

INDEPENDENT EVALUATION OF UGANDA DEVELOPMENT CORPORATION



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ACKNOWLEDGEMENT



The completion of the comprehensive impact evaluation of Government wealth creation funds implemented through the Uganda Development Bank (UDB), Uganda Development Corporation (UDC), Microfinance Support Centre (MSC), the Uganda Agricultural Insurance Scheme (UAIS), and the Agriculture Credit Facility (ACF) has benefited from the contribution, collaboration, and technical support of a wide range of stakeholders. This impact evaluation was undertaken to generate evidence on the effectiveness and developmental contribution of these wealth creation financing interventions in supporting productive investment, enterprise development, and structural transformation, consistent with the national aspiration of achieving tenfold economic growth.

I sincerely thank the Ministry of Finance, Planning, and Economic Development for their strategic guidance and oversight throughout this process. Their continued commitment to improving development finance and optimizing the use of public resources has been crucial in supporting institutions that channel funds to vital sectors of the economy. Moreover, the Ministry's support has helped ensure that this evaluation aligns with broader reforms aimed at strengthening the Public Investment Management framework and enhancing the efficiency of government-funded financial facilities.

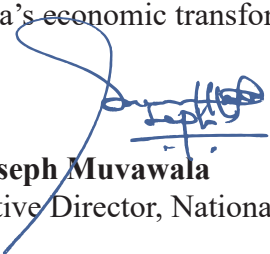
Special appreciation is extended to the Boards of Directors, management teams, and technical staff of UDB, UDC, MSC, UAIS, and ACF for their cooperation and openness during the evaluation. Their willingness to provide institutional data, operational documentation, and strategic insights greatly enriched the analysis. It enabled a comprehensive assessment of the design, governance, and operational performance of these wealth creation mechanisms. The commitment these institutions have demonstrated in facilitating the evaluation underscores their shared interest in strengthening development finance interventions that support industrialisation, agricultural transformation, financial inclusion, and enterprise growth in Uganda.

I also wish to acknowledge the valuable contributions of the many stakeholders and key respondents who participated in the evaluation process. These include officials from Government ministries, departments and agencies, representatives from financial institutions, private sector organisations, development partners, and beneficiaries of the wealth creation funds. Their perspectives and experiences provided important insights into how these financing instruments operate in practice and the extent to which they are contributing to improved productivity, expanded access to finance, employment generation, and value chain development.

The evidence produced through this evaluation offers a vital base for strengthening Uganda's policy and institutional structures governing development finance. Specifically, the findings will guide ongoing efforts to improve coordination among Government financing bodies, enhance follow-up mechanisms and systems, better target initiatives and measure their impact, and secure the sustainable capitalisation of wealth-creation funds. These reforms are crucial for maximising the developmental

effect of public financing tools and ensuring they effectively support Uganda's goal of achieving tenfold economic growth.

Finally, I commend all those who contributed their time, expertise, and resources to the successful completion of this evaluation. The insights in this report will support evidence-based decision-making and guide future policy actions to strengthen development finance institutions and accelerate Uganda's economic transformation.



Dr. Joseph Muvawala
Executive Director, National Planning Authority



The Government remains committed to fostering inclusive and sustainable economic transformation, as outlined in the NDP IV and to achieving tenfold growth by 2040. Key to this is strategic intervention in public fund allocation to enhance private-sector development, promote productive investments, and strengthen the capacity of enterprises and households to generate sustainable wealth. To support this, the Government has launched and funded several wealth-creation mechanisms, including the Uganda Development Bank (UDB), the Uganda Development Corporation (UDC), the Microfinance Support Centre (MSC), the Uganda Agricultural Insurance Scheme (UAIS), and the Agriculture Credit Facility (ACF). These institutions play a crucial role in unlocking funding for productive sectors and fostering economic growth throughout Uganda.

Over the past decade, limited access to long-term credit, high capital costs, the vulnerability of agricultural investments to climate and market risks, and inadequate domestic industrial financing have hampered the country's ability to increase productive investments. Through prioritisation, UDB has provided long-term development finance to key sectors such as manufacturing, agro-processing, tourism, and infrastructure; UDC has made strategic equity investments to support industrial growth and strengthen value chains; MSC has offered affordable financial services to micro, small, and medium enterprises and community-level producers; UAIS has contributed to risk reduction in agriculture through subsidised insurance schemes; and ACF has helped farmers and agro-based businesses access affordable credit for production and value addition.

These wealth-creation funds are major public investments aimed at improving productivity, boosting competitiveness, and raising household incomes. Due to the substantial Government investment and their importance within the national development plan, a full impact assessment was undertaken. Evaluating these funds, managed through UDB, UDC, MSC, UAIS, and ACF, offers insights into their role in Uganda's structural transformation—especially through expanding productive capacity, generating jobs, and enhancing value chains in vital economic sectors.

The evaluation also offers essential policy insights into how development finance mechanisms operate within the broader framework of Public Investment Management. It evaluates how the design, governance, and operational models of these organisations facilitate the effective utilisation of public resources for high-impact investments. Additionally, it assesses coordination among these financial instruments, their alignment with national priorities, and their ability to attract private-sector investment.

As Uganda aims for tenfold economic growth, reaching this goal will depend on boosting productive investment, improving financial intermediation, and strengthening institutional capacity to mobilise and manage development funds. The wealth-creation funds analysed are expected to serve as catalysts for increasing industrial output, raising agricultural productivity, expanding financial inclusion, and

supporting the development of competitive enterprises that can enhance exports and create jobs. The evaluation highlights notable successes, including increased access to long-term development finance, improved risk management in agriculture, higher credit for small and medium enterprises, and strategic investments that have strengthened domestic value chains. It also points out areas where policy efforts should focus to maximise the impact of these funds. These include enhancing coordination among financing institutions, bolstering monitoring and evaluation mechanisms, targeting beneficiaries more effectively, and ensuring sustainable and sufficient capitalisation of development finance instruments.

Lessons from this evaluation will guide ongoing reforms to enhance the effectiveness of these financing schemes. They will also shape policy decisions regarding institutional governance, capital allocation, risk management frameworks, and the integration of wealth-creation funds into Uganda's broader economic transformation plans. Strengthening these areas will enable public financing interventions to achieve tangible development outcomes and support Uganda's long-term growth trajectory.

I invite you to read these reports, whose insights and recommendations will inform evidence-based policy decisions, enhance the performance of wealth-creation development financing mechanisms, and ultimately support Uganda's goal of tenfold growth.

For God and My Country



Prof. Pamela K. Mbabazi

Executive Chair, National Planning Authority

EXECUTIVE SUMMARY

Background

- 1. This report presents the findings and recommendations of Uganda's first comprehensive independent evaluation of Uganda Development Corporation (UDC), one of the country's flagship Development Financing Mechanisms (DFMs).** UDC is mandated to promote and facilitate Uganda's industrial and economic development through direct public investment in strategic sectors and enterprises. It plays a catalytic role in de-risking industrialisation, stimulating value addition, and unlocking private sector investment in areas where market failures exist.
- 2. The evaluation was commissioned by the Ministry of Finance, Planning, and Economic Development (MoFPED) and conducted by the National Planning Authority (NPA) to inform long-term decision-making under the Fourth National Development Plan (NDP IV).** As a key instrument for achieving Uganda's 10-fold growth aspiration under Vision 2040, UDC is prioritised in the NDP IV for its potential to enhance industrial productivity, expand access to long-term capital, and improve the quality of life through inclusive industrial transformation.
- 3. This assessment forms part of a wider government-led effort to understand how Development Financing Mechanisms can be optimally structured, regulated, and financed to deliver national development goals.** UDC's experiences offer critical insights into the institutional arrangements, investment approaches, governance structures, and regulatory frameworks required to deliver on Uganda's industrialisation agenda.
- 4. The evaluation examined UDC's operational model, institutional context, governance systems, financial performance, and development impact.** It draws on extensive document review, consultations with UDC leadership and technical staff, field visits to UDC-supported projects, and feedback from the public and investment beneficiaries. Through this process, the evaluation identifies practical opportunities to strengthen UDC's institutional effectiveness, scale its impact, and position it as a high-performing and sustainable public investment vehicle.

PORTFOLIO

To date, UDC has invested
UGX. 1.018 trillion in 18
ongoing investments.

There are 23 more ready
to invest projects,
awaiting funding of UGX.
1.104 trillion.

Relevance of the UDC Development Model

- 5. UDC is critical for filling a crucial gap in the financing market. It is the only development financing mechanism in the country providing affordable equity investments in high-**

impact, high-risk projects of national importance that require long-term patient capital. Most investments in UDC's portfolio struggle to attract private-sector funding because of the perceived risks.

- 6. UDC's continued relevance is firmly anchored in its alignment with Vision 2040 and the NDP IV, which both prioritise industrialisation as the engine for Uganda's 10-fold economic growth and improved quality of life.** The Corporation's direct investment model allows government to lead in stimulating productive sectors especially agro-industrialisation, manufacturing, and tourism while crowding in private capital over time. Its capacity to take on calculated development risk positions UDC as a key vehicle for addressing market failures and catalysing inclusive economic transformation.
- 7. Evaluation findings confirm UDC's effectiveness in supporting distressed but strategic enterprises, preserving national assets, and safeguarding livelihoods.** Two of its eighteen investments Mabale Tea Growers and Budadiri Arabica Coffee Factory were saved from collapse, stabilising income sources for over 30,000 smallholder farmers integrated into their out-grower models. In response to the economic shocks of the COVID-19 pandemic, UDC injected rescue capital into seven enterprises including Soroti Fruits Factory, Atiak Sugar Factory, Nile Hotel, Munyonyo Commonwealth Resort, and others maintaining or creating employment for more than 37,000 Ugandans. These interventions prevented widespread disruption and signaled UDC's growing role as Uganda's counter-cyclical intervention.
- 8. UDC's equity-based financing model is tailored to Uganda's development needs, offering patient capital to sectors that require long grace periods to mature.** Of its current portfolio, 89% (16 of 18 investments) are equity-based, complemented by lease financing (11%) and shareholder loans that provide capital reinforcement without imposing commercial collateral requirements. UDC has extended shareholder loans to 69% (11 of 16) of its equity investees, enabling these firms to scale operations, finance equipment, and improve liquidity while remaining aligned with long-term national goals.
- 9. UDC prioritises investment in agro industrialisation, with 56% of investments and 66% (UGX. 673 billion) of its funds allocated to agro-industries.** By prioritising lending to the agricultural sector, which employs the majority in Uganda, UDC demonstrates significant potential for economic impact, fostering sustainable growth and job creation across the nation. Other sectors invested in include infrastructure and services, which constitute 28% of UDC investments and 28% (UGX. 287.2 billion) of the disbursed funds; knowledge-intensive, which constitutes 11% of the investments and 6% (UGX. 57.8 billion) of the disbursed funds; and Mineral Beneficiation (5% of the investments).
- 10. Its financing terms are deliberately concessional, fostering sustainability and crowd-in private capital over time.** Of the 11 investments with shareholder loans, 82% accessed funding at interest rates of 10% or below, far below prevailing commercial rates of ~22%. Three projects borrow at 6%, and six at 10%, allowing them to focus on expansion,

productivity, and employment rather than short-term debt service. These affordable terms support UDC's mandate to de-risk industrialisation and build viable, competitive enterprises that would otherwise struggle to thrive.

- 11. While 67% of UDC's investments are presidential directives or blue-lettered projects, these investments align with national priorities and provide targeted responses to identified market failures.** However, to preserve the integrity of its investment function and ensure development impact, UDC's strategic investment autonomy must be safeguarded, even within its public mandate. The remaining 33% of UDC's investments are a mix of unsolicited walk-in proposals and government-assigned projects, demonstrating the Corporation's responsiveness to evolving national needs.
- 12. Survey results affirm UDC's strong development additionality and critical role in bridging market gaps.** The majority of the sampled UDC-funded businesses were financially excluded, with 57% indicating they would not have qualified for commercial credit due to lack of collateral, past defaults, or high borrowing costs. Even among the 43% who were eligible, UDC was preferred for its affordable, flexible, and long-term financing aligned with development goals. Notably, 71% of clients reported that their businesses would not have survived without UDC's support underscoring its counterfactual impact and importance in sustaining Uganda's strategic enterprises. These findings confirm that UDC complements rather than displaces private lenders, and plays a catalytic role in financing high impact but commercially underserved projects.

UDC's Development Impact

- 13. To date, the government has invested up to UGX. 1.018 trillion in 18 UDC investments.** Of this, 79% (UGX. 813 billion) was invested in equity financing, 20% (UGX. 204 billion) was invested in shareholder loans, and 1% (UGX. 14 billion) was invested in equipment leases. There are 23 more ready-to-invest pipeline investments planned for the next three years, awaiting funding of UGX. 1.104 trillion.
- 14.** The government's investment through UDC directly created or sustained approximately 4,000 jobs and supported over 65,000¹ indirect employment opportunities in 2023/2024. Furthermore, by purchasing raw materials from Ugandans, UDC paid UGX 20 billion to farmers, boosting household incomes and leading to export earnings of US\$22 million, mainly contributed by tea in 2023/2024.
- 15. However, there are opportunities to strengthen the equitable geographical distribution of UDC's investments.** UDC's funding is predominantly concentrated in the Northern Region (53% or UGX. 540 billion), followed by the Central Region, where UDC has invested in UGX.

¹ Reduced to discount for the impact of closed investments such as Atiak Sugar Factory and Mpanga Tea Factory.

345 billion. The Western and Eastern Regions have the least share of UDC's funding, with 7% (UGX. 74 billion) and 6% (UGX. 59 billion) disbursed to these regions, respectively.

16. UDC is accelerating export growth and boosting Uganda's global competitiveness.

Seventy-one percent of sampled UDC-funded investments reported an average export increase of 61% directly attributed to UDC's support. This growth was driven by improved production capacity, access to equipment, and greater operational stability enabled through UDC's capital injection. The finding affirms UDC's strategic role in expanding Uganda's export base, strengthening foreign exchange earnings, and positioning domestic industries for international trade aligned with national goals under NDP IV and Vision 2040.

17. UDC-funded investments are advancing inclusive employment at the workforce level, with further opportunities to enhance diversity in leadership.

Across surveyed investments, women and youth constituted 42% and 66% of the workforce respectively an encouraging reflection of UDC's role in promoting inclusive job creation. While persons with disabilities were underrepresented at just 1%, these figures point to a solid foundation for deepening inclusivity efforts. At the leadership level, however, there is room for progress: all senior managers were male, over 35 years old, and none had a disability. Including women, youth, and PWDs in decision-making increases their influence on project design and resource allocation, enhancing the developmental impact of public investment.

18. UDC financing is strengthening enterprise competitiveness and market reach across strategic sectors.

Eighty-six percent of surveyed investees reported improved competitiveness following UDC support, driven by expanded production capacity, equipment upgrades, and higher revenues. Nearly half (43%) confirmed access to new markets locally, regionally, and international, demonstrating UDC's role in enabling firms to reach higher-value markets. These performance gains reflect UDC's contribution to building more resilient enterprises positioned to support Uganda's industrialisation, export growth, and structural transformation.

19. UDC is enabling businesses to reinvest in communities and promote environmental stewardship.

Seventy-one percent of sampled investments reported supporting local health, education, and environmental initiatives. These include tree planting campaigns and community development efforts, indicating a shift toward integrated business models that deliver on economic, social, and environmental fronts. These outcomes highlight the potential for UDC to institutionalise sustainability-linked metrics and position its portfolio as a driver of Uganda's triple-bottom-line development agenda.

20. UDC-funded projects are stimulating the emergence of local businesses, with an average of 80 new MSMEs established per project within a 15-kilometre radius.

These included input suppliers, processors, service providers, and traders benefiting from increased economic activity and improved infrastructure. This ripple effect confirms UDC's catalytic role in stimulating private sector emergence and inclusive industrialisation beyond the anchor

investment, contributing to local income diversification, employment, and enterprise growth in underserved areas.

21. UDC is strengthening rural value chains and injecting income into farming communities.

All surveyed projects sourced raw materials and services locally, engaging over 14,300 indirect beneficiaries primarily smallholder farmers and rural service providers. With an average of 3,575 community-based suppliers per investment, UDC's investments are anchoring inclusive sourcing models that boost rural incomes, enhance market access for smallholders, and deepen Uganda's agricultural and manufacturing value chains. This strong community integration underscores UDC's role in driving broad-based socioeconomic transformation.

22. Stronger household incomes and enterprise growth are translating into improved access to essential services at the grassroots.

Across the sampled value chain actors, 95% reported increased incomes with the majority diversifying into new income-generating activities. These gains are contributing directly to improved quality of life: 95% of respondents confirmed better access to food, education, and healthcare. More parents were able to enrol children in school, pay fees on time, and afford basic supplies, while households also reported greater ability to seek timely healthcare services. These outcomes position UDC a key enabler contributing directly to improving the quality of life of Ugandans a key objective of the NPDIV plan.

23. A mindset shift is emerging as one of UDC's most powerful indirect impacts.

Through expanded economic opportunity and stronger community linkages, 98% of indirect beneficiaries reported increased confidence to grow their businesses and actively contribute to national development. 95% expressed a positive shift in their perception of government support, viewing UDC as a tangible link between state policy and citizen wellbeing. This change in mindset from passive survival to productive engagement aligns with Uganda's goal of moving more citizens into the money economy and affirms UDC's potential to deliver both financial and psychological transformation at scale.

Operational Economic and Financial Findings

24. UDC's operations are guided by a 10-year (2020 - 2030) strategic plan that centres on investment in value addition.

Strategies prioritised by UDC in the 10-year strategic plan include strengthening the governance of UDC, aligning the organisational structure and skillset to the overall strategy of UDC, adopting secure technology and systems, implementing strong risk management at all levels, using development partnerships to cofinance feasibility studies in the mineral sector, utilising partnerships to turn around UDC, and engaging potential partners using co-investments.

25. UDC's revenue has significantly improved since its revitalisation, indicating a positive shift towards financial sustainability and self-sufficiency.

The annual revenue generated from UDC's investments has grown from about UGX. 460 million in 2019 to 3.85 billion in

2023, indicating an 8-fold growth. This is due to a growing increase in revenue generated from a few of the corporation's investments.

26. UDC's operational efficiency measures indicate improved cost optimisation and operational efficiency achieved through increasing economies of scale. The corporation's growing portfolio has enabled UDC to spread and allocate its fixed costs across more investments. As a result, the cost of managing a UDC investment has reduced from UGX 2.29 billion in 2019 to UGX 1.41 billion in 2023.

27. Managing high-risk public investments demands early intervention and strong institutional support. UDC, as an investment arm of the government, managing high-risk projects requires proactive risk management structures that intervene at early stages when signs of inefficiency and ineffectiveness are observed to support the long-term recovery and sustainability of the investments. Such investments need direct oversight, monitoring, capacity building, advisory services, handholding for the new and distressed companies, technical services, and financial literacy training, which are critical for derisking high-risk portfolio.

28. However, UDC continues to face an uphill task of successfully turning its high-risk yet strategically important investments into profitable and financially viable ones that can recover and continue delivering development impact. Financial reports indicate that five years after investment, only two out of the eighteen investments generated revenue during the evaluation period, while the remaining sixteen were yet to yield dividends or monthly debt repayments. This highlights the need to strengthen UDC's operations to foster financial sustainability and optimise the corporation's impact on development.

29. Furthermore, five years into implementation, UDC's development impact is falling short of its ambitious strategic targets. Progress remains significantly below the 10-year goal of creating 82,300 direct jobs, 80,300 indirect jobs, and over 23,000 induced jobs. To close this gap and realise its full potential as Uganda's public investment vehicle, UDC must urgently strengthen its operational efficiency, risk management systems, and governance frameworks. Accelerated performance reforms are critical to delivering on its strategic mandate and unlocking inclusive, job-intensive growth.

30. UDC's long-term investment growth is constrained by institutional capacity and limited operational autonomy. The evaluation identified limited technical capacity, weak risk management frameworks, and the absence of investment and financial autonomy as key limitations affecting UDC's ability to effectively support its high-risk projects throughout the investment lifecycle. These constraints hinder the Corporation's capacity to provide sustained oversight, technical assistance, and recovery support critical functions for translating capital deployment into long-term, sustainable development outcomes.

Areas of opportunity for improvement requiring UDC's immediate intervention are summarised below.

- 31. UDC's reliance on government as its sole funder has created instability, delayed project execution, and limited its ability to implement pipeline investments.** Over 80% of funds are disbursed through supplementary budgets, often late and ringfenced for presidential directives, crowding out approved projects. With no reflows from most investments and 59% of disbursements tied to the non-operational Atiak Sugar Factory, UDC's financial sustainability is at risk. As of Q3 2024, UDC had 26 approved pipeline investments worth UGX. 1 trillion awaiting the availability of funds for investment during the evaluation period.
- 32. UDC's shareholding structure may limit its ability to influence outcomes in high-risk, high-investment projects.** UDC often acquires minority stakes even in large, capital-intensive investments, while holding larger shares in smaller ventures. This uneven alignment raises strategic concerns. In high-value, high-risk projects, limited shareholding may weaken UDC's ability to influence governance, ensure accountability, and safeguard developmental intent. Conversely, holding dominant equity in smaller ventures may constrain capital flexibility and reduce the number of projects UDC can support, ultimately limiting its catalytic potential.
- 33. Lack of a formalised exit strategy risks undermining UDC's development impact post-investment.** UDC does not currently have a clearly articulated exit strategy embedded within its investment appraisal framework. This gap limits the Corporation's ability to plan timely, mission-aligned exits that safeguard both financial returns and long-term developmental outcomes. Without structured exit criteria or modalities, UDC faces the risk of mission drift where withdrawal from an investment could compromise the social or economic gains achieved or lead to acquisition by partners who do not share UDC's development vision.
- 34. UDC should strengthen its organisational structure and capacity to ensure adequate oversight, risk management, strategic investment, and sustainable growth.**
 - i. UDC's staffing structure can be optimised to strengthen service delivery and operational impact.** Currently, 53% of UDC's staff serve in operational roles, while 47% are in administrative functions significantly below the 70:30 benchmark commonly observed in development finance institutions. Realigning the staffing mix toward more technical and field-oriented roles would enhance UDC's ability to support clients and improve project monitoring.
 - ii. Critical staffing gaps are undermining UDC's operational capacity and development effectiveness.** As of July 2024, 40% of UDC's approved positions remained unfilled including 53% of frontline operational roles. These shortfalls have constrained the Corporation's ability to provide timely post-investment support, supervise projects effectively, and respond to investee needs.

- iii. **UDC requires 29 additional technical staff to enable effective monthly oversight of its investments.** Staffing assessments revealed that the Monitoring and Evaluation and Investment departments remain critically understaffed, with gaps of 10 and 19 personnel, respectively even after accounting for currently vacant positions. Addressing this shortage is essential to strengthen UDC's capacity for routine onsite supervision, results tracking, and responsive portfolio management across its high-risk investment pipeline.
 - iv. **Strengthening lifecycle support teams is critical to managing UDC's high-risk investments.** Priority should be placed on expanding and professionalising teams responsible for due diligence, monitoring, capacity building, advisory and technical services, risk management, investee governance, and financial literacy training. Dedicated, hands-on service delivery across the investment lifecycle is essential to safeguard capital, improve investee performance, and ensure the long-term success and sustainability of UDC's portfolio.
- 35. UDC's high turnaround times and manual processes limit the timely execution of investments, particularly for agriculture and seasonal enterprises.** Only 17% of sampled investments received funding within the expected 3 to 8 months window, while the remaining 83% experienced delays ranging from 1.5 to 5 years. Accelerating disbursement processes particularly for sectors like agro processing where timing is critical and would help align financing with seasonal production cycles, enhance productivity, and maximise development impact.
- 36. Strengthening adherence to investment policy thresholds will safeguard UDC's financial sustainability.** Opportunities exist to enhance enforcement of UDC's investment manuals to prevent exposure to disproportionate sectoral risks that may burden public finances. For instance, the Atiak investment exceeded the 25% sectoral risk threshold outlined in UDC's investment manual, highlighting the need for stricter compliance and internal accountability to protect the Corporation's portfolio integrity and government resources.
- 37. The absence of clearly defined development impact KPIs and milestones is constraining UDC's impact accountability.** Without clearly articulated development impact indicators at both corporate and investee levels, UDC faces limitations in tracking progress, measuring outcomes, and enforcing its mandate as a development finance institution. Institutionalising specific, measurable KPIs would enable more rigorous monitoring, enhance strategic alignment, and ensure that all investments contribute meaningfully to Uganda's national development goals.
- 38. Strengthening UDC's data systems is essential for demonstrating impact and driving strategic growth.** Limited data availability, manual systems, and weak baseline tracking continue to constrain UDC's ability to showcase its true development footprint. Institutionalising robust data infrastructure, improving baseline data collection, and aligning

impact measurement with global DFI standards will enable evidence-based decision-making, strengthen investment accountability, and position UDC as a results-driven catalyst for sustainable economic transformation.

- 39. UDC should scale up targeted brand awareness campaigns to close information gaps and expand its development reach.** While 64% of surveyed manufacturing stakeholders were aware of UDC’s offerings, a significant information gap persists, with lack of awareness emerging as the top barrier to uptake. Enhancing visibility through strategic communication on UDC’s mandate, products, and success stories will reinforce its relevance as a national DFM, attract high-impact projects, and unlock broader participation in its investment pipeline.
- 40. Cross-program visibility can strengthen Uganda’s DFM ecosystem.** Only 29% of clients from peer DFMs such as the MSC, and UDB were aware of UDC, and 71% had never heard of it. Strengthening cross-program awareness and coordinating outreach with other DFMs will enhance national coverage, reduce duplication, and improve overall delivery of development finance.
- 41. Peer learning among UDC-funded projects remains an opportunity for enhancement.** Only 11% of the sampled projects reported being linked to peer enterprises by UDB, while 48% expressed dissatisfaction with UDC efforts to foster knowledge exchange. Facilitating inter-project learning, mentorship, and collaborative forums can unlock innovation, improve project outcomes, and accelerate the uptake of best practices across the portfolio.
- 42. Strengthening data-sharing protocols can unlock deeper insights into DFM performance and impact.** The evaluation highlighted an opportunity to improve information flow between DFMs such as UDC and government oversight bodies by enabling access to anonymised customer-level data. While the Data Protection and Privacy Act, 2019 appropriately safeguards personally identifiable information, the absence of clear guidelines for sharing non-identifiable data has limited the ability to comprehensively assess lending patterns, institutional development impact, and policy coherence. Addressing this gap will enhance the government’s capacity to make evidence-based decisions and coordinate development financing effectively.
- 43. Borrowers' feedback obligations are essential for transparency, learning, and accountability in public financing.** Currently, there is no formal mechanism requiring borrowers of government-funded loans to participate in follow-up engagements or provide feedback on loan usage and outcomes. This limits information flow between DFMs, government, and beneficiaries weakening the ability to monitor effectiveness, draw lessons, and assess development additionality. As custodians of public funds, DFMs must be empowered to collect borrower feedback in collaboration with government oversight bodies. Embedding borrower participation as a condition of accessing public funds will foster a culture of transparency and shared responsibility in development financing.

