understanding green SMEs. This will increase their interest in engaging in the area of green entrepreneurship and also build their capacity to actually do so. Furthermore, it is recommended to build the capacity of BDS Providers to monitor impacts of green SMEs to provide valuable insights for more tailored and effective business support strategies.

- **Building networks for BDS Providers:** Upgrading BDS Provider networks is essential to institutionalise knowledge, best practices and tools in a coordinated manner in the entrepreneurial ecosystem. In order to further enhance support for BDS Providers, it will be critical to include co-creation sessions for BDS Providers to jointly work on tools, toolkits and impact measurement as well as BDS community-building sessions to exchange on BDS-related challenges and opportunities. The co-creation process could then inform the development of general standards and guidelines for more tailored and accessible green SME support. Furthermore, supporting the formation of a BDS provider network collective for green enterprises may further enhance the quality of business support provided through the institutionalisation of knowledge and best practices.

Further lessons learned:

- **Incubating incubators:** To enable further support options for green SMEs and ensure sustainability of services, additional capacity building could be offered to incubators and accelerators. Through the support, incubators and accelerators will be able to develop and improve business models and strategies, improve fundraising abilities, and refine their service portfolio. By that, quality and quantity of services for green SMEs may be increased and the incubators and accelerators made more competitive in a market-based environment.

- **Data-Driven Decision Making**: Rigorous data collection and validation are essential for assessing the effectiveness of support programmes and for making informed adjustments to strategies and interventions. By leveraging both qualitative and quantitative data, stakeholders can better understand the challenges and successes of the SMEs they support. In particular, impact data—especially environmental, social, and economic impact metrics—are crucial for measuring the broader effects of interventions on green SMEs and the communities they serve. Collecting this data consistently through monitoring and regular follow-ups with SMEs over time allows for identifying trends and demonstrating the tangible impact on the green SMEs. This evidence-based approach not only helps to tailor support but also ensures accountability and the efficient use of resources.

In conclusion, the lessons learned from UGEFA's approach —particularly the emphasis on capacity building, collaboration with local commercial banks, and collaborative networks- provide a blueprint for scaling up support for green SMEs. These insights can help the replication of the project in other contexts and drive sustainable development and economic resilience through the support of green enterprises.

Annex

Limitations

To ensure the integrity of the data collected for UGEFA's impact assessment, measures were taken to mitigate potential biases in the sample responses, followed by a comprehensive data validation process.

The initial phase of validation involved cross-referencing the data obtained from the impact surveys conducted with SMEs in February 2024 with data provided during the capacity building support. Given that data created during the capacity building support with the help of BDS Providers are generally considered more reliable, discrepancies between the survey and interview data were resolved by deferring to the most recent information. This updated data has been incorporated into the figures presented in the report.

Another step involved scrutinising any extreme data points by comparing them with the profiles of other enterprises and the characteristics of their business models to assess their credibility. If doubts about the authenticity of the data persisted, the response was omitted from the analysis to ensure the accuracy and reliability of the project's impact assessment.

Despite attempts to increase reliability, there are several limitations to the data and the conclusions drawn from it. First, the reliance on self-reported data from SMEs introduces a degree of subjectivity, which may have affected the accuracy of responses, particularly in terms of financial and impact metrics. Additionally, the sample size and scope of the survey were limited to SMEs that participated in the UGEFA capacity building, meaning the findings may not fully represent the experiences of other green SMEs in Uganda. The project's focus on enterprises with high growth potential may also bias the results, as the experiences of SMEs with more modest growth trajectories might differ. Furthermore, external factors, such as the economic impacts of global crises, may have influenced SME performance in ways that are difficult to isolate within the scope of this report.

Despite efforts to validate and clean the data, these limitations must be acknowledged, as they may affect the generalisation of the findings. Future assessments could benefit from broader data collection efforts, a larger sample size, and a more diverse range of SMEs to provide a more comprehensive understanding of the UGEFA's impact.

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