Operational, Financial and Economic Recommendations

44. The recommendations below outline actionable interventions aimed at positioning UDC as a centre of excellence for managing high-impact, nationally strategic investments.

- i. **UDC should immediately conduct a comprehensive review of all its investments.** Strengthening UDC's investment recovery, performance tracking, and financial sustainability is essential to unlocking its full development potential. Given that only 2 out of 18 investments had generated revenue five years after capital injection, UDC must urgently implement a structured performance turnaround strategy to safeguard public capital and reinforce confidence in its role as a catalytic development financier. A comprehensive portfolio review should be conducted to diagnose the underlying financial, operational, and governance constraints affecting each investment. Based on these insights, UDC should develop tailored recovery plans and, where necessary, define clear exit strategies each anchored in measurable performance targets and time-bound milestones.
- ii. **UDC should institutionalise investment-level performance indicators and milestones to track profitability, cash flow health, and contribution to development outcomes.** These indicators should form the basis for systematic monitoring, early warning, and timely intervention. Strengthening these internal investment management systems will not only support financial sustainability but also enable UDC to report meaningfully on its development impact and value for money reinforcing its relevance as a government-owned enterprise advancing Uganda's industrial transformation.
- iii. **UDC should adopt a context-specific KPI framework based on the investment circumstances to align investee performance with stakeholder expectations.** Initial KPIs should prioritise survival and operational continuity for distressed investments at the time of acquisition, with financial returns and dividends considered medium- to long-term targets. Conversely, early-stage KPIs should focus on profitability and dividends for financially viable investments. This will foster a balanced approach to development impact and financial sustainability.
- iv. **UDC should enforce public performance disclosure to enhance investee accountability, promote transparency in the use of public funds, and enhance the prioritisation of development impact.** Routine publication of development impact performance data will incentivise stronger results from investees, enable public scrutiny, and reinforce UDC's role as a steward of national development resources.
- v. **The following targeted interventions are recommended to enhance UDC's financial autonomy and ensure its long-term sustainability as a self-reinforcing DFM.** These actions are designed to improve capital mobilisation, balance investment horizons, safeguard strategic autonomy, and strengthen investor confidence in UDC's ability to deliver sustained development impact.

- **UDC should establish a dedicated unit to lead and prioritise strategic funding mobilisation efforts.** This will enhance the Corporation's ability to secure long-term, affordable capital aligned with its development mandate.
 - **UDC should seek Ministry approval to ringfence a portion of its financing for presidential directives,** while allocating the remainder to pipeline investments appraised through its internal framework to preserve strategic investment autonomy.
 - **A mixed investment model that balances long-term development projects with commercially viable, revenue-generating investments is proposed to strengthen UDC's financial autonomy and long-term sustainability.** This approach will enable UDC to cross-subsidise high-impact, patient-capital investments with returns from short- to medium-term profitable ventures, ensuring a steady flow of income while advancing its development mandate.
 - **UDC should diversify its equity portfolio to include a mix of short-term, mid-term and long-term investments.** This will reduce the risk exposure and smoothen UDC's cash flow. UDC's current portfolio includes mostly long-term investments.
 - **UDC should lobby for the Government of Uganda to guarantee its borrowing to strengthen investor confidence.** This is contingent on successful recovery of its struggling investments.
- vi. **UDC should adopt a structured shareholding policy aligned to risk, strategic intent, and development impact.** To strengthen portfolio governance and development effectiveness, UDC should institutionalise a shareholding framework that ties ownership stakes to the scale of investment, project complexity, and required influence. This would ensure adequate control in high-risk ventures while allowing for catalytic, minority positions in lower-risk or market-ready initiatives.
- vii. **UDC should institutionalise a mission-aligned exit strategy framework to enable sustainable divestment without compromising development impact.** Structured exit approaches such as phased exits tied to performance milestones, share buybacks upon financial stabilisation, secondary sales to mission-aligned investors, and public listings where viable should be embedded into the investment appraisal and monitoring cycle. This will enhance financial sustainability, improve portfolio turnover, and ensure that exits consolidate rather than erode UDC's transformative contribution.
- viii. **UDC should reduce turnaround times by addressing staffing gaps, streamlining internal processes, and fast-tracking digitalisation.** UDC should prioritise digitising the application process and align disbursement timelines to better support seasonal and agro-based investments. These improvements will enhance service delivery, increase client satisfaction, and unlock greater development impact across its portfolio.

ix. **Strengthening UDC's organisational capacity is essential to improving investment oversight, reducing portfolio risk, and maximising development impact.** Measures proposed below will enable UDC to move beyond capital provision and operate as a full-spectrum development partner.

- **UDC should establish a dedicated Centre for Corporate Governance and Advisory to address governance gaps across its investment portfolio.** This centre will play a critical role in guiding investees to establish effective boards and transparent governance structures prior to funding, thereby mitigating governance-related risks and strengthening post-investment oversight and accountability.
- **UDC should establish a dedicated Advisory Services Unit to provide continuous technical, financial, and operational support across the full investment lifecycle.** Given the high-risk, high-impact nature of its portfolio, capital alone is insufficient. UDC must institutionalise post-investment handholding, including financial literacy, business planning, performance monitoring, and risk mitigation. The unit should be fully staffed, well-resourced, and benchmarked against regional best practices, such as the Kenya Development Corporation. This will position UDC as a full-spectrum development partner, better equipped to drive sustainable industrialisation and maximise development impact.
- **UDC should urgently fill existing vacancies, prioritising operational and technical roles to address the 40% staffing gap particularly the 53% shortfall in core functions.** In addition, rebalancing the organisational structure toward a 70:30 operational-to-administrative ratio will enhance project supervision, advisory support, and overall institutional efficiency in line with development finance best practices.
- **UDC should hire an additional 29 staff to strengthen monthly onsite monitoring and post-investment management, while exploring digital solutions to enhance efficiency.** An estimated UGX 3.5 billion is required to support this staffing expansion and system digitalisation covering increased capacity in investment and M&E functions, the establishment of a Corporate Governance and Advisory Centre, and automation to improve oversight and service delivery.

x. **Reinforcing UDC's investment appraisal framework is critical to enhancing its development impact, improving decision-making, and safeguarding public capital.** The following recommendations aim to reinforce objectivity, embed accountability mechanisms, and ensure that all investments deliver value for Uganda's industrial transformation.

- **UDC should integrate quantitative, merit-based indices such as development impact scores and economic contribution metrics into its investment appraisal framework.** This will enhance objectivity, transparency, and alignment with national

priorities, and ensure that investment decisions are driven by evidence-based criteria and deliver measurable value in line with UDC's development mandate.

- **To reinforce its catalytic role, UDC should institutionalise additionality checks within its investment appraisal framework, using counterfactual analysis to assess whether its support delivers greater development impact than market alternatives.** This will ensure that UDC finances projects genuinely underserved by the private sector, safeguards its complementarity, and maximises the transformative value of public capital.
- **UDC's investment agreements should be enhanced by incorporating governance rights and data-sharing obligations.** Examples include enforcing veto power over critical decisions to influence the strategic direction of investments and making data sharing a contractual obligation to boost data availability, reporting, and management.

- xi. **Public awareness of UDC's development finance role should be significantly scaled up to attract high-impact, nationally aligned projects that are excluded from traditional credit markets.** UDC should design and implement targeted national financial education campaigns to raise visibility, build public trust, and communicate its unique mandate of providing patient capital at concessional rates. Enhanced public understanding of UDC's services is critical to stimulate demand from underserved sectors.

45. The following actions are proposed for government to create an enabling operational environment that empowers UDC to fulfil its mandate as Uganda's premier provider of equity financing for strategic development investments.

- i. **The Ministry of Finance should provide oversight of all DFMs,** set consistent guidelines and key performance measures to govern their performance and enforce The Ministry of Finance should provide oversight of all DFMs, set consistent guidelines and key performance measures to govern their performance and enforce standardised reporting. This will strengthen the development impact of all DFMs and facilitate more collaboration and ensure alignment with the country's development agenda. This change would require the Ministry to have the right staffing levels to dedicate teams to specific DFMs and develop expertise at the DFM level.
- ii. **The government should capitalise UDC to the tune UGX. 1.104 trillion to fund its ready-to-invest pipeline projects.** UDC's capital expenditure plan includes investing UGX 395 billion in 2024/2025, UGX 325 billion in 2025/2026, and UGX 384 billion in 2026/2027.
- iii. **Before approval for investment, the government should establish timebound development impact KPIs as part of the capitalisation framework.** This should include outlining the expected social, economic, and environmental impact outcomes for any given amount of funding disbursed for development financing. Implementing this approach will

reinforce accountability for the public funds and foster more strategic alignment in achieving Uganda's development goals.

- iv. **The proposed government investment of UGX. 1.104 trillion is projected to create over 80,000 new jobs, generate approximately UGX 155 billion in export earnings, and yield around UGX 64 billion in tax revenue.** This is based on UDC's historical performance and a comparative analysis with similar national and regional development finance institutions.
- v. **The government should foster coherence and collaboration between Uganda's DFMs.** Uganda's development mechanisms often operate in isolation. As government mechanisms, collaboration should be explored among UDC, UAIS, ACF, MSC, and UDB to enhance their impact and effectiveness. Examples of potential collaborations include partnering with UAIS to provide agricultural insurance to mitigate risks for the projects investing in agriculture and their out-growers, collaborating with the MSC to offer loans to farmers and out-growers to purchase fertilisers and other essential raw materials needed to produce high-quality products, facilitating knowledge and cost-sharing among all DFMs, and engaging in syndications with UDC and ACF.
- vi. **The government should develop anonymised data-sharing frameworks to support results-based oversight and policy learning.** Government should establish structured protocols that require DFMs to routinely share anonymised, non-personally identifiable customer-level data with designated oversight institutions. This will ensure full compliance with data privacy laws while enabling robust monitoring, evaluation, and learning. Institutionalising such data-sharing practices will foster greater transparency, improve coordination across DFMs, and strengthen the alignment of public financing with national development goals, ultimately enhancing the developmental return on government-funded investments.
- vii. **The government should institutionalise borrower feedback requirements as a condition for accessing government funds.** Loan agreements for all government-financed programmes should include a clear clause requiring borrowers to participate in routine government or DFM-led follow-ups. Borrowers must be informed at the point of onboarding that, as beneficiaries of public resources, they are obligated to provide feedback and updates when called upon. A formal policy should be adopted stipulating that failure to respond to such requests will render a borrower ineligible for future access to public financing schemes. This will enhance data flow, improve monitoring of development results, and ensure greater accountability and learning in the management of public funds.
- viii. **Independent evaluations led by NPA and the Ministry of Finance should be institutionalised every 3 to 5 years to strengthen UDB's alignment with national priorities.** This evaluation commissioned by MoFPED and executed by the NPA demonstrates the value of objective, government-led reviews in assessing UDB's

development effectiveness, financial sustainability, and strategic relevance. Institutionalising this model as a recurring exercise every 3 to 5 years would enable evidence-based planning, enhance accountability for public capitalisation, and ensure that UDB's operations remain fully aligned with Uganda's Vision 2040 and the NDP IV.

Governance, Legal and Regulatory Evaluation

46. UDC's legal, regulatory, and governance frameworks were assessed to understand the working environment and the impact on its performance. The evaluation reviewed the governance, relevant national laws, internal policies, and governance practices, and benchmarked them against regional and global standards to identify gaps, strengths, and areas for improvement.

47. Governance, Legal and Regulatory Findings

- i. The UDC Board of Directors includes members with advanced qualifications in business administration, finance, law, and economics, providing a strong foundation for effective decision-making. Each member's unique skills directly contribute to UDC's objectives.
- ii. **Strengthening Strategic Expertise:** With the emergence of new focus areas, such as climate change and digital technologies, this expertise must also be represented on the board. This will ensure that UDC remains at the forefront of these critical developments and can integrate them effectively into its operations and initiatives.
- iii. **Gender Diversity and Decision-Making:** Currently, the board includes only two women out of seven members, representing a low percentage of approximately 28.6%. The UDC Act mandates that at least 40% of the board members be female representatives. Addressing this disparity and improving gender diversity on the board is crucial to representing diverse perspectives.
- iv. **Need for Enhanced Risk Management and Policy Compliance:** While the board's collective qualifications provide a strong governance foundation, there is an evident need to enhance capacity in risk management oversight. Ensuring that board members have robust risk backgrounds is critical for aligning UDC's operations with national and international standards. This is important for addressing emerging global and Ugandan economic risks.
- v. **Potential for Strengthening Performance Metrics:** UDC should establish a performance management framework that clearly defines measures for assessing board performance and its committees. Developing specific metrics to assess the Board's effectiveness at different levels, ranging from periodic evaluations to external assessments, will help gain a clearer understanding of the Board's impact and areas for improvement.
- vi. **Linkages between UDC Board and Investee Board:** The relationship between the UDC Board and the Investee Company Boards must be strengthened to ensure more effective

governance and oversight. While UDC staff members are appointed to the investee boards, this governance function requires a more structured and collective approach to enable the UDC Board to actively engage with UDC staff on governance and performance issues within investee companies.

- vii. **Enhanced Investee Oversight:** UDC invests in projects that often face challenges and require closer monitoring and strengthened oversight. This could be achieved through stronger board representation within investee companies and regular and transparent reporting. Currently, the financial performance of these investee companies is not consistently shared with UDC, which hinders the Board's ability to make informed oversight decisions.
- viii. **MOFPED and MITC should consider enhancing UDC's Governance Through explicit integration of the Companies Act Provisions.** The UDC Act 2016 provides a statutory foundation for UDC's mandate as a DFM, incorporating key governance features such as structured board composition, ministerial oversight, and alignment with national development priorities. However, the UDC Act does not explicitly provide for the application of the Companies Act, which limits the Corporation's ability to fully adopt certain modern corporate governance practices.
- ix. **The current composition of the UDC Board appears to fall short of the statutory requirement under Section 6(2) of the UDC Act, which mandates eight board members to ensure effective oversight and governance.** The 2022 UDC Annual Report lists six members, while the official UDC website reflects seven, indicating a potential gap in compliance with the UDC Act.
- x. **Establishing a structured KPI system for legal and regulatory compliance would significantly enhance UDC's transparency and accountability.** While UDC broadly complies with relevant national and international legal frameworks, the absence of a structured legal KPI framework limits its ability to systematically measure adherence, consistently enforce standards, and demonstrate legal and regulatory compliance to stakeholders.
- xi. **The absence of a comprehensive legal framework governing DFMs in Uganda limits their coordination, effectiveness, and long-term sustainability.** DFMs currently operate under fragmented mandates with no unifying legislation to guide their roles, governance, oversight, or reporting obligations. This regulatory gap undermines coherence across institutions, increases the risk of duplication, and constrains strategic alignment with national development priorities.
- xii. **The lack of consumer protection guidelines for clients of DFMs presents a critical gap in safeguarding borrower rights and ensuring equitable access to development finance.** Unlike the private financial sector, which is guided by the Bank of Uganda's Consumer

Protection Guidelines, DFMs currently lack a dedicated framework to safeguard the rights of their clients many of whom are SMEs, youth, women-led enterprises, and other underserved groups. This regulatory gap exposes borrowers to risks of unfair lending practices and heightens risks related to limited transparency, unclear grievance mechanisms, inadequate recourse in cases of dispute and weakens the trust in DFMs which may discourage uptake of Uganda's development financial services.

48. Recommendations

- i. UDC should develop a robust governance framework that can withstand political shifts and ensure continuity in operations. This could include establishing clear decision-making protocols during political instability and creating a crisis management team to address potential disruptions.
- ii. UDC should implement safeguards to protect the corporation's strategic autonomy, ensuring that its mandate is aligned with national goals but free from undue political interference. This could involve legal reforms to clarify UDC's independent operational scope and decision-making authority.
- iii. UDC should continue to build and strengthen public-private partnerships, focusing on capacity-building initiatives for both leadership and operational teams. This could include training programs and collaborative projects with private sector partners.
- iv. To meet the 40% mandated female representation on the UDC board, UDC should increase female representation. This could involve targeted recruitment efforts and mentorship programs to prepare women for leadership roles within the organisation.
- v. UDC should develop a comprehensive risk management framework that includes regular training for board members on emerging risks and compliance standards. This could involve adopting international risk management guidelines and conducting periodic risk assessments.
- vi. UDC should implement a performance management framework with specific metrics to assess the Board's effectiveness and investee performance. This could include regular evaluations, external assessments, and enhanced communication channels with investee boards.
- vii. **Parliament should consider including a provision in the UDC Act that permits application of the Companies Act for Enhanced Governance and Autonomy.** To strengthen UDC's governance framework and operational autonomy, it is recommended that the UDC Act, 2016 be amended to include a provision permitting the application of relevant provisions of the Companies Act. This would enable UDC to incorporate principles of corporate governance such as merit-based board appointments, clearly defined fiduciary duties, and enhanced transparency practices essential for a publicly funded institution

operating in partnership with the private sector. Aligning with the Companies Act would also reinforce investor confidence and support UDC's capacity to execute its development mandate efficiently and independently.

- viii. **MITC and UDC should take immediate steps to restore UDC's board from seven to its full composition of nine members.** Achieving full board composition will enhance legal compliance, reinforce institutional legitimacy, and ensure the Board has the breadth of expertise and capacity necessary to guide UDC's strategic direction and deliver on its development mandate.
- ix. **UDC should institutionalize a legal and regulatory KPI framework as part of its enterprise-wide performance management system.** This framework should track compliance with national laws (e.g. Companies Act, Anti-Money Laundering Act, National Environment Act), international standards (e.g. SDGs, ESG commitments), and internal governance policies. KPIs should be integrated into operational dashboards, reported to oversight bodies, and used to benchmark performance across departments and funded projects. Doing so will enhance UDC's governance, strengthen risk management, and reinforce its position as a credible development finance institution.
- x. **Parliament should consider enacting legislation to govern DFMs in Uganda, drawing on successful models from countries like Ghana and Malaysia.** Establishing a dedicated legal framework for Development Finance Mechanisms (DFMs) is critical to improving coordination, transparency, and development impact across the sector. A unified legal framework would clarify mandates, strengthen governance, and embed accountability through development impact measurement. It should require DFMs to integrate development objectives into institutional performance systems by introducing Key Performance Indicators (KPIs), performance contracts, and a standardized Development Impact Scorecard to track and report contributions to national development goals.
- xi. **Parliament should consider developing and enforce a Consumer Protection and Fair Lending Framework tailored to DFMs to safeguard borrower rights and strengthen institutional accountability.** This framework should establish clear standards for non-discrimination, transparency, responsible lending, and accessible grievance redress, aligning with national financial inclusion and development goals. To ensure consistency across the financial sector, the framework should be harmonized with existing Bank of Uganda consumer protection regulations for commercial banks. Embedding these safeguards in legislation or regulation will enhance borrower confidence, promote equitable access to development finance, and reinforce DFMs' developmental mandate.
- xii. **Parliament should mandate the formal integration of KPIs into the strategic objectives and performance management systems of DFMs.** This includes embedding impact-focused KPIs into executive performance contracts and institutional reporting frameworks to ensure alignment with Uganda's development goals. Additionally, Parliament should

introduce a standardized Development Impact Scorecard to facilitate regular, transparent monitoring and evaluation of each DFM's contribution to national priorities, thereby promoting accountability, performance-driven financing, and measurable development outcomes.

- xiii. **MITC should consider adopting internal reforms that align DFM governance with the OECD Guidelines on Corporate Governance of State-Owned Enterprises.** These include ensuring merit-based board appointments, separating internal ownership and oversight roles, enhancing transparency, and strengthening public accountability.
- xiv. **Uganda can draw critical lessons from regional peers such as Rwanda, Ghana, Zambia, and Tanzania, which have adopted dedicated legal frameworks for DFMs and placed them under the regulatory supervision of their central banks.** These countries have demonstrated that removing supervisory responsibilities from government ministries that also hold ownership stakes mitigates governance risks, promotes transparency, and ensures greater adherence to prudential standards. Aligning Uganda's DFMs with this model through oversight by the Bank of Uganda would enhance institutional credibility, and position Uganda to attract concessional and blended capital at scale.

Conclusion

- 49. The evaluation of UDC has revealed a public investment mechanism with high strategic relevance but constrained effectiveness, coherence, and sustainability.** UDC has made commendable strides in revenue growth, operational efficiency, and aligning with Uganda's industrialisation agenda under Vision 2040 and NDP IV. Its investments in value addition and import substitution demonstrate strong development intent, earning a satisfactory rating for relevance under the OECD criteria.
- 50. However, systemic constraints are undermining UDC's ability to deliver sustainable development outcomes.** Persistent operational delays, insufficient post-investment support, governance gaps, and a lack of financial and investment autonomy have limited the Corporation's ability to recover high-risk investments and scale impact. Just 2 of 18 investments generated revenue five years, post-capitalisation, highlighting urgent recovery and performance challenges. Additionally, UDC's reliance on supplementary government funding 80% of which is tied to presidential directives has weakened its strategic flexibility and portfolio sustainability.
- 51. Institutional reforms are imperative to improve UDC's performance across OECD dimensions.** On a four-point scale, UDC scored a satisfactory rating (3) for relevance, partially unsatisfactory ratings (2) for the coherence, effectiveness, efficiency, and impact, and a very unsatisfactory rating (1) for sustainability. These scores reflect gaps in risk management, coordination with peer DFMs, data systems, investee oversight, and exit planning. Most

critically, the lowest rating on sustainability signals UDC's limited ability to sustain development results without continuous public support.

52. To unlock its full potential as Uganda's equity-financing arm, UDC must transform into a financially autonomous, operationally agile, and results-driven institution. This will require government capitalisation of UGX 1.104 trillion to fund its investment pipeline, coupled with urgent reforms to strengthen governance, risk frameworks, staffing, and lifecycle support. A shift toward a mixed investment portfolio and the institutionalisation of development impact KPIs, exit strategies, and additionality checks will enhance UDC's strategic effectiveness and value for money.

53. UDC can position itself as a centre of excellence for managing high-impact, nationally strategic investments. With the reforms proposed through this evaluation, UDC can transition from a capital deployment agency to a full-spectrum, self-reinforcing development partner, catalysing job creation, industrial growth, and inclusive economic transformation across Uganda.

TABLE OF CONTENTS

EXECUTIVE SUMMARY.....	II
LIST OF FIGURES	XXVI
LIST OF TABLES.....	XXVIII
LIST OF ACRONYMS.....	XXIX
SECTION 1: BACKGROUND.....	1
1.1 INTRODUCTION.....	1
1.2 RATIONALE FOR CONDUCTING THE EVALUATION	2
1.3 EVALUATION OBJECTIVES	2
1.4 EVALUATION PERIOD	3
1.5 OVERVIEW OF UGANDA DEVELOPMENT CORPORATION.....	3
1.5.1 GOVERNANCE AND POLICY CONTEXT OF UGANDA DEVELOPMENT CORPORATION	3
1.5.2 LEGAL, REGULATORY, AND POLICY CONTEXT OF UDC	5
1.5.3 UDC STRATEGIC PLAN	6
SECTION 2: METHODOLOGY AND EVALUATION FRAMEWORK.....	8
2.1 EVALUATION FRAMEWORK	8
2.1.1 THEORY OF CHANGE FRAMEWORK	8
2.1.2 EXPECTED IMPACT OF DEVELOPMENT FINANCE MECHANISMS	8
2.1.3 OECD EVALUATION CRITERIA	10
2.2 METHODOLOGY	15
2.2.1 PHASE 1: UNDERSTANDING UDC’S OPERATIONS (OPERATIONAL REVIEW).....	16
2.2.2 PHASE 2: ASSESSING UDC’S OPERATIONAL ENVIRONMENT	18
2.2.3 PHASE 3: STAKEHOLDER ENGAGEMENT / FIELD STUDIES	19
SECTION 3: LEGAL AND REGULATORY EVALUATION.....	23
3.1 BACKGROUND.....	23
3.2 KEY OBJECTIVES OF THE LEGAL AND REGULATORY EVALUATION OF UDC.....	23
3.3 MANDATE OF UDC	23
3.4 LEGAL FRAMEWORKS GOVERNING UDC	24
3.4.1 THE UDC ACT, 2016	25
3.4.2 THE PUBLIC ENTERPRISE REFORM AND DIVESTITURE ACT (PERDA).....	29
3.4.3 THE ANTI MONEY LAUNDERING ACT, 2013.....	29

3.4.4	OTHER KEY LEGISLATIONS GOVERNING UDC'S OPERATIONS	30
3.5	UDC'S ADHERENCE TO INTERNATIONAL STANDARDS	33
3.5.1	UDC'S ALIGNMENT WITH SDGs	34
3.5.2	ALIGNING WITH IFRS	36
3.5.3	ALIGNING WITH THE OECD	36
3.6	REGULATORY GAPS IN DEVELOPMENT FINANCING	37
3.6.1	ABSENCE OF LAWS GOVERNING DFM'S	37
3.6.2	LACK OF CONSUMER PROTECTION GUIDELINES FOR DFM CUSTOMERS	38
3.7	OWNERSHIP AND SUPERVISION OF UDC	39
3.8	COMPARATIVE ANALYSIS OF REGULATION AND SUPERVISION OF DFMS	40
3.9	LEGAL AND REGULATORY KEY PERFORMANCE INDICATORS (KPIs)	41
3.10	SUMMARY OF THE LEGAL AND REGULATORY FINDINGS	44
3.11	SUMMARY OF THE LEGAL AND REGULATORY RECOMMENDATIONS	45

SECTION 4: GOVERNANCE AND POLICY EVALUATION 48

4.1	PRELIMINARY FINDINGS FROM THE GOVERNANCE AND POLICY EVALUATION	48
4.2	GOVERNANCE OF THE UDC INVESTMENTS	50
4.3	GOVERNANCE AND POLICY RECOMMENDATIONS	51

SECTION 5: ECONOMIC AND FINANCIAL EVALUATION 53

5.1	RELEVANCE.....	53
5.1.1	ALIGNMENT OF THE UDC MANDATE WITH THE NDPIV AND VISION 2040 PLANS	53
5.1.2	ALIGNMENT OF INTERVENTIONS WITH UGANDA'S DEVELOPMENT NEEDS	54
5.1.3	RESPONSE TO SOCIAL, ECONOMIC AND POLITICAL CHANGES	55
5.1.4	INVESTEES PERSPECTIVES ON UDC'S RELEVANCE	56
5.2	PORTFOLIO REVIEW	57
5.2.1	INVESTMENT FINANCING MODEL	57
5.2.2	INVESTMENT SOURCING MODEL	59
5.2.3	GROWTH TRENDS	60
5.2.4	GEOGRAPHICAL DISTRIBUTION	63
5.2.5	SECTORAL DISTRIBUTION	65
5.3	EFFECTIVENESS	74
5.3.1	ORGANISATIONAL STRUCTURE	74
5.3.2	STAFFING	78
5.3.3	ADVISORY SERVICES	87
5.3.4	INVESTMENT CRITERIA, PROCESSES AND PROCEDURES	88
5.3.5	RISK MANAGEMENT	95
5.3.6	LENDING INTEREST RATES.....	99
5.3.7	MONITORING AND EVALUATION	100
5.3.8	AWARENESS OF UDC	101
5.3.9	FUNDING	108

5.3.10	FINANCIAL PERFORMANCE	111
5.3.11	CAPITALISATION OF UDC	119
5.3.12	INVESTEE PERSPECTIVES ON UDC'S EFFECTIVENESS.....	121
5.4	EFFICIENCY	122
5.4.1	TURNAROUND TIMES.....	122
5.4.2	TECHNOLOGY AND INNOVATION	123
5.4.3	DATA MANAGEMENT AND REPORTING	123
5.4.4	CUSTOMER PERSPECTIVES ON UDC'S EFFICIENCY	124
5.5	DEVELOPMENT IMPACT	126
5.5.1	DEVELOPMENT IMPACT PROCESSES AND PROCEDURES	126
5.5.2	DEVELOPMENT IMPACT DATA COLLECTION	127
5.5.3	UDC'S DEVELOPMENT IMPACT	128
5.5.4	ADDITIVITY EVALUATION - RISK OF CROWDING OUT THE PRIVATE SECTOR	140
5.5.5	UDC'S DEVELOPMENT IMPACT FROM THE INVESTEES PERSPECTIVES	143
5.6	SUSTAINABILITY	157
5.6.1	ABILITY TO FINANCE ITS INVESTMENT ACTIVITIES AND OPERATIONS	157
5.6.2	RELIANCE ON GOVERNMENT FUNDING	158
5.6.3	CUSTOMER PERSPECTIVES ON UDC'S SUSTAINABILITY	160
5.7	COHERENCE	161
5.7.1	COHERENCE AMONG DEVELOPMENT PARTNERS, GOVERNMENT & PRIVATE SECTOR	161
5.7.2	COHERENCE AMONG OTHER DFMS	162
5.7.3	COHERENCE BETWEEN UDC'S FUNDED INVESTMENTS.....	163
5.8	CHALLENGES FACED BY UDC AND ITS INVESTEES	164
5.8.1	CHALLENGES FACED BY UDC INVESTEE COMPANIES – SURVEY FINDINGS	164
5.8.2	CHALLENGES FACED BY UDC INVESTEE COMPANIES – UDC MANAGERMENTS' FEEDBACK.....	165
5.8.3	CHALLENGES FACED BY UDC	167

SECTION 6: SUMMARY OF FINDINGS AND RECOMMENDATIONS 169

6.1	LESSONS LEARNED AND AREAS OF IMPROVEMENT.....	169
6.2	OVERALL OECD RATINGS	178

SECTION 7: PROPOSED PHASED IMPLEMENTATION PLAN..... 181

7.1	IMMEDIATE ACTIONS (0–6 MONTHS)	181
7.2	SHORT TERM ACTIONS (6 – 12 MONTHS).....	182
7.3	MIDTERM ACTIONS (1 – 3 YEARS)	183
7.4	LONGTERM ACTIONS (ABOVE 3 YEARS)	184

SECTION 8: APPENDIX ITEMS..... 186

8.1	OECD EVALUATIONS RATINGS.....	186
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8.1.1	RELEVANCE RATING	186
8.1.2	COHERENCE RATING	186
8.1.3	EFFECTIVENESS RATING	187
8.1.4	EFFICIENCY RATING.....	189
8.1.5	DEVELOPMENT IMPACT RATING	189
8.1.6	SUSTAINABILITY RATING	191

LIST OF FIGURES

Figure 1: One Hundred and Twenty Years of UDC (1903 to 2023)	4
Figure 2: Evaluation Framework	9
Figure 3: Summary of the Evaluation Methodology	15
Figure 4: Disbursements by Financing Option	58
Figure 5: UDC's Financing Options	58
Figure 6: UDC Investment Sourcing Model	59
Figure 7: UDC Investees by Year of Investment	60
Figure 8: UDC Disbursements (UGX. Billions)	61
Figure 9: Cumulative Disbursements (UGX. Billions)	61
Figure 10: Share of Funds by Investee	62
Figure 11: Amount Disbursed by Investee (UGX. Billions)	62
Figure 12: Number of UDC Investments by Region	63
Figure 13: UDC Disbursements by Region (UGX. Billion)	63
Figure 14: Map of Uganda Showing Location of UDC Investments	64
Figure 15: UDC Investments by Sector	65
Figure 16: UDC Organisational Chart and Available Positions	74
Figure 17: Investee Advisory Services Feedback	88
Figure 18: Summarised Investment Appraisal and Process Flow	90
Figure 19: UDC Shareholding Compared to Amount Invested	98
Figure 20: Investments Paying Given Interest Rates	100
Figure 21: Regional Distribution of the UDC Public Awareness Survey Respondents	103
Figure 22: Factor Limiting Public Access to UDC Financial Services	104
Figure 23: Awareness Ranking Among Other DFMs	106
Figure 24: Awareness Ranking Among the Public	106
Figure 25: UDC Government Funding: 2021 - 2023	109
Figure 26: Approved Compared to Supplementary Budgets	110
Figure 27: UDC Operating Costs (UGX Billions)	113
Figure 28: Distribution of UDC's Operational Costs	113
Figure 29: Distribution of Finance and Admin Costs	114
Figure 30: UDC Operating Income	114
Figure 31: UDC's Cost to Income Ratios	114
Figure 32: Cost of Managing a UDC Investment	114
Figure 33: UDC's Profitability	115
Figure 34: Nile Hotel LTD - Revenues Costs and Profit	116
Figure 35: Soroti Fruit Factory - Revenues Costs and Profit	117
Figure 36: UDC Planned Pipeline Investments (UGX. Billion)	119
Figure 37: Rating of the Products and Services and Ease and Transparency Processes ...	121
Figure 38: Rating of the Responsiveness of UDC When Contacted for Help	121
Figure 39: UDC's Turnaround Times	125

Figure 40: Rating of UDC's Turnaround Times.....	125
Figure 41: UDC's Development Impact.....	129
Figure 42: Proposed Three-Tier Theory of Change Framework	135
Figure 43: Tracking New Jobs Created Across UDC Investment Vintages (2020–2022) ...	139
Figure 44: Sampled UDC Projects that Would Have Qualified for the Private Sector Loans	142
Figure 45: Reasons for Choosing the UDC Loans (Field Study Results).....	142
Figure 46: Impact of UDC's Funding on Business Performance	148
Figure 47: Indirect Impact of UDC Funding on Value Chain Businesses	153
Figure 48: Impact of UDC Funding on Income of Indirect Beneficiaries	154
Figure 49: Impact of UDC Funding on Access to Basic Needs by Indirect Beneficiaries ..	154
Figure 50: Changes in Energy Source Use Post the UDC Indirect Beneficiaries.....	156
Figure 51: Impact on Mindset Change of Indirect UDC Beneficiaries.....	156
Figure 52: Rating of Business Continuity Confidence by Sampled UDC Investments	160
Figure 53: Rating of UDC's Internal Coherence.....	163
Figure 54: Challenges Faced by the UDC Investees	165

LIST OF TABLES

Table 1: Multi-Dimensional OECD Evaluation Criteria Analysis	10
Table 2: UDC Evaluation Sample Selection	22
Table 3: Alignment of the UDC Investments with SDGs.....	35
Table 4: Alignment of UDC mandate with SDGs.....	35
Table 5: UDC Investment per Household and Per Capita	64
Table 6: List of Current and Pipeline Tea Investments	67
Table 7: List of Current and Pipeline Other Agro Industries Investments	69
Table 8: List of Current & Pipeline Operational Infrastructure & Services Investments...	70
Table 9: List of Current & Pipeline Knowledge Intensive Investments	71
Table 10: List of Current & Pipeline Mineral Beneficiation Investments	72
Table 11: List of Current UDC Projects as of August 2024.....	73
Table 12: UDC Organisational Chart Evaluation.....	77
Table 13: Staffing Model for the Monitoring and Evaluation Team	80
Table 14: Target Turnaround Times for Investment Decision-Making	82
Table 15: Staffing Model for the Investment Teams	83
Table 16: UDC Proposed Employee Hiring by Function	86
Table 17: UDC Public Awareness Survey Results	102
Table 18: Awareness of UDC Among UDC, ACF and MSC SACCO Leaders	105
Table 19: UDC's Sources of Revenue	112
Table 20: Breakdown of Soroti Fruit Factory Expenses	118
Table 21: Regional Development Impact Comparative Analysis	119
Table 22: Expected Development Impact of UDC's 2025 – 2027 Planned Capitalisation..	120
Table 23: Regional Development Impact Comparative Analysis	138
Table 24: Customer Survey Employment Data Compared to UDC's Aggregate Data	144
Table 25: Inclusivity Metrics: Customer Survey Compared to UDC's Aggregate Data	147
Table 26: Inclusivity Among the Indirect UDC Beneficiaries	152
Table 27: Summary of Multi-Dimensional OECD Evaluation Ratings	178
Table 28: Summary of the Investments' OECD Evaluation Ratings	179
Table 29: OECD Evaluation Rating of UDC's Relevancy	186
Table 30: OECD Evaluation Rating of UDC's Coherence	187
Table 31: OECD Evaluation Rating of UDC's Effectiveness	187
Table 32: OECD Evaluation Rating of UDC's Effectiveness	189
Table 33: OECD Evaluation Rating of UDC's Impact	190
Table 34: OECD Evaluation Rating of UDC's Sustainability	191

LIST OF ACRONYMS

ACF	Agricultural Credit Facility
AFDB	African Development Bank
CMS	Church Missionary Society
DAC	Development Assistance Committee
DFI	Development Finance Institution
DFM	Development Finance Mechanism
EADB	East African Development Bank
ESG	Environmental Social and Governance
GLP	Green Loan Principles
ICDC	Industrial and Commercial Development Corporation Kenya
IDC	Industrial Development Corporation of South Africa Limited
GSG	Greenhouse Gas Emissions
KDC	Kenya Development Corporation
KWH	Kilowatt Hours
MSC	Microfinance Support Center
MSME	Micro Small and Medium Enterprises
NDP	National Development Fund of Taiwan,
NDP IV	Fourth National Development Plan
NPA	National Planning Authority
NPL	Non-Performing Loans
OECD	Organisation for Economic Co-operation and Development
PPP	Public-Private Partnerships
PERDA	Public Enterprises Reform and Divestiture Act, Cap 98
PWD	Persons with Disability
SDG	Sustainability Development Goals
SME	Small and Medium Enterprises

ToC	Theory of Change
ToR	Terms of Reference
UAIS	Uganda Agricultural Insurance Scheme
UCL	Uganda Company Limited
UDB	Uganda Development Bank
UDC	Uganda Development Corporation
UGX	Uganda Shillings

SECTION 1: BACKGROUND

1.1 Introduction

1. **The Uganda Development Corporation (UDC) is one of the key mechanisms for development financing prioritised in the National Development Plan IV (NDPIV). It is essential for achieving Uganda's ambitious goal of tenfold economic growth as outlined in the Vision 2040 plan.** In a country such as Uganda, where the majority cannot access credit from the private sector primarily due to perceived high risk resulting in stringent collateral requirements and high interest rates, development financing serves as a solution for addressing such market gaps.
 2. **DFMs are channels used by the government to address market gaps through targeted financing to sectors of the economy that would not typically attract funding from the private sector but are crucial for economic development.** Examples include agriculture, renewable energy, infrastructure development, and more. By addressing market failures, DFMs such as UDC are vital instruments for increasing access to affordable credit, which is critical for driving Uganda's economic growth and development.
-
3. The Government of Uganda underscores the critical role of development financing in achieving the ultimate development goal of improving the quality of life of Ugandans and has prioritised five Development Financing Mechanisms (DFMs) in the fourth National Development Plan (NDP IV). The five prioritised DFMs include the Uganda Development Corporation (UDC), the Uganda Development Bank (UDB), the Agricultural Credit Facility (ACF), the Uganda Agricultural Insurance Scheme (UAIS), and the Microfinance Support Centre (MSC).
-
4. To support UDC's long-term decision-making and inform the NDP IV planning, the National Planning Authority (NPA) was commissioned by the Ministry of Finance, Planning, and Economic Development (MoFPED)'s Top Management to conduct comprehensive independent evaluations of UDC.
 5. Findings from this evaluation include targeted short-term, mid-term, and long-term recommendations to support performance improvement and enhance UDC's effectiveness, efficiency, and development impact. Results are also critical for UDC's long-term strategic planning and were leveraged to inform policy and planning of the Fourth National Development Plan (NDP IV).

1.2 Rationale for Conducting the Evaluation

6. **With its core mandate of facilitating Uganda's industrial and economic development, UDC's success directly impacts the nation's progress, making its performance and effectiveness a matter of national importance.** Given its critical role, regular assessments are essential to strengthen UDC's development impact and align its service delivery with the country's growth objectives. This includes ensuring the corporation is operating as it should and fulfilling its mandate based on current political and economic conditions. Free competition alone cannot signal the success or failure of development financing mechanisms such as UDC, given that they exist to address specific market gaps and are wholly or partially owned and funded by the government.

This evaluation is therefore necessary to promote good governance, ensure UDC's adherence to its mandate, support accountability for Uganda's public funds, and strengthen UDC's performance and development impact.

7. **However, there is no record of a comprehensive independent evaluation conducted by the government of Uganda to inform UDC's long-term planning.** This study is the first of its kind and will serve as a baseline for future independent evaluations.

1.3 Evaluation Objectives

8. The key objective for conducting this evaluation is to assess UDC's organisational and operational autonomy, focusing on its efficiency, effectiveness, coherence, relevance, sustainability, developmental impact and overall performance.
9. Specific objectives are to: -
 - i. Assess UDC's efficiency and effectiveness to identify best practices, lessons learned, and opportunities for improvement. This will centre around understanding the institutions' operations and strategies.
 - ii. Document UDC's challenges and propose short-term, midterm, and long-term operational recommendations for proactive intervention to improve performance.
 - iii. Study UDC's lending rate structure and investigate the lending interest rate determinants.
 - iv. Quantify UDC's development impact such as creating jobs, use of local raw materials, etc., in terms of units and disbursements, and compared to national development goals.
 - v. Evaluate the adequacy of UDC's governance, policy, legal, regulatory, and institutional frameworks on its performance and operations.
 - vi. Recommend policy interventions to accelerate UDC's development impact and inform planning of the fourth National Planning Development Plan (NDP IV).

1.4 Evaluation Period

10. The evaluation period considered for the study is between 2016 and 2023. This period aligns with the period when Uganda adopted the National Development Plan (NDP) framework and looks at the performance of the new UDC which was re-established in 2016. This period also provides sufficient time series for before and after the COVID-19 pandemic comparisons.

1.5 Overview of Uganda Development Corporation

1.5.1 Governance and Policy Context of Uganda Development Corporation

11. The history of UDC dates to 1903, when the British colonial administration founded it. It was initially called the Uganda Company Limited (UCL), which was registered as a limited liability company on October 31, 1903. The initial objective of UCL was to support the work of the Church Missionary Society (CMS) in providing industrial education and training for the local population. By the end of 1952, UCL represented 14 motor companies, 2 in cotton and 28 in electrical and industrial sectors, and four general companies involved in insurance, toys, textiles, and tea.
12. In 1952, UDC was established by the UDC Act, Chapter 326 of 1952, and the Laws of Uganda to take over the assets and operations of Uganda Company Limited and expand into other areas of economic development.
13. With Uganda's independence in 1962, UDC became an integral part of the nation's economic strategy, emphasising industrialisation and infrastructure to support economic self-reliance. This early period was marked by optimism and ambition, as UDC contributed significantly to shaping Uganda's industrial future.
14. The post-independence years, spanning the 1960s and early 1970s, saw UDC expanding its investment portfolio to include sectors like textiles, food processing, and manufacturing, effectively diversifying Uganda's industrial base. These investments spurred employment and economic modernisation across the country.
15. UDC investments included 38 Subsidiaries and 19 associated companies, employing at least 24,000 people. The corporation was the second biggest employer after the public service. People's incomes were enhanced, as evidenced by the remarkable increase (by about 36%) in payments to workers from £15,319 in 1964 to £20,777 in 1966.
16. By 1970, UDC contributed about 33% to the country's total revenue through taxation, generated £467,986 in tax revenue annually, and operated all its investments profitably. Similar corporations from other countries visited Uganda to learn from it.²

² UDC Working Paper No. 2: The Journey of Uganda Development Corporation as a Statutory Body Responsible for Industrializing Uganda, 2022.

17. Important to note are the following.

- i. UDC was capitalised to £5,000,000 (five million pounds sterling), equivalent to £140,000,000 (one hundred forty million pounds sterling) or approximately UGX. 670 billion in 2019.
- ii. UDC maintained oversight of its subsidiaries through both the provision of secretariat services and the assignment of staff to offer technical supervision and oversight.
- iii. UDC was registered under the Companies Act and managed according to commercial principles either unilaterally or in partnership with private firms.
- iv. The UDC Board was comprised of personnel such as the Financial Secretary, the Protectorate Development Commissioner, and the UDC Chief Executive, who implemented an investment policy anchored in commercial principles.

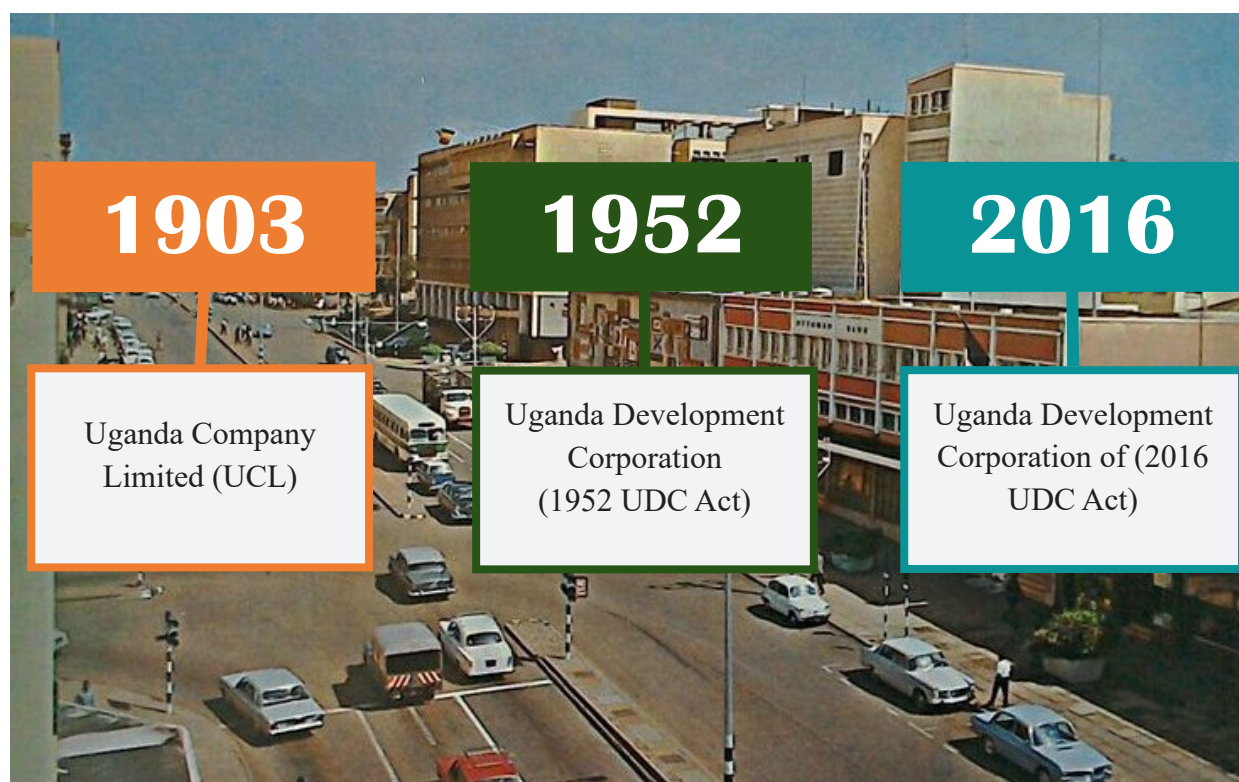


Figure 1: One Hundred and Twenty Years of UDC (1903 to 2023)

18. However, political instability and economic mismanagement during Idi Amin's regime in the 1970s led to a severe decline in UDC's operations. Nationalisation policies and governance challenges strained the corporation's resources, leading to inefficiencies, diminished productivity, and a loss of strategic direction. Continued political instability in the 1980s exacerbated these issues, and by the late 1990s, UDC was financially strained and ultimately dissolved in 1998.

19. In 2016, the Ugandan government re-established UDC under the National Industrial Policy, recognising the need for a dedicated body to support industrialisation. The revitalized UDC shifted its focus towards sustainable economic development, promoting public-private partnerships, and making strategic investments in critical sectors such as agro-processing, manufacturing, and infrastructure.
20. Since then, UDC has aimed to drive industrial growth through innovation and collaboration, learning from past challenges by prioritising good governance, strategic investment, and partnerships with the private sector. This renewed focus positions UDC as a catalyst for Uganda's ongoing industrial and economic transformation.

1.5.2 Legal, Regulatory, and Policy Context of UDC

21. The Uganda Development Corporation (UDC) operates under a legal framework established under the UDC Act of 2016, Laws of Uganda. UDC operates as a statutory corporation with full legal capacity, including the ability to sue and be sued in its own name, but wholly owned by the state. As a distinct legal entity, UDC can perform all lawful functions expected of a corporate body.
22. The UDC Act also outlines the structure, roles, and responsibilities of the UDC board and management, which are appointed to oversee the UDC's operations and ensure adherence to its mandate while contributing to the country's development goals.
23. Section 3 of the UDC Act mandates UDC to promote and facilitate industrial and economic development in Uganda. To achieve this objective, Section 3(2) of the UDC Act empowers UDC to:
 - i. *Establish subsidiary and associated companies to support strategic industries.*
 - ii. *Engage in public-private partnerships (PPPs) with commercial, industrial, and agricultural entities.*
 - iii. *Assist in financing and managing undertakings through PPPs, promoting industrial and economic development.*
 - iv. *Support and promote research focused on industrial development.*
24. While the UDC Act establishes UDC as a government-owned development finance mechanism (DFM) focused on driving industrial and economic growth through strategic state investments and partnerships, it does not provide detailed legal and regulatory guidelines specific to development finance mechanisms. **As a result, Uganda has no comprehensive legal framework governing development finance.**

25. Similarly, the Public Enterprises Reform and Divestiture Act, Cap 98 (PERDA), which classifies UDC as a public enterprise, outlines UDC's compliance and reporting obligations but lacks specific regulatory guidelines for development finance mechanisms.
26. This gap highlights an area for potential policy development to establish standards and best practices specific to development finance. This would help promote consistency, transparency, and accountability across all DFMs operating in Uganda.

1.5.3 UDC Strategic Plan

27. To deliver its mandate, UDC set a 10-year (2020 – 2030) strategic plan that centres on supporting the execution of investment in value addition with a focus on three key sectors: agro-processing, mineral beneficiation, and infrastructure and social services. UDC invests in new and existing projects to achieve sustainable growth, creating value for stakeholders and ensuring the long-term success and viability of the businesses.
28. The institution's strategy plan includes three interdependent objectives.
1. Strengthen internal capacity and processes for UDC to deliver its mandate,
 2. Leverage partnerships and networks to optimise resources and foster collaboration and
 3. Invest in strategic and sustainable investments geared to Uganda's overall economic and industrial development.
29. Among others, strategies prioritised by UDC for achieving the above objectives include: -
- Strengthening the governance of UDC.
 - Enhance internal policies and processes that will allow for timely service delivery and achieving targets.
 - Support the proper functioning of the board through regular board development initiatives.
 - Develop and implement a robust communication strategy that relays UDC's ability to invest on behalf of the Government.
 - Aligning the organisational structure and skillset to the overall strategy of UDC.
 - Conduct an organisational development exercise to determine the right staff complement.
 - Adoption of secure technology and systems to improve investment, communication and overall operational efficiency of the Corporation.
 - Digitize processes and procedures in UDC to attain operational efficiency in communication and post-investment monitoring.
 - Build technologies to analyse data generated from UDC's investments to simplify the management reporting process.
 - Implementing strong risk management at all levels.

- Using development partnerships to co-finance the feasibility studies for potential investment projects in the minerals sector.
- Utilising Operations & Management partnerships to run or turn around UDC's investments efficiently and effectively.
- Engaging potential partners using co-investments (joint venture, PPPs).

30. UDC has chosen to invest in priority sectors that have the greatest multiplier effect on the Ugandan economy. These sectors focus on maximising the use of local raw materials and enhancing the country's trade position. The key sectors identified for investment include agro-manufacturing, the mineral sector, and strategic opportunities outside agro-manufacturing and minerals.

31. The proposed total budget for implementing UDC's strategic plan was estimated at UGX. 5.1 trillion to support the rolling out of investments in the agro manufacturing, minerals, and strategic sectors that will give rise to 82,300 direct jobs, 80,300 indirect jobs, and over 23,000 induced jobs within its 10-year strategic planning period.

UDC is in the fifth year of its 10-year strategic plan and there are opportunities of conducting a midterm review to assess progress of the UDC 2020 – 2030 strategic plan midway through its implementation.

This will enable identifying constraints, corrective actions and lessons learned to inform and strengthen performance for the 2nd half of UDC's strategic plan.



UDC prioritises investment in agro industrialisation.

SECTION 2: METHODOLOGY AND EVALUATION FRAMEWORK

2.1 EVALUATION FRAMEWORK

32. UDC's performance was evaluated based on three overlapping approaches.

- i. UDC's theory of change framework.
- ii. Expected outcomes of DFMs such as additionality, catalytic effects, sustainability and development impact as summarised in Figure 2.
- iii. The OECD/DAC (Organisation for Economic Co-operation and Development / Development Assistance Committee) criteria. This international benchmark evaluates the performance of development mechanisms across six key dimensions: relevance, coherence, effectiveness, efficiency, impact, and sustainability.

2.1.1 Theory of Change Framework

33. The theory of change framework outlines how the institution's desired results will be achieved. It provides a clear framework for understanding what success should look like for a development financing mechanism. It explains how given interventions are expected to lead to specific development changes³ and defines the institution's short, medium and long-term goals, which are then mapped backwards to identify necessary conditions for achieving those goals.

34. If in existence, data is collected to provide empirical evidence to demonstrate whether the impact and results anticipated based on the DFM's theory of change are being achieved, identify factors impacting the performance, and recommend strategies for improvement.

35. UDC's strategy implementation and achievement of expected impact as stipulated in its theory of change framework was therefore assessed as part of this evaluation. **UDC, however, did not have a formal, clearly defined theory of change framework to articulate the corporation's short-term, mid-term and long-term goals.** The evaluation, therefore, based the corporation's assessment on expected outcomes of Development Financing Mechanisms and the OECD/DAC criteria.

2.1.2 Expected Impact of Development Finance Mechanisms

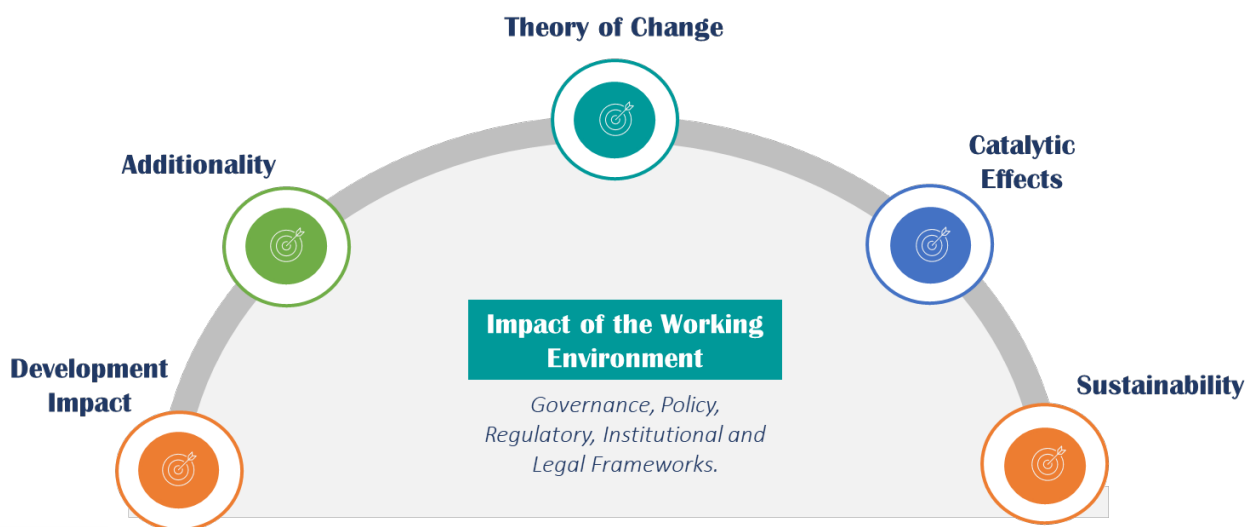
36. DFMs are expected to result in the outcomes below, which were considered additional performance measures for UDC's independent evaluation.

- a. **Additionality:** DFMs should support and add to but not crowd out private sector investment by financing projects that would not otherwise receive funding from the private sector. This hypothesis was evaluated by assessing the counterfactual effect of UDC's investments to

³ Theory of Change. United Nations Development Group Companion Guidance

analyse the unique impact UDC is contributing to Uganda's development beyond what the private market or other entities would have achieved independently.

- b. **Catalytic Effects:** DFMs should pioneer and demonstrate success by investing in sectors overlooked by the private sector either due to lack of knowledge or perceived high risk to catalyse or prove their potential and provide evidence for commercial viability in these sectors. All else constant, this encourages the private sector to invest in similar projects. UDC's catalytic effect was estimated by considering partnerships with other investors for their ongoing projects.
- c. **Development Impact:** DFMs should invest in projects meant to have positive development impacts, such as employment generation and increased government revenue, leading to economic growth and improved living standards. Other impacts considered are environmental sustainability, creating links between firms or providing goods and services to the country's vulnerable segments, access to financial services, etc.
- d. **Sustainability:** DFMs provide customers with loans, guarantees, and equity investments. These investments must be economically and financially sustainable to ensure their long-term viability and that of the DFM.



Development Financial Mechanisms exist to address market failures by servicing the unbanked or unbankable sectors of an economy.

Figure 2: Evaluation Framework

37. UDC's performance was therefore further measured against its ability to add products and services without crowding out the private sector, its ability to foster synergies and syndications, its development impact in terms of the economic, social, and environmental impact, and UDC's sustainability as an institution as well as the sustainability of projects invested in by UDC.

2.1.3 OECD Evaluation Criteria

38. The OECD/DAC (Organisation for Economic Co-operation and Development / Development Assistance Committee) criteria were used to assess UDC's performance based on six broader development goals: relevance, coherence, effectiveness, efficiency, impact and sustainability. The OECD evaluation criteria is an internationally recognized approach for assessing projects and applying this standardized criterion enabled comparison of findings and feedback from all UDC stakeholders.



39. Table 1, demonstrates the multidimensional approach used to validate findings from key UDC stakeholders based on the OECD evaluation criteria. This involved assessing feedback on the relevance, coherence, effectiveness, efficiency, impact and sustainability of UDC's interventions from the perspective of its investees and their beneficiaries, UDC's employees, and other UDC stakeholders such as the government, donors etc.

Table 1: Multi-Dimensional OECD Evaluation Criteria Analysis

Criteria	Evaluation	Investees & Beneficiaries	Government Donors etc.	UDC Employees
1. Relevance	●	●	●	●
2. Coherence	●	●	●	●
3. Effectiveness	●	●	●	●
4. Efficiency	●	●	●	●
5. Impact	●	●	●	●
6. Sustainability	●	●	●	●

Four-Point Likert Rating Scale

● 4. Very Satisfactory ● 3. Satisfactory ● 2. Partly Unsatisfactory ● 1. Unsatisfactory

40. A combination of qualitative and quantitative approaches was used to analyse performance against the OECD evaluation criteria. This included binary responses and a Four-Point Likert Scale rating. The specific development measures evaluated under each component of the OECD evaluation are listed below.

41. Relevance

Evaluating the relevance of UDC's interventions included assessing the following measures.

- Alignment of UDC's mandate, mission and goals with Uganda's Vision 2040 and the National Development Plans by comparing the strategic plans to the mandate etc.
- Alignment of UDC's interventions and investments with Uganda's development needs and priorities, including provision of products and services to marginalised sectors and regions, and targeting cross cutting issues e.g. gender, youths and SMEs. This included an evaluation of UDC's portfolio including its sectoral and geographical coverage as well as potential impact on populations and households.
- Evidence of response to national and international social economic and political changes assessed by evaluating how UDC has adapted to national/global environmental, socio-economic and political changes to ensure relevance of its strategies and programs.
- Evaluating the relevancy of policy, legal, regulatory frameworks and governance on the UDC's performance and development impact.
- Stakeholders' (employees, customers, government, donors, etc.) feedback on the relevancy of UDC, its products and services.

42. Coherence

Coherence of UDC's intervention was measured by evaluating synergies between projects, products, services, and stakeholders. This included the following.

- Internal coherence which measured synergies between UDC's investments. This was measured by evaluating the extent of harnessing linkages between UDC's investees for mentorship, sharing best practices, and cross selling opportunities.
- Promotion of knowledge sharing, learning, and innovation among customers.
- External coherence
 - This was measured by the extent of synergies and collaboration with other development agencies and mechanisms including Uganda Development Bank (UDB), Microfinance Support Center (MSC), Uganda Agricultural Facility (UCF), and the Uganda Agricultural Insurance Mechanism (UAIS) or any other similar agencies. Examples included evaluating knowledges sharing, sharing best practices, lessons learned, and innovative approaches with other DFMs.
 - Also measured under external coherence was the level of collaboration between UDC and the private sector.

- Syndications as a measure of the extent to which UDC engages in joint programming (catalytic effect) and financing from other sources such as private sector investment, international donors, or multilateral development banks to promote synergies and complement their own financing efforts.
- Level of stakeholder engagement and mechanisms for ongoing dialogue and consultation with stakeholders to identify areas for collaboration, enhance the coherence of development efforts at the national, regional, and global levels and ensure strategies and programs are responsive to their needs and priorities.
- Risk of conflicting governance, policies, laws/ regulations governing UDC's operations.
- Stakeholders' (employees, customers, government, donors, etc.) feedback on UDC's coherence and synergies

43. Effectiveness

This assessed UDC's ability to achieve its objectives and desired outcomes within expected timeframes, UDC's effectiveness was assessed by considering its operations, systems, processes, and procedures. Specific aspects evaluated include the following.

- Portfolio review (sectoral, geographical, and other distributions).
- Ability to offer effective advisory services and financial literacy training.
- Organisational structure and its alignment with development objectives.
- Lending / investment criteria, underwriting or appraisal processes and procedures etc.
- Lending interest rates in relation to their affordability compared to the private sector.
- Effectiveness of credit risk management processes and procedures.
- Effectiveness of other risk management frameworks.
- Monitoring and evaluation systems for assessing success and development impact of projects funded based on key performance indicators and goals.
- Funding structure and sustainability, and financial performance.
- Staffing adequacy to ensure UDC has the capacity to carry out its functions effectively including investment oversight and monitoring etc.
- Brand awareness as key a demand driver of UDC's services.
- Impact of governance, policies, national laws and regulations on UDC's effectiveness.
- Comparison analysis with similar organizations, nationally, regionally, and internationally.
- Stakeholders' feedback on UDC's effectiveness.



44. Efficiency

This included an evaluation of UDC's optimal use of its resources (financial, human, and time) and specifically assessed the extent to which UDC can economically deliver timely results. Measures considered include:

- Turnaround times.
- Operational efficiency, operational costs and key drivers of operational costs.
- Use of technology and innovation to improve operational efficiency and service delivery.
- Evaluation of UDC's customer services structures.
- Impact of governance, policies, national laws and regulations on UDC's efficiency.
- Comparison of UDC's efficiency metrics with those of similar organizations or industry standards, nationally, regionally, and internationally.
- Stakeholders' feedback on UDC's efficiency.

45. Impact

This involved an assessment of UDC's development impact in terms of the processes and procedures used to estimate development impact, and the demonstrated impact. This included:

- Evaluation of UDC's ex-ante (baseline study) procedures.
- Evaluation of UDC's post ante procedures for estimating its development impact.
- These were evaluated for validity and accuracy
- Assessment of development impact in terms of the economic, social and environmental impacts.
 - Economic/Social impact:
 - i. Impact on job creation (Direct, indirect and induced jobs).
 - ii. Government revenue.
 - iii. Foreign exchange.
 - iv. Increased access to finance, especially for the marginalized groups.
 - v. Local business growth measured by assessing the number of new businesses that have started as a result of UDC's investments.
 - vi. Trickle-down effect of UDC's interventions measured by assessing the impact on livelihood. in terms of:
 - Income levels.
 - Income diversification.
 - Access to education.
 - Health.
 - Food security etc.
 - Environmental Impact: Aspects considered included the following among others.
 - i. Environmental sustainability of projects financed and their adherence to environmental standards.

- ii. Tree planting and reforestation.
 - Carbon footprint analysis conducted by measuring the greenhouse gas (GHG) emissions generated by the project
- Impact on selected cross cutting sectors like gender and youths.
- Implications of UDC's development impact for National Development. This included demonstrating linkages between the impact of UDC's interventions and Uganda's social-economic development.
- Evaluation of the counterfactual and additionality impact of UDC Interventions to assess UDC's risk of crowding out the private sector.
- Comparison of UDC's development impact as well as the corporation's processes and procedures with those of similar organizations or industry standards, nationally, regionally, and internationally.

46. Sustainability

This included an analysis of UDC's long-term viability, and the long-term viability of investments funded by UDC. Measures considered include:

- Financial sustainability which was measured using the indicators below.
 - UDC's ability to cover its operational costs without relying on government support.
 - Diversification of income sources such as interest income, dividends, fees, grants, and other UDC investments as greater diversification reduces financial risk and improves long-term sustainability.
 - Profitability of UDC's investments since investees only pay dividends to UDC as their shareholders only when they are profitable.
- Portfolio quality was considered as another measure of UDC's sustainability for its shareholder loans. This was evaluated at a high level based on these measures.
 - Portfolio at Risk (PAR) ratios for investments that received shareholder loans.
 - Proportion of UDC's investments that are paying dividends.
 - Proportion of lifetime dividends received from UDC investments compared to total amount of equity investments.
- Mechanisms for tracking progress of investments beyond UDC's funding were evaluated to provide evidence of business continuity years after UDC's intervention as another measure of the corporation's long-term impact and sustainability.
- Environmental, Social, and Governance (ESG) integration into UDC's decision making processes was evaluated since DFMs demonstrating prioritisation of ESG practices stand better chances of accessing funding from global markets focusing on sustainable finance.
- Robust governance and risk management structures are critical for UDC's investment decision making and ensuring investment in economically viable and sustainable projects.

2.2 METHODOLOGY

47. The methodology for conducting the independent evaluation followed a comprehensive three-stage phased approach which considered critical operational, financial, and non-financial factors expected to impact UDC's performance. This included an evaluation of UDC's operations, systems and processes, funding, financial performance, governance, policies, laws and regulations, and stakeholder engagement among others.

48. In the first phase, due diligence on UDC's operations was conducted. The second phase involved an assessment of the broader environment in which UDC operates, including governance, policy, institutional, legal, and regulatory frameworks. The third phase focused on collecting feedback from key stakeholders impacted by UDC's activities, including UDC employees, investees and their employees, indirect beneficiaries such as out-growers and other value chain participants, the general public, and other partners such as the Government, Donors, etc. (Figure 3).

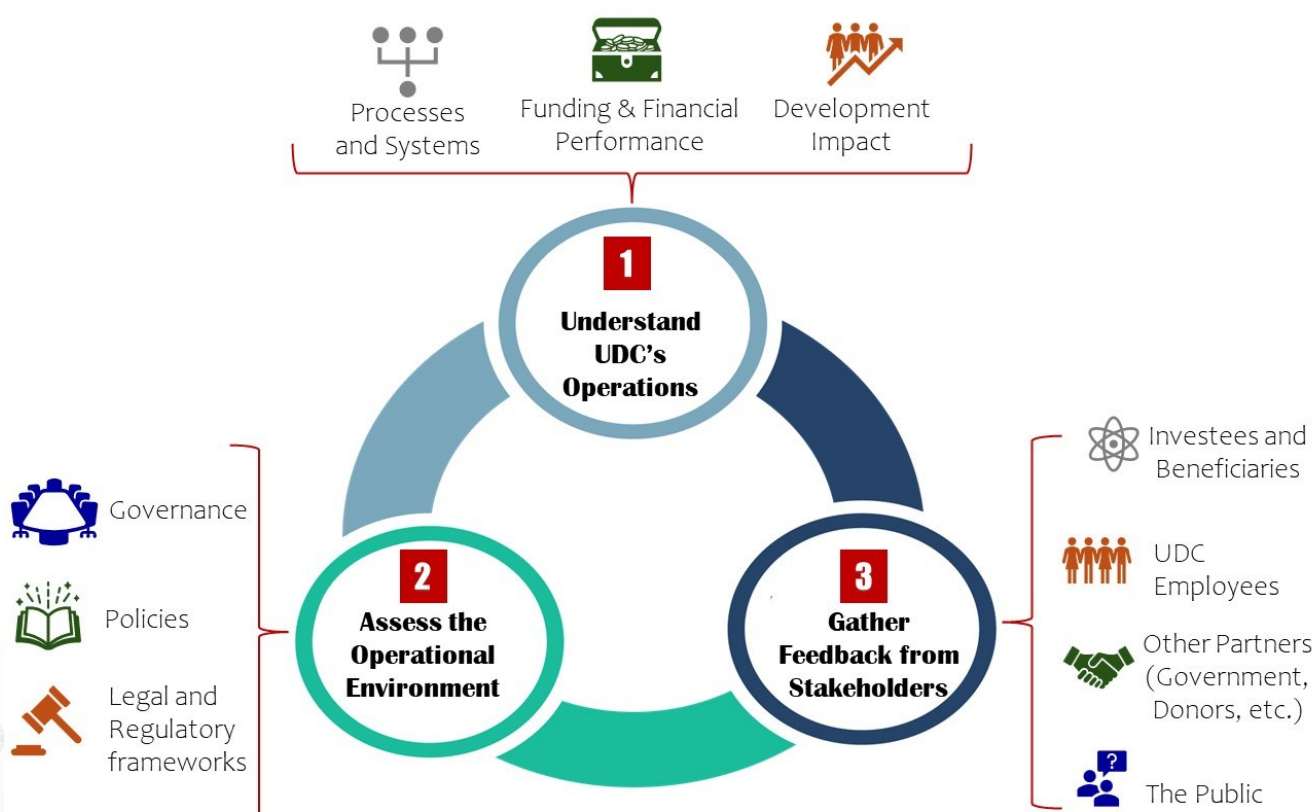


Figure 3: Summary of the Evaluation Methodology

2.2.1 Phase 1: Understanding UDC's Operations (Operational Review)

49. The operations review was accomplished through on-site visits at the UDC headquarters in Kampala. The evaluation team conducted key informant interviews or group meetings with key subject matter experts and or department heads within the corporation. The operational review phase included gaining an understanding of UDC's operational systems and processes, the corporation's funding structure and financial performance, and the development impact and its underlying processes.

Discussions were guided by a structured tool with department-level questions to capture differences in information requirements based on each department's role within the corporation.

50. The evaluation followed a bottom-up approach, spending most time with the subject matter experts or heads of department rather than prioritising UDC's top leadership. This approach enabled gathering of firsthand information on how UDC conducts its day-to-day operations and document the operational challenges faced.

Key departments interviewed as part of the operations review process included Human Resources, Finance, Marketing and Sales, Information and Technology, Customer Services, Credit Risk Management and more.

2.2.1.1 Operational Processes and Systems

51. This included a review of the corporation's products and services, pricing in terms of lending interest rates and transaction costs, organisational structure, ability to extend advisory and technical services to investees, UDC's underwriting structure covering the lending criteria and investment appraisal processes, lending interest rates, turnaround times, credit risk management systems, staffing, monitoring and evaluation frameworks, as well as its use of technology and innovation.

Additionally, data management and reporting practices, marketing, brand awareness, and public relations strategies were assessed, and the challenges faced by UDC were also documented.

2.2.1.2 Funding

52. The evaluation assessed UDC's funding structure to analyse the adequacy and sustainability of the corporation's funding. This assessment involved analysing UDC's funding sources, the stability of these funds, the cost of capital, and the utilisation of funds, among other key factors.

2.2.1.3 Financial Performance

53. This independent evaluation also assessed UDC's financial performance and that of its investees, keeping in mind that UDC's major goal is to achieve development outcomes, not mere accounting profitability.
54. Several metrics were computed to evaluate UDC's operational efficiency, financial health, liquidity, and sustainability. Given its development objectives, indices that enable accounting for subsidies and development objectives were prioritised as measures of UDC's financial performance. For the corporation's investees conventional accounting measures were used to assess their financial performance and health.
55. For example, for the investees, debt-equity ratios were leveraged to measure the degree to which these companies are financing their operations with debt rather than their own resources as a measure of their financial risk. For UDC, a similar metric, the Grant to Debt Ratio (GDR) was estimated to measure the extent to which it relies on grants including government funding compared to debt to finance its operations. Other metrics estimated to measure UDC's financial performance in the context of a DFM include the Subsidy Dependence Index (SDI), etc.

2.2.1.3.1 Operational Efficiency Metrics

56. Ratios such as operational efficiency, return on assets, and return on equity were computed to measure UDC's and its investees' operational efficiency. The operational efficiency ratio measures how well UDC or investees manage their overhead costs to reduce the cost per unit. Estimated results are shared in the subsequent sections.

2.2.1.4 Development Impact

57. Development impact was evaluated based on three levels. The first level included assessing the direct development impact on companies that UDC has invested in. The second level involved assessing the indirect development impact of the companies UDC invested in on beneficiaries such as out-growers and other value chain participants, and the third level included the wider development impact on society.
58. The processes and procedures followed to estimate UDC's development impact were also evaluated for effectiveness, efficiency, accuracy and turnaround times. Key areas considered when assessing UDC's development impact and processes included the following.
- i. Assess whether project baseline studies are conducted and or baseline data is documented before implementation of each project.
 - ii. Evaluated the procedures used to for the baseline studies or collecting baseline data
 - iii. Assessed the processes used to estimate UDC's ex-post-development impact for appropriateness and accuracy

- iv. Reviewed UDC's development impact provided by the Monitoring and Evaluation team. This included documenting the following impact measures.
 - Economic impact - (employment (direct/indirect), taxes, foreign exchange).
 - Social impact on beneficiaries.
 - Environmental impact.
- v. Compared the indicators used to quantify UDC's development impact to international standards.
- vi. Evaluated UDC's counterfactual impact by assessing the likelihood of business continuity for UDC's investees without UDC's intervention. This analysis measures the corporation's additionality, allowing us to understand the unique contributions UDC makes to Uganda's development beyond what the market or other entities could achieve on their own.
- vii. The evaluation also analysed the sustainability of UDC's investment by assessing the business continuity of UDC investments after the end of UDC's funding.

2.2.2 Phase 2: Assessing UDC's Operational Environment

59. The environment in which UDC and other DFMs operate directly influences their effectiveness, efficiency, and overall impact. Factors such as legal and regulatory requirements, policy changes, governance, institutional frameworks, and economic conditions are known to either facilitate or hinder a DFM's operations.
60. This evaluation, therefore, included assessing how external factors such as legal and regulatory requirements, policies, and governance are shaping UDC's performance and strategic direction. Specific aspects considered are described below.

2.2.2.1 Legal and Regulatory Requirements

61. The legal and regulatory frameworks governing UDC were assessed to evaluate the corporation's compliance and the impact of these frameworks on its efficiency, effectiveness, and ability to conduct its day-to-day operations. The following were evaluated as measures for assessing the impact of legal and regulatory frameworks on UDC's performance.
 - i. UDC's mandate was assessed for relevance, clarity, flexibility, and institutional fit.
 - ii. Legal structures governing UDC were analysed for their impact on performance.
 - iii. Through engagement with UDC's management, the evaluation identified the legal and regulatory requirements impacting UDC's performance.
 - iv. Compliance with critical domestic and international standards such as the Anti Money Laundering (AML), was assessed to identify potential legal and regulatory risks.
 - v. Challenges UDC is facing in enforcing or applying relevant laws and regulations were documents as well as recommendations for overcoming these challenges.

2.2.2.2 Governance, Policy, and Institutional Frameworks

62. Strong governance structures enforce a DFM's effective decision-making by fostering accountability and transparency, which is crucial for achieving UDC's development goals. The evaluation of UDC's governance, policy, and institutional frameworks included assessing the corporation's current governance, policy, and institutional frameworks.
63. A structured approach that examined key aspects of governance, accountability, and decision-making processes was implemented. Among other things, the board composition, governance policies, board KPIs, the corporation's decision-making, and accountability, including the existence of robust governance checks and balances, were analysed.
 - a. **Board composition:** This included analysing the board roles and responsibilities, expertise, independence, gender distribution, the existence of board committees, how board members are appointed and more. The objective was to assess alignment with UDC's mandate and development goals.
 - b. **Governance Policies,** including UDC corporate governance code, ethics and compliance policies and procedures, were evaluated for alignment with known best practices and legal requirements.
 - c. **Risk Management:** The corporation's internal control and risk management protocols for addressing potential financial, operational, legal, and reputational risks were also assessed.
 - d. **Performance Monitoring:** We also reviewed how UDC monitors the performance of its leadership and management, including the existence of key performance indicators for enforcing accountability of UDC's senior management.

2.2.3 Phase 3: Stakeholder Engagement / Field Studies

64. The last phase of the evaluation included gathering feedback from UDC's stakeholders, including UDC investees, beneficiaries, UDC employees, other UDC partners such as the government, donors, development partners, etc. This enabled evaluators to gain a more accurate and holistic view of how well UDC is performing from the perspective of its end users.
65. Feedback was gathered on all six dimensions of the OECD evaluation criteria including assessing the relevance, coherence, effectiveness, efficiency, impact and sustainability of UDC operations from the perspective of its investees and their beneficiaries, UDC's employees, and other UDC stakeholders such as the government, donors etc.
 - UDC investees were evaluated to obtain firsthand information about the corporation's financial and advisory support. This involved ascertaining whether the products and services offered by UDC are effectively meeting the investee's needs, and evaluating the actual impact of UDC's investments on the success of the companies invested in.

- Investees were asked to assess the effectiveness of UDC’s investment appraisal and loan disbursement processes such as the amount of funding offered to the investments, the timing and disbursement of funds, monitoring, and post investment support.
- The investees level of satisfaction and willingness to recommend UDC’s products and services was also evaluated as a proxy for measuring the corporation’s sustainability.
- For input on the future of UDC, investees were asked for their feedback on what they believed UDC was doing well to highlight the corporation’s best practices, and what needs strengthening as UDC’s areas of improvement.
- Evaluators also gathered data to fill gaps in circumstances where development impact data about a given investee was unavailable at the UDC headquarters. Data such as the number of direct jobs, indirect jobs, raw materials purchased etc. was requested for this purpose.
- Furthermore, investees were asked if they had alternatives sources of finance from the private market to evaluate the counterfactual effect of UDC’s investments by assessing their chances of business continuity in the absence of UDC’s intervention.
- This formed one of the measures of the corporation’s additionality of financial products and services without crowding out the private sector.
- Additionally, questions capturing the investee’s perceptions on different elements of the OECD evaluation criteria including relevancy, coherence, effectiveness, efficiency, impact and sustainability of the DFM’s operations and strategies were added to align the analysis with the evaluation criteria.

2.2.3.1 Beneficiary’s Feedback

66. The evaluation gathered feedback from a selected sample of UDC beneficiaries including the investee’s out-grower farmers, their suppliers and other value chain participants. This information enabled assessing UDC’s broader economic, social, and environmental impact on Ugandans. Examples included gathering data on the number of indirect jobs created by UDC, and its impact on income generation, income diversification, and people’s livelihoods.
67. Evaluating UDC’s impact at the beneficiary’s level enabled quantifying the impact of the corporation’s investments on national development goal of reducing poverty and improving the quality of life of Ugandans.
68. This also enabled assessing whether UDC investments are creating stronger market linkages and opportunities for supporting SMEs, improving rural economies, and promoting inclusive economic growth.

2.2.3.2 UDC Employees Feedback

69. UDC’s employees were evaluated to gain more insight into the corporation’s organizational structure since they are at the frontline and are expected have firsthand knowledge of UDC’s internal processes, systems, and day-to-day operations.

70. Employee assessments were critical for this evaluation process since they can additionally highlight operational challenges or inefficiencies that might not be visible at higher management levels. Likewise, questions capturing the employee's perceptions on different elements of the OECD evaluation criteria including relevancy, coherence, effectiveness, efficiency, impact and sustainability of the DFM's operations and strategies were added to align the analysis with the evaluation criteria.

2.2.3.3 Government, Donors and other Stakeholders Feedback

71. The evaluation included engagement of other critical UDC stakeholders such as government bodies, development partners, private sector partners, and investors to offer valuable insights. The evaluation solicited for their feedback and perception of the corporation's effectiveness, efficiency, development impact, coherence, relevance, and sustainability, and asked for recommendations for strengthening the corporation's performance and development impact.
72. Included among the other stakeholders were the Ministry's response for UDC's oversight, the Uganda Exports Board, Development Partners, and Donors, the Uganda Investment Authority (UIA), and others as recommended by UDC. For high-ranking stakeholders such as Ministers, the evaluation team arranged in person meetings at their offices.

2.2.3.4 The Public's Feedback

73. To provide statistical inferences about UDC's brand image and awareness and assess the effectiveness of the corporations marketing and public relations efforts, questionnaires were administered a small randomly selected sample of companies with similar profiles to UDC's investees, and the public as potential UDC beneficiaries. Responses were analysed to evaluate the public's perceptions about UDC's products and services and to evaluate the corporation's reputation and trustworthiness.
74. Among others, respondents were asked if they had heard of UDC, knew about the products and serviced offered by UDC, and or are interested in benefiting directly or indirectly from UDC's investments. Companies with similar profiles as UDC's investees were further asked if they had ever applied for UDC investments, if they are borrowing from other financial institutions, and challenges they may be facing with assessing financial support and access to credit. This feedback offered real-world perspectives on how well UDC is meeting its mandate in terms of ensuring accessibility and relevancy of their products and services to the people they are meant to serve.

2.2.3.5 Data Collection

75. A mixed methods approach was used for the data collection. This included desk reviews, in person and virtual questionnaire surveys, key informant interviews, and group discussions.

Data collected from UDC investees, beneficiaries, employees, and the public was collected through questionnaire surveys. Copies of the corresponding questionnaires are available in the appendix section of this report.

2.2.3.6 Sample Size Selection

76. UDC's operational review was conducted through site visits at UDC's headquarters in Kampala, and the evaluators met with Heads from all UDC departments. These included, among others, the Investment, Monitoring and Evaluation, and the Finance departments etc.
- For the investees, given the limited number of factories invested in so far, the sample size for this study included all 18 on going UDC investments, however 7 were interviewed.
 - The scope of investee beneficiaries was limited to the investee's direct employees, out-grower farmers, and suppliers. The evaluation interviewed 44 investee out-growers or suppliers per UDC investment. In case of unplanned constraints, numbers were adjusted accordingly.
 - For engagement government and donors group discussions were held with MDA such as NPA and the Ministry of Finance.
 - Lastly, about 100 from the public were interviewed to evaluate UDC's public awareness.

Table 2: UDC Evaluation Sample Selection

	Sample Size	Comments
UDC Management	Group Discussions	Data was collected during site visits.
UDC Investees	7	Impacted by low response rates.
Investee Beneficiaries	44	Impacted by low response rates.
(Government, Donors, etc.)	Group Discussion	30 – 50 Sufficient for statistical inferences.
Public	106	From the public.



SECTION 3: LEGAL AND REGULATORY EVALUATION

3.1 Background

77. Regular legal and regulatory reviews are essential to ensuring UDC remains relevant, responsive, and aligned with Uganda's development goals. As a statutory corporation managing public and concessional funds, UDC must operate within a legal framework that guarantees transparency, accountability, and operational flexibility fostering institutional autonomy and stakeholder confidence.
78. The evaluation assessed how current laws and regulations influence UDC's performance and its ability to deliver on national development priorities. Legislation provides the foundation for pursuing UDC's social, economic, and environmental objectives, but effective implementation relies not just on legal provisions, but also on consistent enforcement and adaptability to evolving needs.
79. Legal and regulatory updates are a strategic necessity for sustaining UDC's development impact. Continuous reviews help the institution respond to emerging socio-economic priorities, close regulatory gaps, and maintain alignment with both national and global development objectives ensuring UDC remains a trusted and effective instrument for inclusive growth.

3.2 Key Objectives of the Legal and Regulatory Evaluation of UDC

- i. Determining whether the existing legal and regulatory framework enables or constrains UDC's effectiveness as a development finance institution.
- ii. Identifying legal and regulatory gaps or inefficiencies that may hinder implementation of development finance interventions.
- iii. Proposing reforms to enhance UDC's operational efficiency, development impact, and alignment with national and global development objectives.
- iv. Benchmarking UDC's framework against international good practices by conducting a comparative analysis of similar DFIs globally to identify actionable lessons and opportunities for improvement.

3.3 Mandate of UDC

80. The mandate of the UDC is defined in the UDC Act, 2016, which stipulates its role in promoting and facilitating Uganda's industrial and economic development. This broad mandate provides UDC with significant legal and regulatory flexibility to adapt its strategies and interventions to changing economic conditions and emerging development priorities without requiring frequent amendments to the UDC Act. For example, if new industries

become strategically important for Uganda's development, UDC can legally pivot to support them under its existing mandate.

81. **Legally, this broad mandate permits the UDC to engage in a diverse range of activities and sectors.** The UDC Act, supports this by outlining functions such as establishing subsidiary companies, entering public-private partnerships, facilitating government investment in strategic sectors and undertakings promoting economic development in Uganda. This wide scope is crucial for a DFM that needs to address multifaceted development challenges.
82. **This flexibility is a core feature of effective DFIs globally, enabling the institution to remain responsive to the evolving structural needs of the economy, including emerging development priorities like climate change and other global standards.** Consequently, the broad nature of UDC's mandate allows it to adapt to changing national priorities outlined in the NDP IV, Vision 2040, and the Industrialization Agenda, without requiring legislative amendments.
83. **In development finance, economic development is rarely linear or confined to a single sector. A broad mandate enables the UDC to adopt a holistic approach, recognizing the interconnectedness of various sectors** (industrial, agricultural, commercial, mining) in driving national growth. This allows for integrated financing solutions that address multiple bottlenecks simultaneously.
84. **Legally, UDC is empowered to manage concessional resources, implement national programs. The UDC Act provides** the legal basis for delivering government policies, allowing the Minister responsible for industrial development to issue written policy directives to the Corporation. This provision ensures UDC's activities consistently align with the government's overarching industrial and economic development policies, thereby establishing a clear legal basis for government oversight and strategic guidance.

3.4 Legal Frameworks Governing UDC

85. **As a state-owned development finance mechanism, UDC is subject to several statutory and regulatory instruments, including UDC Act, 2016, the Public Enterprise Reform and Divestiture Act (Cap 98), and the Anti-Money Laundering Act, 2013 (as amended),** along with their respective regulations.
86. These laws provide the legal foundation for UDC's accountability, operational conduct, and compliance with national and international financial standards. The UDC Act underpins UDC's incorporation and corporate governance, the Anti Money Laundering Act, 2013 as amended guards against illicit financial transactions, the Public Enterprise Reform and Divestiture Act shape its structure and reform initiatives.

3.4.1 The UDC Act, 2016

87. **The UDC Act, 2016, serves as the foundational law governing UDC, establishing it as a statutory corporation.** The UDC Act is highly relevant to the operations of UDC as a DFI due to several key aspects.
88. **In accordance with Section 2 of the UDC Act, 2016, UDC is established as a statutory corporation with perpetual succession and a common seal, legally empowered to acquire, hold, and dispose of movable and immovable property, and to sue and be sued in its corporate name.** These provisions confer full legal personality and operational autonomy to UDC, which are foundational to its effectiveness as a DFI.
89. **The UDC Act, 2016 sets out a range of statutory functions that align directly with UDC's role as a DFM.** These functions empower UDC to mobilize long-term capital, support industrialization, and address structural barriers to private investment. Specifically, the UDC Act authorizes UDC to:
 - i. **Establish subsidiary and associated companies** to implement investment projects in priority sectors.
 - ii. **Enter public-private partnerships (PPPs)** as a mechanism to leverage private capital for public development objectives.
 - iii. **Finance and manage undertakings** that promote industrial or economic development, particularly through PPP arrangements.
 - iv. **Facilitate government investment** in strategic sectors such as agro-industry, manufacturing, mining, and infrastructure.
 - v. **Promote, finance, or guarantee investments** in undertakings where the government is engaged as a partner or shareholder.
 - vi. **Acquire equity interests** and support capital formation in companies with the potential to drive industrial and economic transformation.
90. **By executing these roles, UDC addresses market failures,** fosters private sector participation, and contributes to Uganda's structural transformation agenda, consistent with its mandate as a state owned DFI.
91. **The UDC Act, 2016 currently refers to the "Minister of Industrial Development" as the appointing authority for Board members, as outlined in Sections 1, 5, and 6. However, this ministerial position no longer exists within the current cabinet structure.** In practice, the oversight of UDC has transitioned to the Ministry of Trade, Industry and Cooperatives (MTIC), which now performs this role. This misalignment between the legislative text and the actual institutional framework creates ambiguity in governance procedures and decision-making authority. It is therefore recommended that the UDC Act be amended to replace all

references to the “Minister of Industrial Development” with the appropriate designation reflecting the current cabinet structure. This revision will ensure legal clarity, institutional coherence, and consistency in the oversight and management of UDC

3.4.1.1 Governance Autonomy and Effectiveness of the UDC Board

92. **The Board further comprises two senior government representatives: the Permanent Secretaries (or their representatives) from the Ministries of Finance and Industry**, both of whom must be officers not below the rank of Commissioner. Their inclusion guarantees alignment with national economic priorities, such as the National Development Plan (NDP), the Industrialization Strategy, and the Public Investment Plan (PIP). **In addition, the Board includes four eminent individuals of good repute and integrity drawn from the private sector.**
93. **This diverse representation brings critical perspectives from industry, enterprise, and investment**, thereby enhancing UDC’s capacity to make commercially sound and development-oriented decisions. The Executive Director also sits on the Board in a non-voting capacity, ensuring a clear separation between executive management and oversight. **The inclusion of private sector expertise and the statutory requirement that not less than 40% of the Board be women reflects a progressive and inclusive approach to board composition.** Regular board meetings, as mandated in the UDC Act, also provide a structured framework for strategic oversight and decision-making.
94. **Section 6(3) of the UDC Act vests board appointment powers in the Minister, subject to Cabinet approval, while Section 7(1)(e) outlines explicit grounds for the removal of board members**, including misconduct, persistent non-performance, and conflict of interest. These provisions safeguard fiduciary responsibility and institutional integrity. Furthermore, board members serve fixed three-year terms, renewable once, which promotes leadership renewal and limits the risk of entrenchment.
95. **Section 5(4) of the Act explicitly prohibits the appointment of individuals holding elective political offices or serving on local government councils.** This critical safeguard prevents political or private sector capture and helps protect the Corporation’s independence in executing high-risk, high-impact investments that are essential for Uganda’s inclusive economic transformation.
96. **While the composition of the UDC Board reflects a well-considered balance between public sector oversight and private sector expertise**, its governance autonomy remains constrained by the centralization of key powers within the office of the Minister. Under the UDC Act, the Minister is vested with the authority to appoint and remove Board members, subject to Cabinet approval and determines their remuneration in consultation with the Ministers responsible for Finance and Public Service.

97. **Although such provisions are intended to ensure government oversight and alignment with national priorities, they present potential risks in a development finance context.** In particular, the absence of an independent appointment mechanism may compromise the Board's objectivity and insulate it from the institutional stability necessary for long-term, commercially credible investment decisions. Over-centralization of authority may inadvertently expose UDC to external influence, limit professional independence, and undermine investor confidence, key attributes required for a DFM tasked with catalysing sustainable industrial growth.
98. **To ensure effective governance, there is a need to strike a balance between state oversight and institutional independence,** particularly where investment decisions must be guided by technical, economic, and developmental merit rather than political discretion.
99. **UDC's operational autonomy is notably constrained by its over reliance on government-directed funding,** which though intended to support national development priorities may limit the Corporation's ability to independently execute its strategic investment agenda. This dependency is further compounded by the concentration of ministerial powers in the appointment, removal, and remuneration of Board members.
100. **When combined, these structural arrangements may create inherent tensions between UDC's statutory mandate to operate as a DFM, and the expectations attached to politically initiated directives.** The overlap of financial dependence and ministerial control over governance structures may give rise to real or perceived conflicts of interest, potentially undermining the independence, objectivity, and technical integrity required for sound investment decision-making.
101. **To safeguard UDC's institutional credibility and effectiveness, it is essential to reinforce mechanisms that balance state oversight with professional independence,** particularly in areas of resource allocation, project appraisal, and strategic governance.
102. **This dynamic may inadvertently conflict with Section 4(m) of the UDC Act, which mandates the Corporation to ensure that all Government partnership ventures are financially, commercially, and technically sound.** For UDC to function effectively as a DFM, greater emphasis should be placed on insulating its investment decisions from undue political influence and enabling resource allocation based on rigorous, merit-based appraisals.
103. **Further, the evaluation has discovered that the current composition of the UDC Board appears to fall short of the statutory requirement under Section 6(2) of the UDC Act, which mandates eight board members to ensure effective oversight and governance.** The 2022 UDC Annual Report lists six members, while the official UDC website reflects seven, indicating a potential gap in compliance with the Act. This inconsistency, if unaddressed, may undermine stakeholder confidence in the institution's governance

standards. It is therefore recommended that UDC reconcile and consistently update the composition of its Board across all official platforms and reports to ensure full compliance with the UDC Act. This will not only enhance legal and institutional accountability but also promote transparency and strengthen stakeholder trust.

3.4.1.2 Aligning the UDC Act with the Companies Act and OECD Guidelines

104. **To enhance governance effectiveness, UDC may consider amending the UDC Act to include a provision that allows UDC to adopting relevant provisions from the Companies Act, 2012.** According to UDC’s own institutional history, its predecessor, registered under the Companies Act in 1903 achieved notable success by operating under commercial principles and managing investments either independently or in partnership with private entities.
105. This institutional flexibility, afforded by company law, allowed for a more business-like and accountable operational model. Academic research reinforces the importance of aligning DFIs with modern corporate governance standards. Pietro Calice⁴ observes that DFIs incorporated as companies tend to demonstrate greater operational efficiency and discipline compared to those established as statutory corporations.
106. **For DFIs like UDC, which operate under a statutory framework, adopting key principles from the Companies Act in their day-to-day operations could significantly enhance governance effectiveness.** Specifically, the application of provisions such Section 198, which outlines directors’ fiduciary duties, would help institutionalize merit-based appointments, strengthen board accountability, and clarify the responsibilities of directors in line with modern corporate governance practices. This alignment would further support UDC’s credibility and performance as a commercially oriented development finance institution.
107. Further, aligning UDC’s governance with the **OECD Guidelines on Corporate Governance of State-Owned Enterprises** would further strengthen its credibility and effectiveness. The guidelines urge governments to act as “informed, accountable, and active owners,” emphasizing:
 - The separation of ownership and policy functions to prevent conflicts of interest.
 - The creation of simple, transparent legal rules for state-owned enterprises.
 - Clarity in defining development roles and corresponding funding mechanisms.
 - The avoidance of preferential treatment that distorts competition.
108. In conclusion, the UDC Board benefits from a robust governance structure that combines public oversight, private sector expertise, and clear safeguards for accountability. However,

⁴ [Working Paper 174 - African Development Finance Institutions- Unlocking the Potential](#)

the Corporation's ability to operate as an autonomous, commercially oriented DFI is limited by concentrated ministerial powers and funding dependency. By adopting relevant provisions from the Companies Act and aligning with OECD guidelines on state-owned enterprise governance, UDC can further professionalize its board, enhance decision-making independence, and strengthen its role as a credible vehicle for Uganda's industrial and economic transformation.

3.4.2 The Public Enterprise Reform and Divestiture Act (PERDA)

- 109. UDC's status as a government-owned entity places it under the regulatory oversight of the Public Enterprise Reform and Divestiture Act (PERDA), Cap 98.** PERDA classifies UDC among public enterprises that are to remain under full government ownership and not subject to divestiture. This classification is critical in affirming UDC's role as a strategic public institution serving national development priorities.
- 110. UDC is currently under the supervisory oversight of MTIC following a presidential directive issued in October 2011 to transfer its oversight from the MOFPED to MTIC.** This shift was intended to enhance policy alignment with Uganda's industrialization agenda and ensure closer integration with sectoral priorities.
- 111. Nonetheless, UDC continues to have statutory reporting obligations under PERDA, including the requirement to submit annual audited financial statements and returns to the MoFPED.** These dual reporting lines serve to promote transparency, reinforce fiscal discipline, and ensure that UDC remains accountable within the broader framework of public resource management and national development financing objectives.
- 112. While PERDA ensures government oversight, it lacks provisions tailored to the operational realities of development finance institutions.** PERDA provides general supervision but does not address the specific governance, accountability, and operational structures required for DFMs like UDC to function effectively within a dynamic development context.
- 113. This gap highlights the need for a dedicated legal and regulatory framework for development finance institutions.** Establishing a specialized framework would better reflect the mandate and institutional design of DFMs, enhance their operational effectiveness, and promote coherence across Uganda's development finance ecosystem. It would also support UDC in delivering more targeted, transparent, and sustainable interventions aligned with both national development plans and global financing standards.

3.4.3 The Anti Money Laundering Act, 2013

- 114. The Anti-Money Laundering Act (AMLA), 2013, plays a critical role in ensuring the integrity and accountability of UDC's development financing operations.** As a

government-owned development finance mechanism mandated to manage and disburse public and concessional funds, UDC operates in a high-risk environment where strong safeguards are essential to prevent illicit financial activity and ensure responsible resource utilization.

- 115. UDC’s designation as an “accountable person” under AMLA reflects the institution’s elevated responsibility in mitigating financial crime risks.** Given its role in extending credit to high-risk and high-development impact companies, UDC is legally obligated to comply with anti-money laundering and counter-financing of terrorism (AML/CFT) regulations. This transforms UDC to a frontline actor in Uganda’s fight against illicit financial flows within the development finance sector.
- 116. To meet its AML/CFT obligations, UDC has embedded rigorous due diligence procedures into its lending processes.** The institution implements enhanced Know Your Customer (KYC) protocols to assess the economic legitimacy of borrowers. This includes identifying beneficial owners in group lending structures and verifying that loan purposes align with legitimate development objectives minimizing the risk of funds being diverted for illegal activities.
- 117. By institutionalizing AML compliance across its operations, UDC safeguards the developmental integrity of its financing activities.** These measures not only protect public and concessional funds from misuse but also reinforce national and global efforts to combat financial crime. In doing so, UDC strengthens its contribution to inclusive economic empowerment and poverty reduction by ensuring that its resources support legitimate, transparent, and impactful development interventions.

3.4.4 Other Key Legislations Governing UDC’s Operations

- 118.** UDC operates within a multidimensional legal framework designed to ensure compliance, accountability, and risk mitigation across all aspects of its development financing operations. Key legislation such as the Public Procurement and Disposal of Public Assets Act, and Public Finance Management Act establish standards for financial integrity, transparency, and responsible management of public resources, critical for maintaining donor confidence and accessing multilateral funding.
- 119.** The list of other relevant national laws includes the following.
 - a. The **Public Procurement and Disposal of Public Assets Act, 2003** governs UDC’s procurement processes, promoting transparency and value for money in resource use.
 - b. The **Public Finance Management Act (PFMA), 2015** provides the framework for managing public funds, ensuring fiscal discipline, accountability, and alignment with national budget priorities.

- c. The **Employment Act, 2006**, which regulates employment practices within UDC, safeguarding employee rights and institutional compliance with labour standards.
- d. The **National Social Security Fund Act** which mandates social security contributions, applicable to UDC and its implementing partners, supporting employee welfare and statutory compliance.
- e. The **Security Interest in Movable Property Act, 2019** which enables UDC to accept movable assets as collateral, facilitating inclusive agricultural lending to borrowers without titled land.
- f. The **Registration of Titles Act** and the **Land Act** provide the legal foundation for secure land ownership and registration, enabling UDC to use registered land as collateral in its lending operations. This enhances the institution's ability to support land-based investments and reduce credit risk in agricultural and development financing.
- g. The **National Environment Act, 2019** which ensures that UDC-financed projects meet environmental standards and promote sustainable development.
- h. The **Data Protection and Privacy Act, 2019** which protects client data in loan processing, enhancing digital trust and regulatory compliance.

3.4.4.1 Impact of the PPDA and PFMA

- 120. UDC is fully subject to the provisions and requirements of the PPDA framework.** As a government-owned company limited by guarantee and capitalized with public funds, UDC is classified as a procuring and disposing entity under the Public Procurement and Disposal of Public Assets (PPDA) Act. In line with the PPDA (Amendment) Act, 2011, this designation applies to entities where the Government holds majority shareholding or exercises control over the board of directors.
- 121. The PPDA Act plays a vital role in promoting transparency and accountability in the use of public resources; however, its application to DFMs like UDC presents operational challenges that can affect institutional responsiveness.** While the PPDA Act's structured procurement procedures including planning, bidding, evaluation, and contract management are important for safeguarding public funds, they are not well suited to the dynamic and time-sensitive nature of development finance operations. For an institution like UDC, which provides concessional lending to companies in a fast-paced financial environment, the procedural requirements can result in delays that limit its ability to respond quickly to market needs and deliver timely support to beneficiaries.
- 122. Efficient turnaround time is a key enabler of impact in the financial services sector, and aligning procurement processes with this need can further strengthen UDC's responsiveness and effectiveness.** Timely access to essential services, technology, and delivery partners enables UDC to disburse loans quickly and meet the urgent financing needs

of underserved clients. In a sector where speed and reliability are vital, enhancing procurement flexibility would allow UDC to match the expectations of its clients while still upholding accountability. While the PPDA framework plays a critical role in ensuring transparency, adapting its application to better suit the dynamic operational realities of development finance institutions like UDC would strengthen service delivery.

123. **The Public Finance Management Act (PFMA), 2015 provides an important framework for fiscal oversight, and aligning its processes with UDC’s financing needs can enhance the institution’s ability to mobilize capital for development.** Under Section 36, borrowing or guarantees that could result in a government liability require approval by the Minister of Finance, while Section 43 mandates parliamentary appropriation for all externally financed expenditures. These provisions ensure prudent debt management and safeguard public resources. For UDC, aligning with this framework when seeking external credit presents an opportunity to strengthen institutional credibility and transparency. Streamlining the approval process especially for time-sensitive transactions would enable UDC respond more effectively to financing demands.
124. **Enhancing the operational efficiency of UDC and other DFMs requires the establishment of fast-track mechanisms that reflect the unique operational demands of public DFMs supporting private sector development.** Targeted reforms to procurement and borrowing procedures are essential to enable timely and effective service delivery. Within the PPDA framework, introducing streamlined procurement processes tailored to DFIs including clear, time-bound approval timelines by the responsible minister would reduce delays and improve institutional responsiveness. Similarly, reforms under the PFMA could provide for accelerated borrowing pathways for public DFIs, grounded in robust fiscal risk assessments and accountability safeguards.

3.4.4.2 Impact of the Insolvency Act, 2011

125. **The evaluation reviewed the implications of the Insolvency Act, 2011 in the context of UDC’s equity financing activities to assess how the Corporation can effectively manage risk while maximizing development impact.** Equity financing presents significant opportunities for UDC to support high-impact sectors that are typically underserved by traditional lenders, such as agriculture, fintech, and early-stage enterprises with limited collateral. Unlike debt, **equity allows UDC to take a long-term view of enterprise growth while influencing key areas such as governance, environmental stewardship, and inclusive business practices.**
126. However, the Insolvency Act classifies equity as a non-preferential claim, meaning shareholders are paid last in the event of liquidation. This makes equity inherently riskier and requires UDC to adopt a cautious, strategic approach when deploying such capital. **In cases where prospective clients express interest in equity financing but are found lacking in institutional readiness or governance standards during due diligence, UDC should**

consider offering targeted technical assistance such as through its capacity building and business support program instead of immediate capital injection. This phased support helps de-risk future investments and strengthens enterprise capacity.

127. When applied strategically, equity financing can catalyse innovation, enable technology transfer, and accelerate the development of resilient, locally owned enterprises. To ensure equity investments align with UDC's development mandate, UDC should implement rigorous assessment processes that balance development impact with financial risk, allowing equity to function as a transformative instrument within Uganda's broader development finance ecosystem.

3.5 UDC's Adherence to International Standards

128. **Aligning UDC with international standards such as the OECD Guidelines on Corporate Governance for State Owned Enterprises (OECD Guidelines), IFRS and the SDG's is essential to strengthening institutional relevance, operational effectiveness, and access to global financing.** These standards provide a common language and benchmark for performance that resonates with international development partners, investors, and oversight institutions.
129. **The OECD Guidelines provide advice to help governments better manage the companies they own.** Adhering to OECD Guidelines enhances UDC's credibility and reputation as they adopt high standards of corporate governance thereby promoting responsible state ownership.
130. **The IFRS provide a globally recognized framework for transparent, consistent, and comparable financial reporting.** Adhering to IFRS enhances UDC's credibility with stakeholders, particularly development partners, donors, and impact investors by ensuring that its financial statements accurately reflect the institution's financial position and performance. Demonstrating compliance with IFRS strengthens transparency and accountability in the management of public resources, and positions UDC to attract long-term, concessional, and private capital by meeting the disclosure and governance expectations of international financiers.
131. **Compliance with international standards such as IFRS enhances institutional credibility, facilitates cross-border partnerships, and ensures that UDC's practices meet the expectations of global stakeholders.** This alignment not only builds trust but also enables UDC to operate more effectively within international financial and development ecosystems.
132. **UDC's alignment with the SDGs is central to maximizing its development impact and advancing Uganda's Vision 2040 objectives.** By contributing to poverty reduction, job creation, and sustainable industrialization, UDC enhances its strategic relevance within

national development priorities. This alignment also strengthens UDC's appeal to sustainability-focused global funders, reducing reliance on government financing and supporting its long-term financial sustainability.

3.5.1 UDC's Alignment with SDGs

133. **Aligning UDC with international standards such as SDGs is essential to strengthening institutional relevance, operational effectiveness, and access to global financing.** These standards provide a common language and benchmark for performance that resonates with international development partners, investors, and oversight institutions.
134. **The SDGs offer a globally recognised framework for measuring development impact, increasingly guiding funding decisions by donors and impact investors.** Demonstrating alignment with these goals enhances UDC's transparency and accountability, while positioning the institution to mobilise diverse, long-term financing in support of inclusive and sustainable development.
135. **UDC's alignment with the Sustainable Development Goals (SDGs) is central to maximising its development impact and advancing Uganda's Vision 2040 objectives.** By contributing to poverty reduction, job creation, and sustainable industrialisation, UDC enhances its strategic relevance within national development priorities. This alignment also strengthens UDC's appeal to sustainability-focused global funders, reducing reliance on government financing and supporting its long-term financial sustainability.
136. **Positioning UDC within globally recognised development frameworks enhances coherence between its interventions and national and international priorities.** By aligning its investment portfolio with SDG outcomes particularly SDG 1 (No Poverty), SDG 8 (Decent Work and Economic Growth), and SDG 9 (Industry, Innovation, and Infrastructure) UDC contributes to Uganda's economic transformation agenda while reinforcing its role as a key driver of inclusive growth and socio-economic resilience.
137. As a state-owned DFM, UDC plays a critical role in advancing Uganda's national development objectives and contributing to the achievement of the **Sustainable Development Goals (SDGs)**. UDC's current investment portfolio, which spans **agro-industrialization, infrastructure, and social services**, demonstrates strong alignment with key SDGs, particularly in areas related to **poverty reduction, food security, industrialization, employment, gender inclusion, and climate resilience**.
138. By investing in commercially viable yet socially impactful enterprises, UDC addresses systemic market failures while promoting inclusive and sustainable economic transformation. The Corporation's support to out-grower models, renewable energy, and rural infrastructure directly contributes to several SDGs, as shown below

- 139. By embedding SDG alignment across its financial and non-financial interventions, UDC positions itself as a high-impact, development-driven institution.** This integration enhances UDC's credibility among development partners, opens access to sustainable financing, and ensures that every intervention contributes meaningfully to Uganda's broader transformation agenda and the global 2030 Sustainable Development Agenda.

Table 3: Alignment of the UDC Investments with SDGs

Investment Project	Relevant SDG	Development Role
Soroti Fruit Factory	SDG 1: No Poverty, SDG 2: Zero Hunger SDG 8: Decent Work and Economic Growth SDG 9: Industry	Enhances value addition for fruit farmers; supports cooperative model with TEFCU
Kigezi Highland Tea Limited	SDG 1: No Poverty, SDG 8: Decent Work and Economic Growth, SDG 9: Industry SDG 10 (Reduced Inequality)	Promotes rural agro-industry and job creation through lease financing for local tea factories
Atiak Sugar Factory	SDG 1, SDG 5 (Gender Equality), SDG 7 (Clean Energy), SDG 8, SDG 9	Post-conflict reconstruction, women-led out-grower scheme, renewable power generation
Kalangala Infrastructure Services (KIS)	SDG 3 (Health), SDG 6 (Water & Sanitation), SDG 7, SDG 9, SDG 11 (Sustainable Cities)	Provides ferry transport, renewable power, water and road infrastructure to underserved island populations.
Kayonza & Mabale Tea Factories	SDG 8, SDG 9, SDG 10	(Expansion) Supports localized agro-industrial value chains and rural employment

Table 4: Alignment of UDC mandate with SDGs

Mandate	Relevant SDG	Explanation of alignment
Promote industrial development	SDG 9: Industry, Innovation and Infrastructure	UDC invests in agro-processing, manufacturing, and mineral value addition to support Uganda's industrialization agenda
Facilitate economic development	SDG 8: Decent Work and Economic Growth	UDC drives job creation, productivity, and inclusive economic participation through investment in strategic sectors

3.5.2 Aligning with IFRS

- 140. The International Financial Reporting Standards (IFRS) are globally recognized accounting principles that promote transparency, consistency, and comparability in financial reporting across institutions and jurisdictions.** For UDC, a government-owned development finance mechanism managing public and concessional funds, alignment with IFRS is essential to strengthen financial credibility, improve internal governance, and meet the expectations of international development partners and investors. In particular, standards such as IFRS 9, which requires forward-looking credit risk provisions, are highly relevant to UDC's lending operations. Adopting IFRS would enhance UDC's ability to manage risk, attract global funding, and operate with the accountability and professionalism expected within the international development finance ecosystem.
- 141. Strengthening alignment with IFRS therefore presents a valuable opportunity for UDC to enhance transparency, institutional credibility, and access to global funding.** Full adoption of IFRS would position UDC as a more transparent, investment-ready institution, capable of meeting global standards for financial accountability and stewardship. Prioritizing implementation particularly of IFRS 9 would support UDC's long-term sustainability, expand its ability to attract concessional and blended finance, and unlock new opportunities for partnerships within the global development finance ecosystem.
- 142. It is not evident whether UDC has formally adopted the International Financial Reporting Standards (IFRS). A review of UDC's publicly available annual reports and strategic documents reveals no reference to IFRS application.** Given the benefits of IFRS including enhanced financial transparency, comparability, and credibility among investors and development partners, UDC should consider formally adopting and disclosing its adherence to these standards. Aligning with IFRS would strengthen UDC's financial reporting framework, support compliance with international best practices, and improve its capacity to attract co-financing from multilateral institutions and private sector investors.

3.5.3 Aligning with the OECD

- 143.** The OECD Guidelines provide advice to help governments better manage the companies they own. Adhering to OECD Guidelines enhances UDC's credibility and reputation as they adopt high standards of corporate governance thereby promoting responsible state ownership.
- 144.** The OECD Guidelines on Corporate Governance of State-Owned Enterprises offer practical guidance to help governments strengthen the oversight, transparency, and performance of the entities they own. For a state corporation like UDC, aligning with these guidelines would enhance its governance framework, promote responsible state ownership, and reinforce institutional credibility. Adoption of OECD standards can also improve UDC's reputation

with investors and development partners by demonstrating a commitment to internationally recognized best practices.

3.6 Regulatory Gaps in Development Financing

3.6.1 Absence of Laws Governing DFM's

145. Uganda lacks a dedicated legal and regulatory framework for Development Finance Mechanisms (DFMs), limiting oversight, consistency, and alignment with international best practices. While UDC operates under the PERDA, this law does not contain provisions tailored to the institutional realities of DFMs. As a result, sector-specific standards for transparency, accountability, and performance monitoring remain weak or fragmented, undermining the full potential of these institutions to drive Uganda's development agenda.

146. DFMs such as UDC operate outside the regulatory purview of the Bank of Uganda and are not covered under the Financial Institutions Act, 2004 (as amended). The Bank of Uganda Act (Cap 51) mandates the Central Bank to regulate and supervise financial institutions, but the scope does not explicitly include development banks or DFMs. Under the Financial Institutions Act (FIA), a financial institution is defined as a company licensed to conduct "financial institution business" in Uganda. This includes commercial banks, merchant banks, credit institutions, building societies, and other entities classified as such by the Central Bank.

147. The FIA outlines a comprehensive set of activities that define financial institution business, including:

- (a) The acceptance of deposits.
- (b) The issuance of deposit substitutes.
- (c) Lending or extending money held on deposit, including through consumer or mortgage credit, commercial transaction financing, factoring, and forfeiting.
- (d) Engaging in foreign exchange transactions.
- (e) Issuing and administering means of payment such as credit cards and travellers' cheques.
- (f) Providing money transmission services.
- (g) Trading in money market instruments, debt securities, or financial derivatives.
- (h) Safe custody and administration of securities.
- (i) Soliciting or advertising for deposits.
- (j) Money broking.
- (k) Financial leasing.

- (l) Merchant and mortgage banking.
- (m) Creating and administering electronic units of payment.
- (n) Dealing in securities business as an exempt dealer. and
- (o) Any other business prescribed by the Central Bank.

148. DFMs in Uganda, including UDC, do not engage in any of these activities and therefore fall outside the regulatory scope of the FIA and BoU. These institutions do not accept public deposits or issue deposit substitutes, and their credit operations are not funded from deposit-based liabilities. Instead, DFMs are capitalised through government allocations or donor funding and focus on addressing market gaps through long-term, concessional financing in sectors such as agriculture, infrastructure, and manufacturing.

149. This legal and functional distinction has critical implications for how DFMs are governed, supervised, and held accountable. Their exclusion from the Bank of Uganda's regulatory mandate creates a grey area in financial oversight, particularly in areas such as risk management, financial reporting, and performance monitoring. Unlike commercial institutions, DFMs require tailored oversight that reflects their development mandate, public funding sources, and non-commercial objectives.

150. Currently, most DFM's in Uganda are classified as public enterprises under the Public Enterprises Reform and Divestiture Act (PERDA) and operate under the oversight of MoFPED. While UDC currently falls under the supervisory oversight of the Ministry of Trade, Industry and Cooperatives (MTIC), it retains statutory reporting obligations to MoFPED under PERDA. These obligations include the submission of annual audited financial statements and returns.

151. This fragmented oversight landscape underscores the need for a dedicated legal and regulatory framework for development finance institutions in Uganda. Such a framework would define institutional mandates, establish appropriate governance and risk management standards, and ensure DFMs are aligned with national development SDGs while remaining accountable to public and donor stakeholders. Creating this legal clarity would also enhance Uganda's credibility in mobilising concessional and blended finance from international partners and reinforce the sustainability of DFMs like UDC.

3.6.2 Lack of Consumer Protection Guidelines for DFM Customers

152. Uganda currently lacks a dedicated legal or regulatory framework to protect the rights and interests of clients served by Development Finance Mechanisms (DFMs), despite their critical role in advancing financial inclusion. While commercial banks and licensed financial institutions are subject to the Bank of Uganda's Consumer Protection Guidelines, 2011, these protections do not extend to DFMs such as UDC which fall outside the Bank's

supervisory mandate. The Guidelines apply exclusively to regulated institutions such as banks, credit institutions, deposit-taking MFIs, forex bureaus, and money remittance firms.

- 153. The existing Guidelines establish minimum standards for fair and transparent service delivery, including disclosure of lending terms, interest rates, fees, collateral requirements, and consumer grievance redress mechanisms.** These protections are essential for promoting responsible lending and market confidence, particularly among borrowers with limited financial literacy or bargaining power. In contrast, DFMs currently operate without formal consumer protection requirements, resulting in significant discretion in how they structure and deliver financial products.
- 154. This regulatory gap is particularly consequential given the profile of DFM clients, who are often among the most financially vulnerable.** DFMs like UDC serve high risk, little or no profit companies, MSMEs groups that are more susceptible to non-transparent loan conditions, inconsistent treatment, and the absence of reliable complaint resolution processes. Without formal safeguards, these clients face higher exposure to unfair practices and financial exclusion.
- 155. The absence of standardised consumer protection measures for DFMs introduces risks to both borrowers and the integrity of the financial sector.** Without clear standards, DFMs may inadvertently engage in discriminatory or non-transparent practices, undermining accountability and borrower trust. Moreover, this regulatory void creates potential market distortions, as DFMs could, through preferential but unregulated lending practices, displace rather than complement private sector actors. In other jurisdictions, such as the United States, such protections are enshrined in law through Fair Lending Policies that ensure equity and transparency across all financial service providers.
- 156. Closing this regulatory gap is critical to aligning DFMs with their development mandate and strengthening Uganda's financial inclusion ecosystem.** Establishing tailored consumer protection standards for DFMs would promote fairness, improve market discipline, and enhance client confidence. It would also ensure consistency with the principles of inclusive finance and support a more coherent and competitive financial sector that responsibly serves the needs of all segments of society.

3.7 Ownership and Supervision of UDC

- 157. While UDC currently operates under the supervisory oversight of the Ministry of Trade, Industry and Cooperatives (MTIC), it retains statutory reporting obligations to MoFPED under the Public Enterprises Reform and Divestiture Act (PERDA).** In accordance with Sections 12 and 13 of PERDA, UDC is required to submit comprehensive

reports on its operations, including annual audited financial statements, performance assessments, and mid-year operational updates.

158. Specifically, the Board of Directors must, within three months after the end of each financial year, submit to both MoFPED and MITC:

- A detailed report on the Corporation's and its subsidiaries' operations.
- Audited financial statements covering the balance sheet, profit and loss account, and sources and application of funds.
- The external auditor's report; and
- A performance comparison against the approved operational plan, including the dividend payable to government.

159. Additionally, within two months after the end of each half-year, UDC must submit a mid-year operations report. PERDA further mandates that senior management provide any other information requested in writing by either minister and allows MoFPED access to UDC's records and premises with reasonable notice.

160. PERDA underscores the need for operational and financial autonomy in the management of public enterprises, alongside clear accountability, performance-based management, and merit-based board and executive appointments. These provisions are designed to enable public enterprises like UDC to function efficiently, independently, and with minimal interference, core principles that are essential for any institution serving as a DFM.

161. Ensuring UDC's compliance with both supervisory ministries while preserving its operational independence is critical for maintaining fiscal discipline, institutional credibility, and alignment with Uganda's broader development financing framework.

3.8 Comparative Analysis of Regulation and Supervision of DFMs

162. Regional experience demonstrates that Development DFMs are more effective when governed under dedicated legal frameworks and placed under the regulatory supervision of central banks. Countries such as Rwanda, Tanzania, Ghana, and Zambia have adopted this model, enacting specific legislation for their DFMs and aligning them with the oversight of their respective central banks. This approach reflects a commitment to institutional independence, financial discipline, and structured accountability.

163. Placing DFMs under central bank regulation enhances oversight, reduces governance risks, and promotes alignment with national development and financial stability objectives. By removing supervisory responsibilities from government ministries that also act as owners, these countries avoid conflicts of interest and ensure that DFMs operate with

a greater degree of transparency, credibility, and adherence to prudential standards. The result is a more robust development finance ecosystem capable of delivering long-term impact while maintaining financial integrity.

- 164. To strengthen Uganda’s development finance architecture, Parliament should consider enacting a dedicated legal framework for DFMs and placing them under the regulatory supervision of the Bank of Uganda.** This reform would align Uganda with regional best practices and address governance risks arising from the current overlap of ownership and supervisory functions within government ministries. A well-designed framework should define the mandates, governance structures, prudential requirements, and risk management standards for DFMs. It should also incorporate robust consumer protection provisions to promote transparency, institutional accountability, and inclusive development outcomes.
- 165. Such a reform would mark a critical step toward professionalising Uganda’s development finance sector and enabling institutions like UDC to operate with greater independence, credibility, and strategic alignment to national priorities.** By reinforcing oversight and governance standards, Uganda would be better positioned to mobilise development finance at scale, attract concessional and private capital, and ensure long-term sustainability of its DFMs.

Country	Name of the law governing DFM’s	Regulator and Supervisor of DFM’s
Rwanda	Law n° 044/2024	Central Bank of Rwanda
Tanzania	Banking and Financial Institutions Act Banking and Financial Institutions (Development Finance) Regulations, 2021	Central Bank of Tanzania
Ghana	Development Finance Institutions Act of 2020	Central Bank of Ghana
Zambia	Banking and Financial Services Act	Central Bank of Zambia

3.9 Legal and Regulatory Key Performance Indicators (KPIs)

- 166. UDC’s legal compliance practices are generally strong, but the absence of a formal KPI framework limits institutional accountability.** UDC currently adheres to relevant national and international legal requirements and enforces compliance standards across its funded portfolio. However, it lacks a structured legal and regulatory KPI’s system to systematically track and report compliance performance. This presents an important opportunity to strengthen governance, transparency, and oversight.
- 167. A formal legal and regulatory KPI framework is essential for tracking compliance and reinforcing good governance.** For an institution like UDC that operates with public and concessional funding, such a framework would allow for consistent monitoring of

compliance with national legislation such as the Companies Act, Anti-Money Laundering Act, National Environment Act, and data protection laws as well as alignment with global standards including the SDGs, ESG principles, and responsible finance norms.

168. Embedding KPIs into UDC’s performance systems would enhance transparency and institutional credibility. By integrating legal and regulatory indicators into operational dashboards and strategic reports, UDC can benchmark compliance across time and functions. This would provide assurance to oversight entities like the Ministry of Finance, development partners, and the public that UDC is managing its legal obligations responsibly.

169. The KPI framework should be multi-dimensional and tailored to UDC’s role as a DFM. Key compliance areas should include:

- i. **Local Laws:** Ensuring that all financed projects adhere to national legal requirements, including land use laws, tax regulations, and other applicable national laws.
- ii. **International Standards:** Ensuring compliance with global frameworks such as the UN SDGs and environmental, social, and governance (ESG) standards.
- iii. **Internal Guidelines:** Adherence to the UDC’s own governance policies, operational standards, and internal controls.

170. Institutionalising a legal and regulatory KPI framework would position UDC as a model for development finance in Uganda. This reform would improve internal controls, enhance performance monitoring, and reinforce UDC’s development impact by ensuring operations remain legally sound, ethically grounded, and aligned with national and international priorities.

171. Examples of KPIs that should be used to assess UDC’s legal and regulatory performance and generate actionable insights for improvement include the following:

- i. **Legal and Regulatory Compliance Rate:** This indicator provides evidence of UDC’s adherence to both national and international legal and regulatory standards such as compliance with the UD Act, Anti-Money Laundering Act (amended), the Land Act (amended), data protection and privacy laws, Know Your Customer (KYC) requirements, and other relevant legislation. It should also include details of any instances of non-compliance, the corrective actions taken, and the overall compliance rate achieved.
- ii. **Legal and Regulatory Dispute Management:** This section should provide a detailed overview of the frequency, nature, and outcomes of legal disputes involving UDC. It should include data on any regulatory penalties or enforcement actions, as well as measures implemented to mitigate future legal risks. The report should also provide

insights into the institution's processes for resolving disputes and preventing recurrence.

- iii. **Risk Management Compliance and Training:** Data should be provided on the number of staff trained on legal and regulatory matters such as Anti-Money Laundering (AML), Data Protection, Anti-Corruption Laws, and other relevant topics. The report should also assess the impact of these training programs on UDC's operations. Additionally, it should indicate the percentage of transactions and clients undergoing KYC checks to ensure compliance with AML laws and regulations.
- iv. **Sustainability, ESG, and Environmental Compliance:** This section should detail UDC's compliance with Sustainability, ESG, and Environmental regulations. It should include examples of due diligence conducted for sustainable investments and demonstrate adherence to environmental and social risk management procedures required by applicable laws and guidelines.
- v. **Financial Reporting and Transparency:** An evaluation of UDC's adherence to financial reporting standards, such as the International Financial Reporting Standards (IFRS), should be provided. The report should assess the institution's compliance with public disclosure requirements, including the timeliness, accuracy, and transparency of financial disclosures made to regulatory bodies, the public, and stakeholders. Any corrective actions taken to address reporting deficiencies should also be included.
- vi. **Corporate Governance:** Strong governance is critical for ensuring ethical, transparent, and effective decision-making, which is essential for maintaining stakeholder trust, managing risks, and achieving sustainable development SDGs. Listed below are examples of KPIs for UDC's consideration.
 - **Board Independence:** Percentage of independent board members relative to total board members, ensuring unbiased decision-making.
 - **Board Composition:** Diversity and expertise of board members, including gender, age, geographic, and professional diversity, aligned with the UDC's objectives.
 - **Board Attendance:** Average attendance rate at board meetings, reflecting the level of engagement and commitment by board members.
 - **Frequency of Board Meetings:** Number of board meetings held annually and their alignment with UDC's need for oversight and strategic direction.
 - **Board Evaluations:** Regular performance evaluations of the board, committees, and individual board members to assess their effectiveness and governance practices.
 - **Executive Team Competence:** Evaluation of the competence and experience of the executive management team in driving the UDC's mission and achieving SDGs.

- **Leadership Succession Planning:** Existence and implementation of a succession plan for top executives to ensure continuity and stability in leadership
- **Management Structure:** Clarity and effectiveness of management structure, including delegations of authority, roles, and responsibilities.
- **Board and Staff Training:** Percentage of board members and senior staff who receive regular governance and risk management training, keeping them informed on best practices and evolving regulations.
- **Governance Awareness Programs:** The number of programs or initiatives focused on improving awareness of governance policies and practices within the institution.

3.10 Summary of the Legal and Regulatory Findings

172. The legal and regulatory evaluation of UDC revealed several critical findings that highlight opportunities to strengthen its governance, compliance, and alignment with best practices. These include the following.

- i. **MOFPED and MITC should consider enhancing UDC’s Governance Through explicit integration of the Companies Act Provisions.** The UDC Act 2016 provides a statutory foundation for UDC’s mandate as a DFM, incorporating key governance features such as structured board composition, ministerial oversight, and alignment with national development priorities. However, the UDC Act does not explicitly provide for the application of the Companies Act, which limits the Corporation’s ability to fully adopt certain modern corporate governance practices.
- ii. **The UDC Act, 2016 currently references the “Minister of Industrial Development” as the appointing authority for Board members, as stipulated in Sections 1 (definition section), Section 5 and Section 6. However, this ministerial position no longer exists within Uganda’s current cabinet structure.** In practice, the oversight of UDC has since transitioned to the Ministry of Trade, Industry and Cooperatives (MTIC), which now performs this role. This discrepancy between the legislative text and the current institutional reality may create ambiguity in governance procedures and decision-making authority.
- iii. **The current composition of the UDC Board appears to fall short of the statutory requirement under Section 6(2) of the UDC Act, which mandates eight board members to ensure effective oversight and governance.** The 2022 UDC Annual Report lists six members, while the official UDC website reflects seven, indicating a potential gap in compliance with the UDC Act.
- iv. **UDC’s strong alignment with the Sustainable Development SDGs enhances its development impact, strengthens national policy coherence, and increases its**

attractiveness to global funders. By integrating SDG priorities particularly SDGs 1, 4, 8, and 9 into its financial and capacity-building interventions, UDC plays a pivotal role in advancing Uganda's Vision 2040 objectives, including poverty reduction, job creation, and inclusive economic transformation.

This alignment supports national development priorities and reinforces UDC's credibility with international development partners, contributing to reduced dependence on government funding and improved long-term financial sustainability.

- v. **Establishing a structured KPI system for legal and regulatory compliance would significantly enhance UDC's transparency and accountability.** While UDC broadly complies with relevant national and international legal frameworks, the absence of a structured legal KPI framework limits its ability to systematically measure adherence, consistently enforce standards, and demonstrate legal and regulatory compliance to stakeholders.
- vi. **Uganda has a valuable opportunity to strengthen the effectiveness of its DFMs by establishing a dedicated legal and regulatory framework.** Such a framework would enhance institutional coherence, promote consistent standards across DFMs, and reinforce accountability to national development SDGs and international best practices. By formalizing oversight and aligning operations with clear mandates, Uganda can maximise the developmental impact of DFMs and position itself more competitively to attract concessional and blended financing from global partners.
- vii. **Uganda currently lacks a dedicated legal or regulatory framework to protect the rights and interests of clients served by DFMs, despite their critical role in advancing financial inclusion.** While commercial banks and licensed financial institutions are subject to the Bank of Uganda's Consumer Protection Guidelines, 2011, these protections do not extend to DFMs such as UDC which fall outside the Bank's supervisory mandate.

3.11 Summary of the Legal and Regulatory Recommendations

- i. **Parliament should consider including a provision in the UDC Act that permits application of the Companies Act for Enhanced Governance and Autonomy.** To strengthen UDC's governance framework and operational autonomy, it is recommended that the UDC Act, 2016 be amended to include a provision permitting the application of relevant provisions of the Companies Act. This would enable UDC to incorporate principles of corporate governance such as merit-based board appointments, clearly defined fiduciary duties, and enhanced transparency practices essential for a publicly funded institution operating in partnership with the private sector. Aligning with the

Companies Act would also reinforce investor confidence and support UDC's capacity to execute its development mandate efficiently and independently.

- ii. **Parliament should consider amending UDC Act to replace references to the “Minister of Industrial Development” with the appropriate designation reflecting the current cabinet structure.** Aligning the UDC Act with the existing governance framework will enhance legal clarity, institutional coherence, and administrative consistency in the oversight and management of UDC
- iii. **MITC and UDC should take immediate steps to restore UDC's board from seven to its full composition of nine members.** Achieving full board composition will enhance legal compliance, reinforce institutional legitimacy, and ensure the Board has the breadth of expertise and capacity necessary to guide UDC's strategic direction and deliver on its development mandate.
- iv. **To further deepen its alignment with SDGs, UDC should develop and operationalise an SDG-aligned results framework that links its interventions to measurable development outcomes.** By systematically mapping its lending, capacity-building, and institutional support activities to specific SDG targets and indicators, UDC will among others enhance its ability to attract blended finance, climate-aligned funding, and support from development partners focused on high-impact, SDG-driven investments.
- v. **UDC should prioritise the full implementation of IFRS to strengthen transparency, accountability, and access to global development finance.** Adopting IFRS across its financial systems will reinforce UDC's institutional credibility, support long-term financial sustainability, and position the institution as an investment ready DFM. This will also enhance UDC's ability to engage development partners, mobilise blended and concessional finance, and demonstrate its commitment to global standards of financial stewardship.
- vi. **UDC should institutionalize a legal and regulatory KPI framework as part of its enterprise-wide performance management system.** This framework should track compliance with national laws (e.g. Companies Act, Anti-Money Laundering Act, National Environment Act), international standards (e.g. SDGs, ESG commitments), and internal governance policies. KPIs should be integrated into operational dashboards, reported to oversight bodies, and used to benchmark performance across departments and funded projects. Doing so will enhance UDC's governance, strengthen risk management, and reinforce its position as a credible development finance institution.
- vii. **Parliament should consider enacting a dedicated legal framework to govern DFMs in Uganda.** This framework should define and enforce institutional mandates, establish sector-wide governance and performance standards, and formalise accountability

structures. The law should also require the adoption of standardised Development Impact Indicators within KPIs, performance contracts, and institutional reporting. A Development Impact Scorecard should be introduced to enable consistent, transparent measurement of each DFM's contribution to national SDGs. Uganda can draw on best practices from countries such as Ghana and Malaysia to strengthen the institutional effectiveness and sustainability of its development finance architecture.

- viii. **Parliament should consider developing and enforcing a Consumer Protection and Fair Lending Framework specifically tailored to DFMs.** This framework should establish clear principles for non-discrimination, transparency, borrower rights, grievance redress mechanisms, and responsible lending practices. It should be aligned with national financial inclusion and development SDGs and harmonized with existing regulations for commercial banks to ensure consistency and protection across the financial sector. Embedding such a framework in legislation or regulation will enhance borrower confidence and safeguard the developmental mandate of DFM's.
- ix. **MITC should consider adopting internal reforms that align DFM governance with the OECD Guidelines on Corporate Governance of State-Owned Enterprises.** These include ensuring merit-based board appointments, separating internal ownership and oversight roles, enhancing transparency, and strengthening public accountability.
- x. **Uganda can draw critical lessons from regional peers such as Rwanda, Ghana, Zambia, and Tanzania, which have adopted dedicated legal frameworks for DFMs and placed them under the regulatory supervision of their central banks.** These countries have demonstrated that removing supervisory responsibilities from government ministries that also hold ownership stakes mitigates governance risks, promotes transparency, and ensures greater adherence to prudential standards. Aligning Uganda's DFMs with this model through oversight by the Bank of Uganda would enhance institutional credibility, and position Uganda to attract concessional and blended capital at scale.

SECTION 4: GOVERNANCE AND POLICY EVALUATION

- 173.** This section highlights key findings and recommendations from the evaluation of UDC's governance and operations. This early analysis is not conclusive but provides a clear understanding of UDC's governance and suggests ways to enhance its effectiveness and sustainability, which are crucial for the organization's future success.

4.1 Preliminary Findings from the Governance and Policy Evaluation

- 174. Historical Governance Context and Its Implications:** Understanding UDC's history is crucial for grasping its current role and future potential. The corporation has experienced significant changes, including a period of collapse, which has impacted its operations and perception. The revival of UDC must be approached with an awareness of this history, as neglecting to consider past lessons could hinder its progress. The reformation of UDC, marked by the enactment of new legislation, must be conscious of these historical nuances to avoid repeating past mistakes and to facilitate a sustainable path forward.
- 175. Corporate Governance Structure:** UDC has established a robust corporate governance structure, at least in its formal documentation. However, the presence of a Minister to whom the corporation reports, while necessary, introduces a complexity that can influence its operational independence. It is crucial to maintain a clear separation of roles between the Minister, the Board, and the executive management to ensure that the governance framework functions effectively. This separation is vital for UDC to operate autonomously, making decisions that align with its strategic goals without undue external influence.
- 176. Risk Management and Portfolio Concentration:** The current governance and risk management framework has revealed weaknesses, particularly concerning portfolio concentration. Over 50% of UDC's investment portfolio is tied up in a single entity, which exposes the corporation to significant risk. This concentration indicates a gap in risk assessment and mitigation strategies within the governance structure. Addressing this issue requires a more diversified investment approach and stronger internal controls to manage such risks proactively.
- 177. Investment Decision-Making and Performance Agreements:** The concept of "blue letters" has emerged as a critical issue, where directives from the government influence UDC's investment decisions. This practice undermines the corporation's ability to use its investment appraisal protocols effectively, leading to potential conflicts and inefficiencies. Establishing a written performance agreement with the government can delineate UDC's mandates, objectives, and financial targets. This agreement would help ensure consensus on investment decisions, providing clear strategic guidance from the board to the management.
- 178. Procurement and Operational Efficiency:** Government institutions such as UDC, which support the private sector, have identified the PPDA and PFMA procedures as key constraints

that limit their competitiveness and hinder the operational flexibility required to align with private sector dynamics.

- A notable example is the disparity between the bidding price and market values, which could result in institutions paying higher than market value prices.
- Furthermore, UDC is conscious of acquiring more than 50% shareholding in investee companies due to the resulting obligation to comply with PPDA procedures. In cases such as the Soroti Fruit Factory, where UDC holds an 80% majority stake, the corporation mitigated these limitations by seeking PPDA accreditation to operate under market-driven conditions, which was successfully granted. However, the process of obtaining such accreditation remains lengthy and time intensive.

179. Governance Risks: The unique nature of UDC investments expose it to a variety of risks, including market, operational, financial, regulatory, and supply chain risks. Effective risk management is essential for UDC to fulfil their mission while ensuring financial sustainability and accountability to stakeholders.

180. Governance and Impact of UDC's Investment Portfolio: There is a critical interplay between governance practices and the effectiveness of its investment portfolio. UDC's capacity to stimulate industrial and economic development is significantly influenced by its risk management strategies, investment diversification, and stakeholder engagement. Effective risk management is essential to navigate market volatility. Diversification across sectors, such as agriculture and tourism, mitigates risks, while strong governance ensures a balanced investment strategy.

181. UDC Governance Performance Against OECD Evaluation Criteria: UDC demonstrates relevance but has had mixed effectiveness showing success in sectors like agro manufacturing but facing stalled projects efficiency across initiatives. Notably, some projects, like the Kalangala Infrastructure Project, exhibit positive outcomes, while others struggle with planning issues. Strengthening governance frameworks is essential for ensuring that UDC's investments deliver long-term benefits across financial, social, and environmental dimensions.

182. Broad Challenges Faced by UDC: Key areas include funding constraints, which limit UDC's ability to undertake ambitious projects; regulatory and bureaucratic hurdles that prolong approval processes and create inefficiencies; capacity and skill gaps that hinder the organization's ability to manage complex initiatives; and difficulties in stakeholder coordination that lead to misaligned interests and conflicts.

4.2 Governance of the UDC Investments

183. UDC is embedding governance structures in its investments, but gaps in board representation pose risks. As part of the broader field evaluation, governance structures of UDC-funded projects were assessed to determine the strength of institutional oversight and strategic management across the portfolio. Three key areas were considered: the existence of a Board of Directors, the frequency of board meetings, and UDC's representation on the boards or relevant governance committees of the funded projects.

184. All sampled projects had formal boards, but UDC was absent in one of them.

All seven UDC-funded businesses interviewed had an established Board of Directors, with each reporting regular quarterly meetings an important indicator of governance functionality. However, while six projects (86%) confirmed UDC's active participation on their boards or related committees, one project (14%) reported no UDC representation. This gap is significant, especially in high-risk or strategic sectors, as it reduces UDC's ability to provide strategic guidance, monitor performance, and protect the public interest in its investments.

Is UDB represented on the Board?

	Distribution
Yes	86%
No	14%

185. These findings confirm that UDC is promoting governance structures across its portfolio but must address gaps in board representation to ensure consistency, reduce institutional exposure, and fully leverage its developmental role. By strengthening oversight mechanisms at the enterprise level, UDC can enhance the effectiveness, integrity, and sustainability of its investments.

186. Weak representation limits UDC's development influence and increases exposure to reputational and financial risk. Without board-level presence, UDC risks reduced visibility into operational performance, weak enforcement of agreed milestones, and missed opportunities to ensure the alignment of funded enterprises with national development goals. It also undermines UDC's capacity to safeguard public funds, guide corrective action where necessary, and contribute to strategic decision-making at the firm level. Given UDC's mandate as a development investor, such gaps can dilute accountability and weaken long-term impact.

187. To strengthen UDC's governance of its funded investments and close gaps in oversight, the following re recommended.

- i. **UDC should enforce the mandatory board representation** for all funded projects, particularly for high-value, high-risk, or strategic investments. Clear representation should be formalised through shareholder agreements or loan covenants.

- ii. **In case this isn't a standard practice, UDC should include governance criteria in loan appraisal and post-investment monitoring**, ensuring investees not only have board structures but also maintain governance quality standards such as frequency of meetings, decision tracking, and board composition diversity.
- iii. **UDC should invest in a governance support and capacity-building programme** to assist investees in establishing and operationalising functional boards. This could include toolkits, training sessions, and advisory support for governance compliance and improvement.
- iv. **Introduce a governance red flag mechanism**, where the absence of UDC representation is treated as a material risk, requiring elevated monitoring and conditionalities for continued support.

4.3 Governance and Policy Recommendations

- 188. Strengthen Governance Oversight:** Introduce board members with expertise in emerging sectors (renewables, ICT, Tourism) to provide better strategic oversight. Periodic board performance reviews should also be institutionalized to enhance accountability.
- 189. Harmonize Policy Frameworks:** Revise existing policies to align UDC's operations with broader national and sector-specific policies. Particular attention should be given to integrating the corporation's activities with emerging national priorities, such as climate change, technological innovation, and gender equality.
- 190. Enhance Regulatory Flexibility:** While maintaining accountability, UDC would benefit from a more flexible regulatory environment that allows for adaptive project implementation. Introducing performance-based regulatory mechanisms rather than rigid compliance-based approaches will foster innovation and faster decision-making at UDC.
- 191. Address Institutional Coordination Gaps:** Establish a formal coordination mechanism between UDC and other governmental agencies to ensure seamless project implementation. Strengthening partnerships with local governments and the private sector will also improve project delivery and ensure that investment priorities reflect local needs.
- 192. Improve Accountability Mechanisms:** Establish clear and standardized accountability frameworks with board oversight that include transparent reporting on project outcomes and financial performance. Regular external audits should be accompanied by the publication of audit results to enhance public trust and stakeholder confidence.
- 193. Enhance Monitoring and Evaluation Systems:** Allocate more resources to UDC's monitoring and evaluation departments to improve the systematic tracking of project outcomes. Establish a framework that links UDC's activities directly to national development

goals, ensuring that each project is aligned with long-term developmental impacts of the NDP.

- 194. Improve Stakeholder Engagement:** UDC should develop a comprehensive stakeholder engagement strategy to foster better communication and collaboration with all relevant parties, including government entities, private sector partners, and local communities. This strategy should include regular stakeholder meetings, feedback mechanisms, and transparent communication channels.
- 195. Strengthen Procurement Efficiency:** Ministry of Finance should consider introducing special procurement and financial management guidelines within the existing PPDA and PFMA frameworks to enable government institutions supporting the private sector to operate competitively in line with prevailing market conditions, while maintaining the accountability for public funds ensured by adherence to PPDA and PFMA procedures.

SECTION 5: ECONOMIC AND FINANCIAL EVALUATION

196. The economic and financial evaluation includes understanding the products and services offered by UDC, its operational processes and procedures, funding structure, financial performance, development impact, and the challenges faced by the institution. Findings are discussed in the context of the six OECD criteria components: **Relevance, Effectiveness, Efficiency, Impact, Sustainability and Coherence.**

5.1 RELEVANCE

197. The relevancy of UDC and its interventions was evaluated based on three measures. These included (1) Alignment of UDC's mandate with the NDPIII and Vision 2040; (2) Alignment of UDC's interventions and investments with Uganda's development needs and priorities; (3) Response to social, economic and political changes.

198. UDC's relevance was evaluated using three strategic measures to determine its alignment with national development goals and responsiveness to Uganda's evolving context. These included: (1) the extent to which UDC's mandate aligns with the objectives of NDP III and Vision 2040; (2) the consistency of its interventions and investments with Uganda's development needs and sectoral priorities; and (3) the institution's responsiveness to emerging social, economic, and political shifts that affect enterprise sustainability and industrial transformation. This multidimensional approach ensured that the assessment captured both policy alignment and real-world relevance.

5.1.1 Alignment of the UDC Mandate with the NDPIV and Vision 2040 Plans

199. Uganda Vision 2040 defines the country's long-term ambition of transforming into a modern and prosperous upper-middle-income economy by 2040. The plan seeks to shift Uganda from a predominantly peasant and low-income economy to a globally competitive and industrialised nation within 30 years. Central to this transformation is a strong emphasis on industrialisation, particularly through value addition in agriculture, minerals, oil, and other natural resources. Vision 2040 also promotes manufacturing-led export growth, tourism development, agricultural modernisation, and the absorption of Uganda's growing labour force into productive sectors.

200. Vision 2040 is operationalised through five-year National Development Plans, with NDP IV (FY2025/26–FY2029/30) guiding the current planning cycle. These rolling plans break down the country's long-term aspirations into concrete actions and measurable outcomes, forming the backbone of Uganda's development programming and resource allocation frameworks.

201. UDC's mandate is directly aligned with Vision 2040 and NDP IV priorities, particularly in advancing industrialisation for inclusive growth and sustainable wealth creation. As

the government's primary vehicle for public investment in strategic enterprises, UDC promotes industrial and economic development by financing projects that drive value addition, create employment, and foster regional equity. Its focus on productive sectors such as agro-processing, tourism infrastructure, and manufacturing strongly reflects the intent of Vision 2040 and NDP IV to catalyse structural transformation.

- 202. Evaluation findings confirm UDC's effectiveness in stabilising strategic but distressed enterprises, preserving national assets, and safeguarding livelihoods.** Two of UDC's eighteen investments Mabale Tea Growers and Budadiri Arabica Coffee Factory were rescued from collapse, securing incomes for over 30,000 smallholder farmers through their out-grower networks. In response to the COVID-19 economic shocks, UDC injected rescue capital into seven enterprises, including Soroti Fruits Factory, Atiak Sugar Factory, Nile Hotel, and Munyonyo Commonwealth Resort, collectively protecting or generating employment for more than 37,000 Ugandans. These counter-cyclical interventions underscore UDC's growing role in crisis mitigation and economic resilience.
- 203. While 67% of UDC's investments are presidential directives or blue-lettered projects, they remain largely aligned with national priorities and address critical market failures.** Nonetheless, to preserve the integrity of UDC's investment function and ensure sustained development impact, its strategic autonomy must be safeguarded particularly in project selection, appraisal, and exit decisions. The remaining 33% of its portfolio comprises unsolicited walk-in proposals and government-assigned investments, reflecting the institution's flexibility and responsiveness to Uganda's evolving development context.
- 204. There are clear opportunities to strengthen UDC's strategic alignment with the national planning cycle by integrating a five-year planning horizon into its strategy.** While UDC currently operates under a 10-year strategic plan, extracting a five-year actionable plan would enhance synergy with NDP IV and improve coordination, prioritisation, and monitoring of development outcomes. This would position UDC more effectively as a long-term but agile instrument for delivering Uganda's industrialisation agenda.

5.1.2 Alignment of Interventions with Uganda's Development Needs

- 205. UDC's investment portfolio is strongly aligned with Uganda's national development frameworks, particularly in prioritising agriculture-led industrialisation.** In line with Vision 2040 and the NDP plans, which identify agriculture as the most effective pathway for improving the livelihoods of Ugandans, UDC has channeled 75% of its total funding into the agricultural sector, with a strategic emphasis on agro-industrial manufacturing. This alignment underscores UDC's role in transforming Uganda's agricultural base into a competitive, value-added production system.

- 206. The Corporation's interventions are geographically inclusive, with strategic projects located across all regions, including underserved areas such as Karamoja.** UDC's ongoing construction of a Cement Manufacturing Factory in Karamoja reflects its commitment to balanced regional development and equity in public investment. However, future investment selection processes should be further fine-tuned by incorporating metrics that measure net community impact at the household and individual level particularly in terms of poverty reduction and inclusive economic outcomes.
- 207. UDC's equity-based financing model is uniquely suited to Uganda's long-term industrialisation needs, offering patient capital where conventional lenders will not.** Of its current portfolio, 89% (16 out of 18 investments) are structured as equity holdings, complemented by lease financing (11%) and shareholder loans. These shareholder loans, extended to 69% of UDC's equity investees (11 of 16), are designed to provide liquidity, finance equipment, and facilitate operational scale-up without collateral constraints an approach that enables strategic firms to grow sustainably in alignment with national priorities.
- 208. UDC's concessional financing terms enable enterprise growth while crowding in private investment.** Of the 11 investments with shareholder loans, 82% accessed funding at interest rates of 10% or below which are significantly below the prevailing commercial rates averaging 22%. Three projects accessed financing at 6%, and six at 10%, allowing them to focus on long-term productivity, job creation, and competitiveness rather than unsustainable debt servicing. These affordable terms support UDC's mandate to de-risk industrialisation and promote enterprise viability in Uganda's most critical sectors.
- 209. By financing high-risk, high-impact projects, UDC fills a critical gap in Uganda's development financing landscape.** As the only government-owned institution that directly invests in commercially unattractive but nationally important projects, UDC plays an irreplaceable role in safeguarding strategic investments that would otherwise collapse. Several of its interventions were targeted rescues of enterprises on the verge of foreclosure, preserving thousands of jobs and stabilising local economies. Without UDC's catalytic presence, many of these investments and the livelihoods they support would have been lost.

5.1.3 Response to Social, Economic and Political Changes

- 210. UDC has demonstrated adaptive capacity by aligning its investment strategy with emerging national and global challenges.** The evaluation assessed how UDC has adjusted its priorities and interventions in response to shifting socio-economic, environmental, and political dynamics to remain relevant and impactful. This strategic flexibility is central to UDC's role as a public investment arm that must evolve alongside Uganda's development context.

- 211. In the wake of the COVID-19 pandemic, UDC served as a key government vehicle for economic recovery and resilience-building.** Between 2021 and 2022, UDC invested in seven enterprises to stabilise critical sectors, preserve jobs, and support the continuity of production. These interventions were instrumental in mitigating economic disruptions, signaling UDC's counter-cyclical function as a national stabiliser during periods of crisis.
- 212. UDC is also proactively planning for long-term resilience by prioritising investments in essential industries such as pharmaceuticals.** Recognising vulnerabilities exposed by the pandemic, UDC has committed to expanding its portfolio in the health-related industrial value chain over the next three years. This is vital not only for import substitution and public health security but also for deepening Uganda's industrial base in sectors of strategic national importance.
- 213. The institution has further responded to political imperatives by implementing presidential directives that address urgent national needs.** These include high-impact projects in agro-processing and food security areas critical for rural transformation and livelihood protection. While such directives constitute 67% of UDC's portfolio, they remain aligned with the Corporation's broader development mandate and reflect the institution's responsiveness to state priorities.

5.1.4 Investees Perspectives on UDC's Relevance

- 214. UDC's relevance was assessed from the perspective of its funded investments by asking businesses to rate the extent to which UDC financing had enabled them to meet market demand and improve their industry competitiveness.** This enabled assessing whether UDC is delivering on its core mandate of financing enterprises that drive Uganda's industrialisation agenda, effectively addressing financing gaps, enhancing production capacity, and enabling firms to compete more effectively within their sectors, which are critical indicators of development impact and institutional relevance.
- 215. Most UDC-funded businesses confirmed the financing had strengthened their ability to meet market demand and compete effectively.** Specifically, 85% of surveyed enterprises (6 out of 7) reported satisfaction with UDC's support in expanding market reach and enhancing competitiveness, reinforcing the institution's strategic role in enabling sustainable enterprise development. Only one business (14%) expressed partial dissatisfaction, and none reported a highly unsatisfactory experience pointing to generally positive perceptions of UDC's developmental relevance (**Error! Reference source not found.**).
- 216. These results highlight UDC's catalytic role in unlocking enterprise potential in high-priority sectors.** The strong satisfaction levels suggest that UDC financing is meeting real investment needs that the private sector may otherwise avoid, contributing to the viability and growth of businesses of national importance. However, the partial dissatisfaction expressed though minimal indicates the need for UDC to tailor its post-investment support,

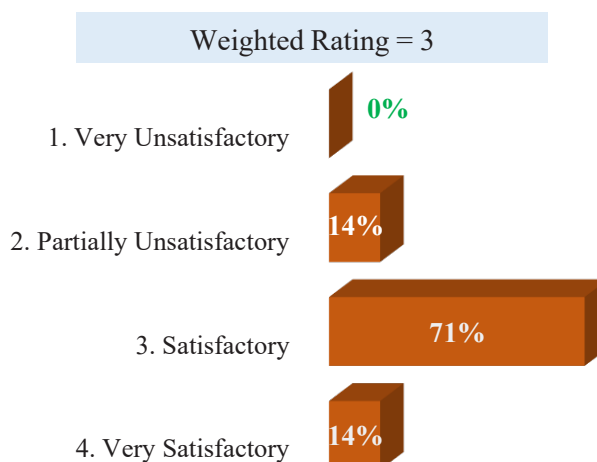
strengthen client engagement, and ensure that financing is aligned with evolving industry dynamics.

217. To sustain and scale these outcomes, UDC should institutionalise regular feedback loops with investee businesses.

Doing so would enable continuous refinement of its financing and support models, ensure alignment with market realities, and maximise the competitiveness gains it helps to generate.

218. Feedback from funded investments also confirmed UDC's additionality and strategic focus.

Four of the seven sampled investments (57%) reported they would not have qualified for private financing without UDC's intervention. For the others, UDC funding enhanced their creditworthiness enabling land acquisition, operational scaling, and stronger relationships with private lenders. In cases where credit access did not improve, investees cited legacy non-performing loans as barriers, further underscoring the importance of UDC stepping in to preserve strategic enterprises and economic value.



5.2 PORTFOLIO REVIEW

219. By August 2024, UDC had disbursed over UGX 1.018 trillion across 18 active investments, with an additional 23 pipeline projects awaiting funding. All existing investments remained ongoing, reflecting the long-term, patient capital nature of UDC's financing model, which targets enterprises requiring extended gestation periods to deliver full development returns. The substantial pipeline underscores continued demand for UDC's intervention in strategic sectors, while also highlighting the need for sustained capitalisation to meet Uganda's industrial development priorities. For reference, UDC investments are listed in Table 11 which is on page 73.

5.2.1 Investment Financing Model

220. UDC provides patient capital through a tailored mix of equity, lease, and shareholder loan financing, enabling long-term enterprise growth. As of August 2024, UDC had disbursed UGX 1.018 trillion, structured to support companies through extended grace periods and repayment flexibility that align with the long gestation cycles of industrial investments. This financing model is designed to unlock growth in sectors where traditional lenders are unwilling or unable to engage.

221. Equity financing is UDC's primary investment vehicle, accounting for 89% of its portfolio. Out of the 18 active investments, 16 were financed through equity, positioning UDC as either a majority shareholder (subsidiary) or minority stakeholder (associate), depending on strategic considerations. This approach allows UDC to remain embedded in the governance of critical enterprises while enabling reinvestment of returns into new projects (**Figure 5**).

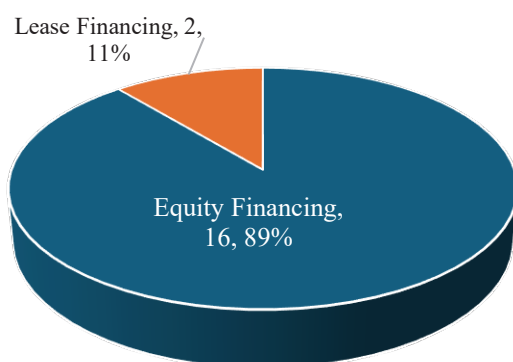


Figure 5: UDC's Financing Options

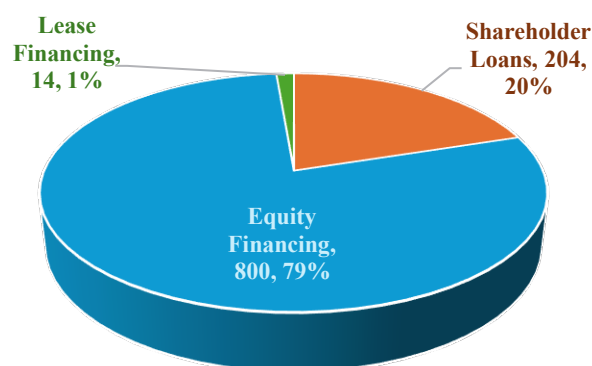


Figure 4: Disbursements by Financing Option

222. To supplement equity investments, UDC also provides shareholder loans as a capital reinforcement mechanism. These loans are extended to companies where UDC already holds equity, helping them scale operations, acquire equipment, or improve liquidity without collateral constraints. As of August 2024, 69% of UDC's equity investments (11 out of 16) had received shareholder loans. These funds are concessional, structured with lower-than-market interest rates to ease financial pressure and ensure business sustainability leases (**Figure 4**).

223. The Corporation further supports industrialisation through lease financing, particularly for equipment procurement. Under this model, UDC retains ownership of the leased assets while the private sector partner operates them. The lessee pays rent over an agreed period, allowing UDC to recover the investment cost without requiring collateral or upfront payments. Currently, lease financing accounts for 11% (2 out of 18) of UDC's investment arrangements.

224. The disbursement structure reflects UDC's deliberate focus on long-term impact and financial flexibility. Of the UGX 1.018 trillion disbursed: 79% (UGX 800 billion) was invested through equity, 20% (UGX 204 billion) through shareholder loans, and 1% (UGX 14 billion) through lease financing. These proportions underscore UDC's strategic role in offering high-impact, patient capital tailored to Uganda's industrialisation needs.

5.2.2 Investment Sourcing Model

- 225. UDC sources investment proposals through both supply-driven and demand-driven channels, allowing it to balance national priorities with public-sector responsiveness.** There are three main origination pathways: (1) presidential directives, also known as Blue Letter Projects, which are issued directly by the President of Uganda; (2) in-house or solicited projects identified by UDC through internal research and strategic prioritisation; and (3) unsolicited, walk-in proposals or referrals submitted by the public, representing a demand-driven model (**Figure 6**).

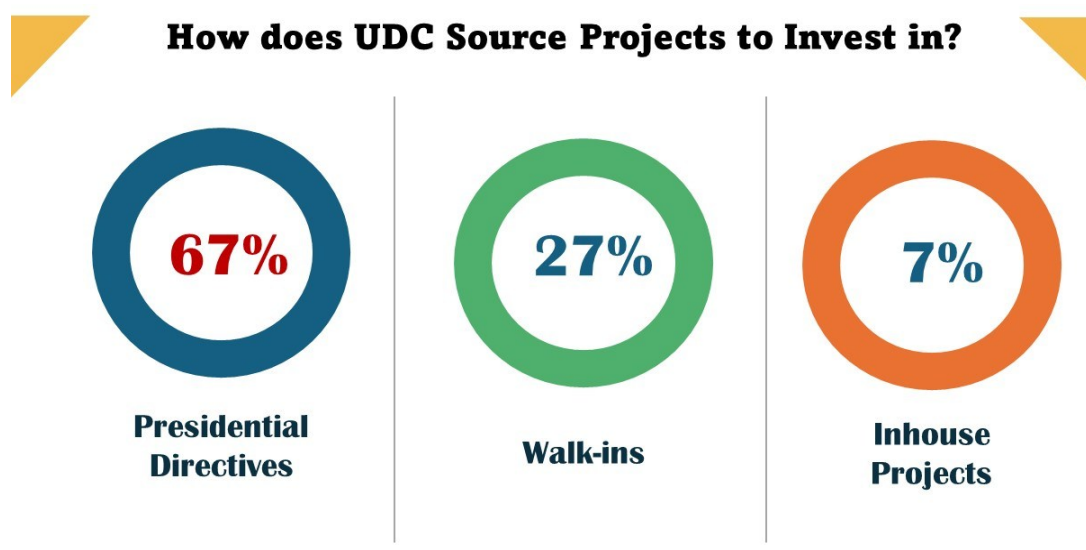


Figure 6: UDC Investment Sourcing Model

- 226. The majority of UDC's current portfolio originates from presidential directives, reflecting its role in executing high-level national priorities.** Of the 15 evaluated investments, 10 (67%) were presidential directives, 4 (27%) were unsolicited public submissions, and only 1 (7%) originated from internal UDC research. In addition, UDC holds equity in three legacy government investments Nile Hotel Limited, Kalangala Infrastructure Services Ltd, and Munyonyo Commonwealth Resort Hotel Ltd which were transferred under provisions of the UDC Act but were excluded from the above percentages, as they did not pass through UDC's standard investment screening process.
- 227. Supply-driven investments allow UDC to proactively target sectors and regions critical to Uganda's industrial transformation.** Presidential directive and in-house projects enable UDC to preselect investments that align with the national development agenda, address persistent market failures, and catalyse job creation, infrastructure development, and regional equity. These projects are typically concentrated in strategic sectors such as agro-processing, tourism infrastructure, and food security areas where private sector engagement remains limited despite their importance to inclusive growth.

228. Demand-driven proposals complement this model by enabling UDC to respond to citizen-driven enterprise ideas with potential development impact. Walk-in proposals and customer referrals are screened using UDC’s rigorous appraisal criteria, which consider feasibility, alignment with national priorities, financial sustainability, and projected socio-economic benefits. Projects that meet these thresholds are selected for development or financing, ensuring that public-driven innovations are not excluded from Uganda’s industrialisation effort.

UDC’s success and sustainability are dependent on the institution’s ability to strengthen its oversight and decision-making processes by establishing robust governance frameworks, ensuring independent investment appraisal processes, and enhanced accountability to all other stakeholders.

229. Together, these investment origination models ensure that UDC remains both strategically aligned and responsive to evolving national needs. While the predominance of presidential directives ensures focus on high-impact, nationally important projects, maintaining a viable demand-driven channel safeguards inclusivity, encourages innovation, and strengthens UDC’s legitimacy as a national development finance institution.

5.2.3 Growth Trends

230. Since its revitalisation in 2016, UDC has expanded its investment portfolio from just two to 18 active projects, with plans to scale this number to 41 by 2027. The Corporation has outlined an ambitious growth trajectory that includes onboarding seven new investments in 2025, six in 2026, and ten in 2027. This growth strategy is projected to nearly double the current portfolio size, positioning UDC as a leading player in Uganda’s development finance landscape (Figure 7).

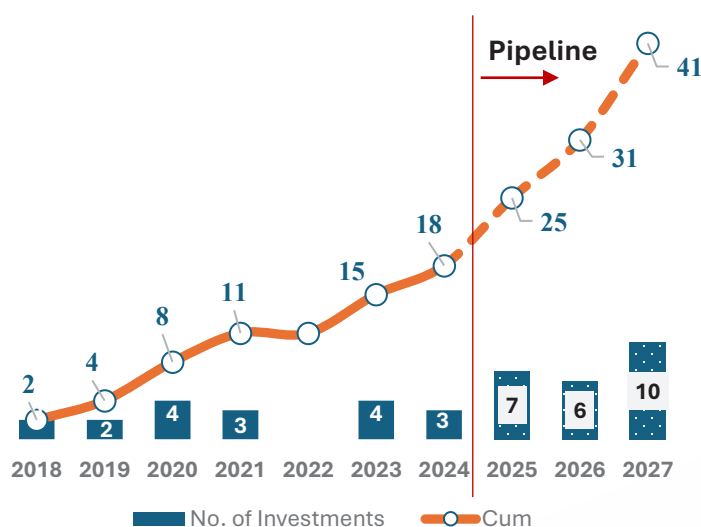


Figure 7: UDC Investees by Year of Investment

231. UDC’s portfolio focuses on high-risk, long-term investments with significant development impact most of which are unattractive to private financiers. By filling this financing gap, UDC enables strategic investments of national importance to proceed, especially in critical sectors such as agro-industrialisation, tourism, and food security. For example, between 2020 and 2021, UDC provided emergency capital to eight enterprises during the COVID-19 crisis, including Soroti Fruits Limited, Mpanga Growers' Tea Factory,

Bukona Agro Processors, Nile Hotel, and Mutuma Commercial Agencies, among others.

232. Some of these interventions rescued enterprises from collapse, protecting livelihoods and stabilising rural incomes. In 2021, UDC saved Mabale Tea Growers Limited benefiting approximately 3,750 smallholders and in 2023, the Corporation intervened to rescue Budadiri Coffee Factory, safeguarding the income of nearly 30,000 farmers. These actions illustrate UDC's counter-cyclical role and its ability to act where private markets fail.

233. To date, UDC has disbursed UGX 1.018 trillion across its 18 active investments, averaging UGX 56.5 billion per project. During the peak of the COVID-19 response in 2020 and 2021 alone, UDC allocated 59% of its total funding (UGX 597 billion), demonstrating its agility in crisis response and its role in stabilising the economy through targeted investment (**Figure 8**).

234. Looking ahead, UDC aims to invest an additional UGX 1.05 trillion between 2025 and 2027 to reach its target of 41 investments. This includes seven pipeline projects valued at UGX 365 billion in 2025, six projects worth UGX 325 billion in 2026, and ten projects valued at UGX 359 billion in 2027. If fully implemented, UDC's total portfolio value would reach UGX 2.083 trillion by 2027 (**Figure 9**).

235. If successful, UDC could emerge as Uganda's largest development finance institution, surpassing UDB in portfolio size. Based on projections, this expanded investment programme could generate over 80,000 jobs, UGX 155 billion in foreign exchange earnings, and UGX 65 billion in tax revenues substantial returns on public capital with direct contributions to Uganda's 10-fold growth targets and inclusive industrialisation.

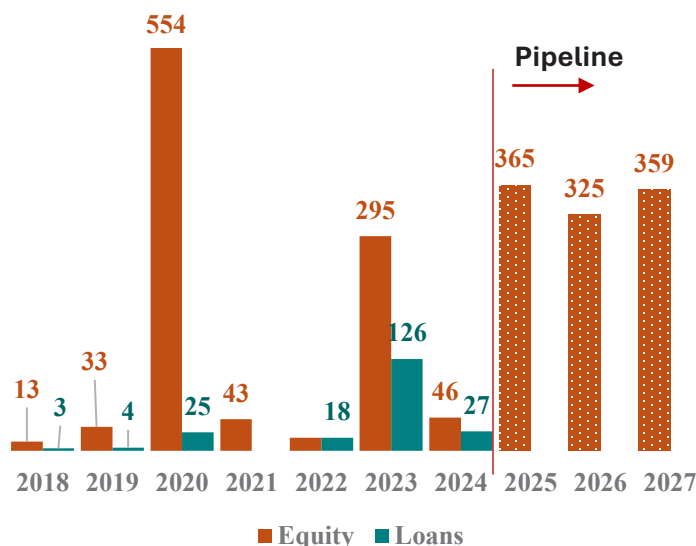


Figure 8: UDC Disbursements (UGX. Billions)

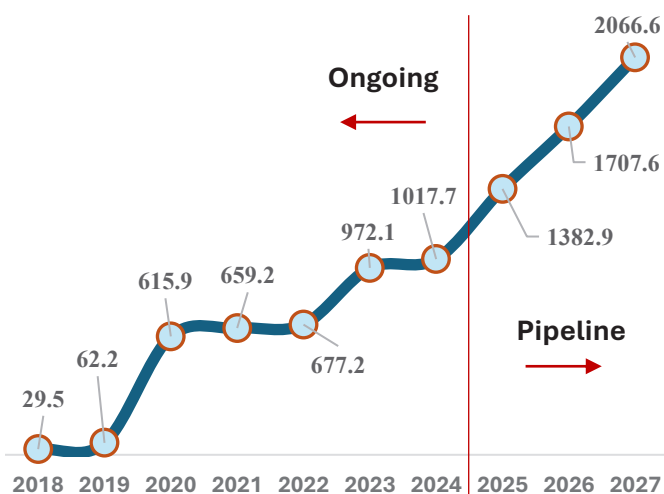


Figure 9: Cumulative Disbursements (UGX. Billions)

236. However, UDC's portfolio is heavily concentrated, exposing the institution to significant risk. **Figure 11** and **Figure 10** show that 50% of UDC's total disbursed funding UGX 507 billion was invested in a single enterprise, Atiak Sugar Factory (UGX 482 billion in equity and UGX 25 billion in shareholder loans). This level of concentration not only violates UDC's own Investment Appraisal Policy, which caps exposure to any single entity or sector at 25%, but also contradicts the Corporation's commitment to portfolio diversification and risk-balanced growth.
237. While the decision to invest beyond the 25% limit was approved by the Board in accordance with Schedule 3 of the UDC Act, it underscores the urgent need to strengthen governance and institutional checks. Schedule 3 permits such exposure with unanimous Board approval, which was obtained in this case. Nonetheless, the decision highlights the importance of enhancing internal safeguards to ensure adherence to UDC's investment strategy, compliance thresholds, and long-term sustainability objectives.
238. UDC's financial sustainability is now closely tied to the recovery of the Atiak Sugar Factory, which remains non-operational. According to UDC management, reopening is planned for FY2024/25, contingent on restoring the supply of sugarcane the factory's most critical input. Until this materialises, UDC remains highly vulnerable, making it imperative to review governance systems, strengthen investment discipline, and enforce portfolio risk mitigation strategies going forward.

Figure 11: Amount Disbursed by Investee (UGX. Billions)

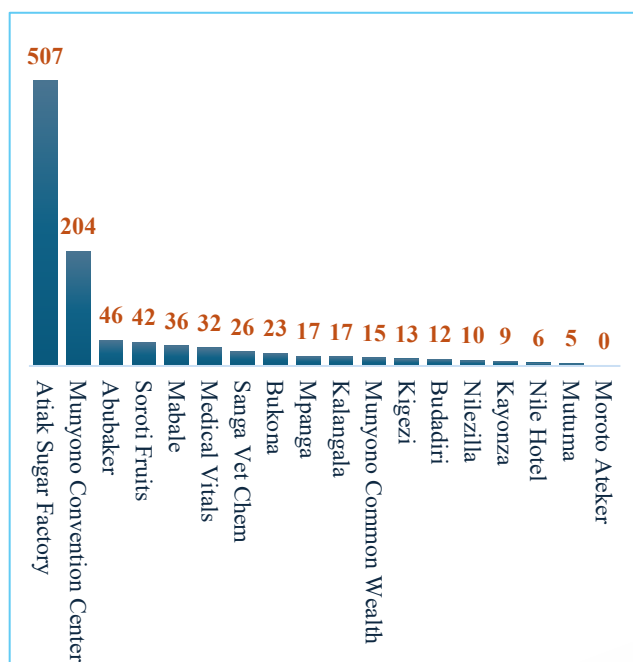
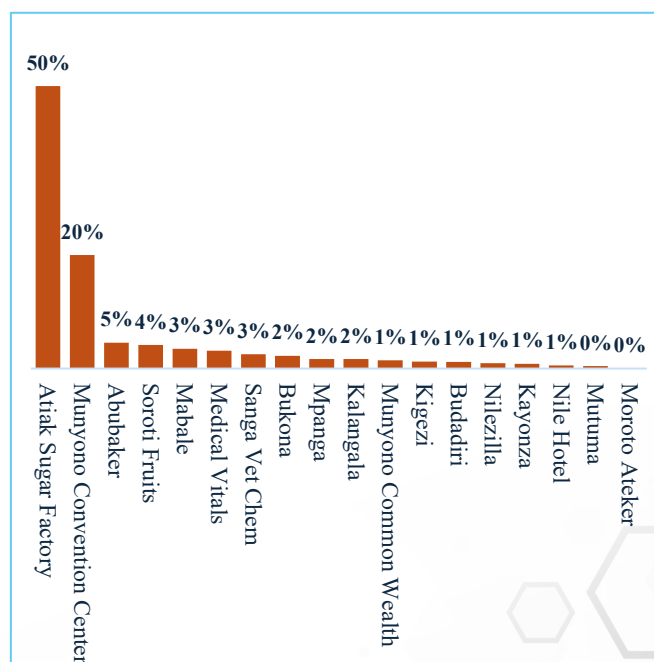


Figure 10: Share of Funds by Investee



5.2.4 Geographical Distribution

239. UDC's investments are geographically distributed across all regions, with a notable presence even in underserved areas such as Karamoja. Based on the number of funded projects, 39% (7 investments) are located in the Central Region, 22% (4) in the Western Region, 22% (4) in the Northern Region, and 17% (3) in the Eastern Region. This reflects a deliberate effort by UDC to achieve regional inclusion and support national industrialisation across the country (**Figure 12**).

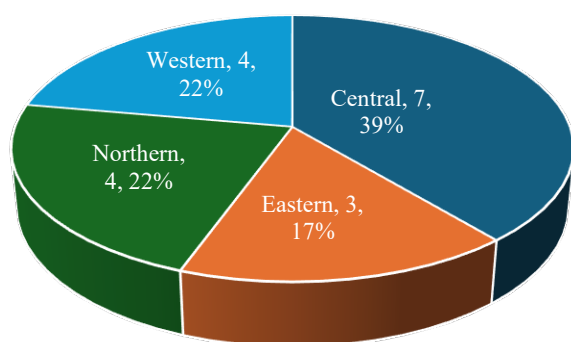


Figure 12: Number of UDC Investments by Region

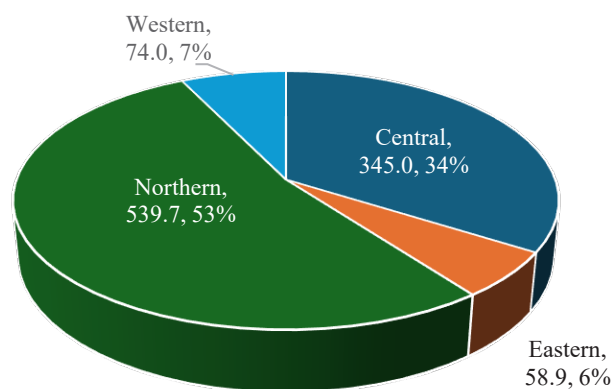


Figure 13: UDC Disbursements by Region (UGX. Billion)

240. However, funding allocation remains highly concentrated, with over half of UDC's total disbursements directed to the Northern Region. As shown in Figure 12, 53% of all UDC funding equivalent to UGX 539.7 billion was invested in the North, primarily due to the UGX 507 billion committed to the Atiak Sugar Factory. While this investment targets a high-poverty region and aims to catalyse transformation, the concentration exposes UDC to regional risk and limits the reach of its national development impact (**Figure 13**).

241. At the national level, UDC investments currently cover only 10% of Uganda's districts. Specifically, the Corporation has invested in 13 out of 134 districts, suggesting that many localities remain excluded from access to UDC's strategic capital. As UDC expands its portfolio, greater district-level reach will be critical for broad-based industrial growth.

242. At the household and individual level, UDC's investment footprint reveals regional disparities in per capita and per household allocations. Analysis of average investment per household and per person shows that the Northern Region received the highest amount UGX 248,000 per household and UGX 52,000 per capita. This was followed by the Central Region at UGX 77,000 per household and UGX 15,000 per capita. In contrast, Eastern and Western Regions received significantly less, with only UGX 25,000 and UGX 16,000 per household, and UGX 5,000 and UGX 4,000 per capita, respectively (**Table 5**).

243. These imbalances highlight the need for a more equitable distribution model that accounts for both population size and poverty incidence. The Eastern and Northern Regions are home to the highest poverty levels in the country. Yet, while the North received substantial investment, the Eastern Region remains underfunded in per capita and per household terms. A more targeted approach would ensure that UDC investments reach the most vulnerable and underserved communities.

Table 5: UDC Investment per Household and Per Capita

	UDC Investments	Amount Disbursements (UGX. Billions)	No of Districts	Districts Where UDC Invested	Districts Served	No. of Households	Funds Invested per Household	Population	Funds Invested per Capita	Poverty Rates
Central	7	201.4	26	3	12%	2,617,600	77,000	13,456,613	16,000	21%
Eastern	3	54.9	37	3	8%	2,200,538	25,000	12,103,060	5,000	65%
Northern	4	508.8	36	4	11%	2,052,213	248,000	9,824,994	57,000	64%
Western	4	48.3	35	3	9%	2,943,148	16,000	11,928,052	4,000	40%
Totals	18	813.5	134	13	10%	9,813,500	83,000	47,312,719	19,000	

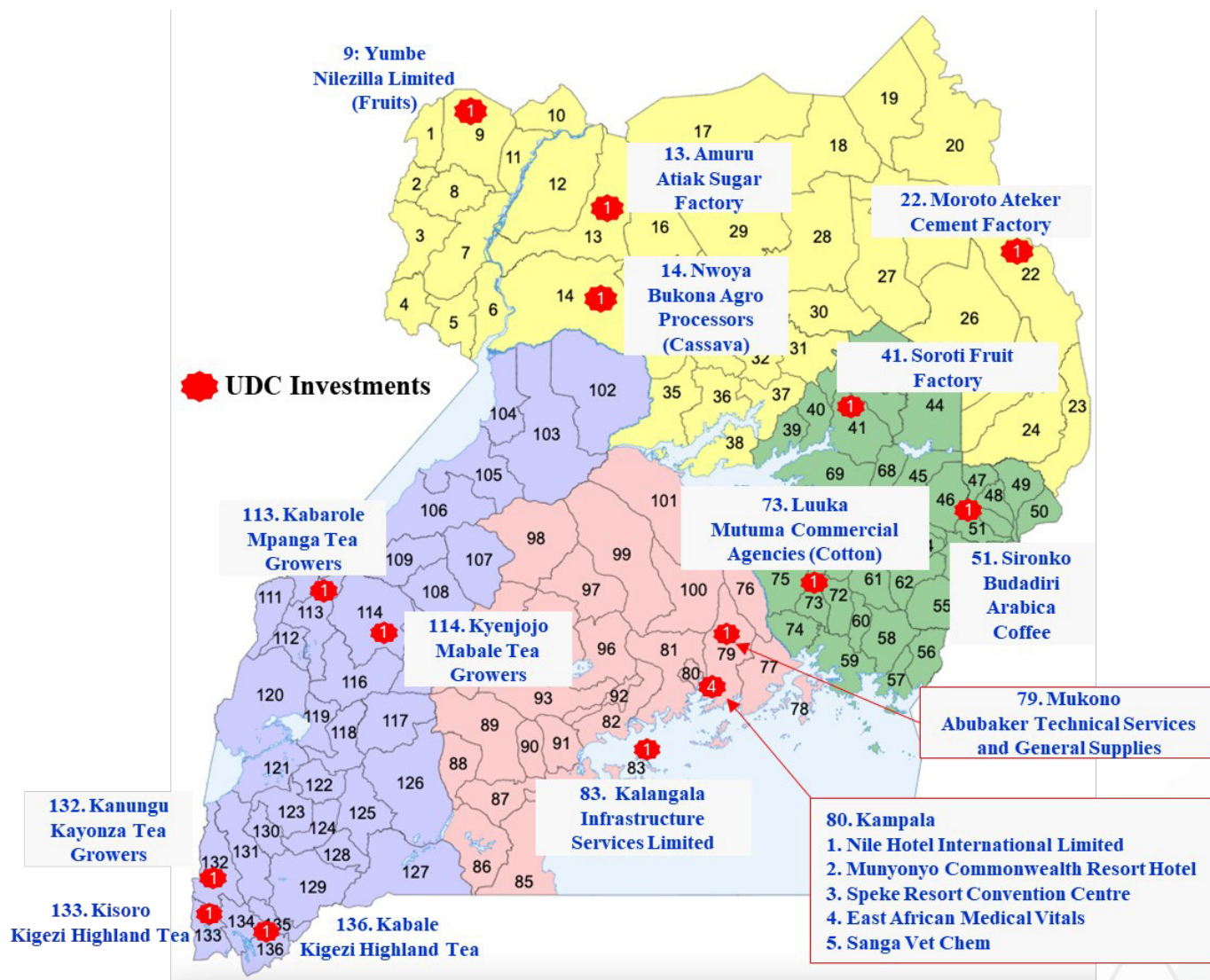


Figure 14: Map of Uganda Showing Location of UDC Investments

- 244. To enhance its development impact, UDC should incorporate regional poverty data and population distribution in its project selection process.** This would enable the Corporation to align investments more closely with Uganda's financial inclusion and poverty reduction goals, promoting inclusive industrialisation and equitable access to public capital. A funding model informed by these parameters will help close regional opportunity gaps and increase UDC's transformative reach.

5.2.5 Sectoral Distribution

- 245. UDC's investment strategy prioritises agro-industrialisation, with nearly 60% of its portfolio dedicated to agriculture-based enterprises.** As of the evaluation period, UGX 612 billion equivalent to 75% of UDC's total disbursed funds had been invested in agro-industries, reaffirming agriculture as the cornerstone of UDC's development financing approach. This focus is aligned with Uganda's national priorities under NDP III and Vision 2040, which position agriculture as the primary vehicle for improving household incomes and driving inclusive economic transformation (**Figure 15**).

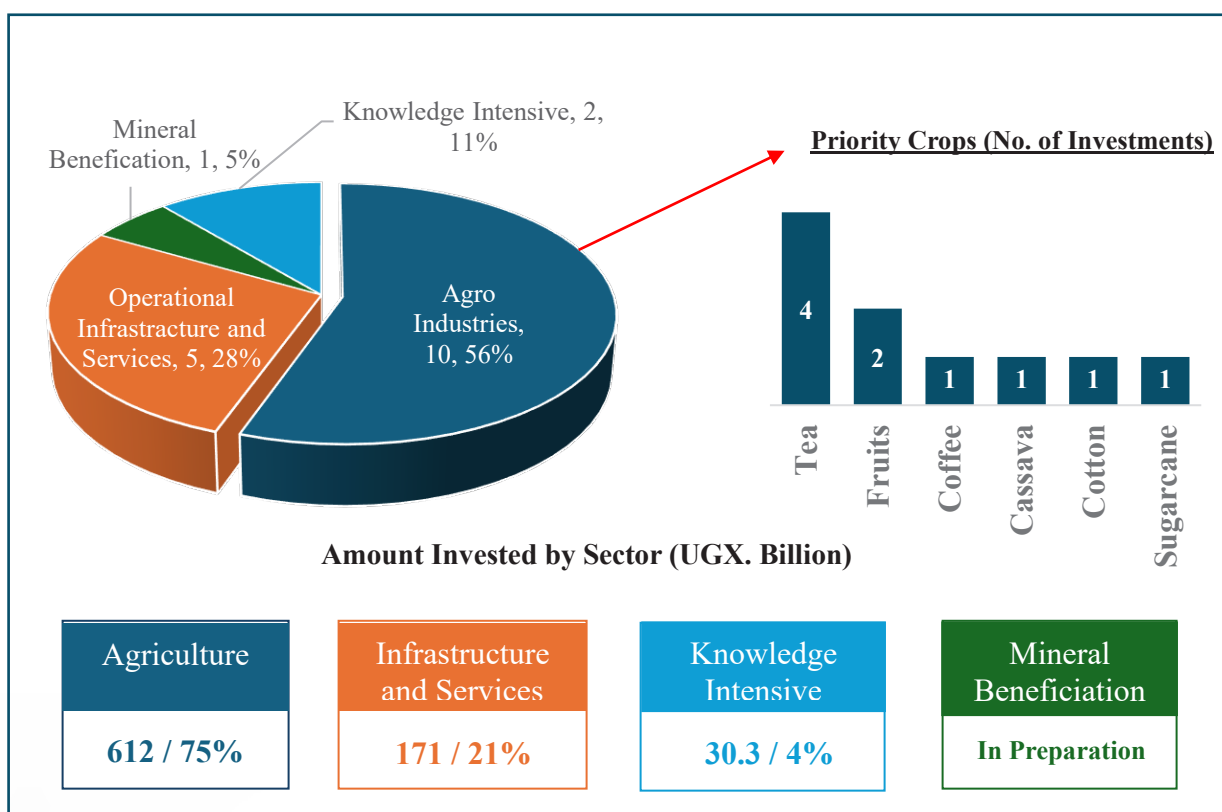


Figure 15: UDC Investments by Sector

- 246. Within the agro-industrial portfolio, tea production is the most heavily prioritised subsector, concentrated in the Western Region.** UDC had financed four tea processing factories Mabale, Mpanga, Kayonza, and another unnamed facility all located in the Western region. This regional clustering reflects the agro-ecological advantage of the area but also

underscores the need to extend similar investments to tea-producing zones in Eastern and Northern Uganda to promote regional equity.

- 247. As of the evaluation, UDC's agricultural investments spanned 10 agro-industrial enterprises across multiple high-potential value chains.** These included four tea factories, two fruit processing factories (Soroti Fruits and another), and one factory each for coffee, cassava, cotton, and sugarcane. This level of product diversification within agriculture demonstrates UDC's effort to support value addition in a range of priority crops, though there remains room to deepen investment in underfunded subsectors.
- 248. UDC's sectoral allocation is well aligned with its statutory mandate and Uganda's long-term development goals.** By concentrating funding in agriculture and agro-processing sectors that employ the majority of Ugandans UDC is directly contributing to the objectives of Vision 2040 and the NDP, particularly in raising household incomes, creating jobs, and supporting Uganda's transition from subsistence to industrial production systems.

5.2.5.1 Tea Subsector

- 249. UDC's most prioritised agro-industry subsector is tea, with four fully operational investments in Western Uganda.** These include Mabale Growers' Tea Factory, Mpanga Growers' Tea Factory, Kayonza Growers' Tea Factory, and Kigezi Highland Tea Factory, which operates in both Kisoro and Kabale districts. These factories have been on UDC's books for between 4 and 6 years, and together account for a gross investment of UGX 48.33 billion (Table 6, page 67).
- 250. Despite UDC's strategic focus, Uganda's tea subsector is facing a major crisis triggered by steep declines in global tea prices.** During the evaluation period, the market price of tea dropped from \$1.50 (UGX 5,600) per kilogram to just \$0.66 (UGX 2,400)⁵, according to Monitor Publications. This drop severely affected the viability of Uganda's tea exports, making production financially unsustainable for several factories.
- 251. The crisis is driven by global disruptions and structural market barriers that have reduced Uganda's tea competitiveness.** Ongoing economic and political instability in Pakistan Uganda's largest tea export market, alongside the UAE, Kenya, China, and Poland has significantly reduced demand⁶. Compounding the problem is the absence of a dedicated Ugandan tea warehouse at the Mombasa Port. Kenya prioritises its own tea exports, limiting Uganda's access to reliable storage and timely trade facilitation. Moreover, competition among private tea companies for limited green leaf supply has compromised the quality of raw materials, leading to further reductions in export value and earnings.

⁵ <https://www.monitor.co.ug/uganda/news/national/farmers-demand-action-over-drop-in-tea-prices-4614536>

⁶ <https://oec.world/en/profile/bilateral-product/tea/reporter/uga>

- 252. The collapse of Mpanga Growers' Tea Factory in early 2024 illustrates the severity of the crisis.** The sharp price drops rendered the factory's unit production costs unsustainable. Without agricultural insurance coverage, the factory's out-growers suffered direct income losses, further exposing the vulnerability of smallholder farmers in the absence of effective risk mitigation mechanisms.
- 253. Despite the crisis, UDC plans to invest an additional UGX 44.7 billion in three new tea factories over the next three years.** These include Zombo Tea Factory (UGX 18.7 billion), Mitooma Tea Factory (UGX 6.2 billion), and Sheema Tea Processing Factory (UGX 19.8 billion). While these projects are expected to stimulate rural economies and enhance value addition, they also heighten the portfolio's exposure to a struggling subsector with declining profitability.

Table 6: List of Current and Pipeline Tea Investments

Current Investments	Amount Disbursed (Billions)	Investment Share	Year of Investment	Export Earnings (\$ Million)	Export Earnings (Per UGX. Invested)
Mabale Growers' Tea Factory Limited	24.000	50%	2019	1.56	0.25
Mpanga Growers' Tea Factory	10.725	22%	2021	1.24	0.44
Kigezi Highland Tea Factory Limited	9.243	19%	2018	4.3	1.77
Kayonza Growers' Tea Factory Limited	4.358	9%	2019	4.48	3.91
	48.326	100%		11.58	0.91
Pipeline Investments					
Tea Factory in Zombo	18.731	42%	2025/26		
Mitooma Tea Factory	6.200	14%	2025/27		
Sheema Tea Processing Factory	19.800	44%	2025/27		
	44.731	100%			

- 254. Tea factories already funded by UDC have made significant contributions to Uganda's foreign exchange earnings.** In 2022, the four operational tea factories collectively generated \$11.58 million representing 33% of Uganda's total annual tea export earnings of \$35.5 million. However, the continued volatility in global markets reinforces the need for UDC to enhance its sector-specific risk management framework and develop clear contingency strategies to mitigate future shocks.
- 255. Diversification within the tea value chain is urgently needed to protect farmers and enterprises from further losses.** The National Agricultural Research Organisation (NARO) recommends value addition and new product development as key strategies. Introducing innovative tea-based products can increase demand for green leaf, boost local consumption, and open new income streams within the domestic and export markets.

- 256. NARO's proposed diversification products span across beverages, cosmetics, and processed consumer goods.** These include green tea, purple tea, orthodox teas, oolong tea, silver tea, tea-flavored beverages, tea oils, lotions, shampoos, soaps, iced teas, tea-flavored candies, pastries, and ready-to-drink tea products. Such diversification would not only stabilise incomes for farmers but also generate jobs and stimulate industrial growth in the value chain.
- 257. The government is also developing a policy framework to regulate the establishment of tea factories.** This intervention aims to curb the proliferation of unregulated processors, reduce pressure on raw material supply, and protect the quality and pricing of Uganda's black tea in international markets.

5.2.5.2 Other Agro Industries

- 258. Beyond tea, UDC has invested in six other agro-industrial enterprises spanning key value chains, though their development returns remain comparatively low.** As detailed in Table 6, these include two fruit processing factories Soroti Fruit Factory and Nilezilla Limited; one coffee factory Budadiri Arabica Coffee; a cassava processing plant Bukona Agro Processors Limited; a cotton processing facility Mutuma Commercial Agencies Limited; and one large-scale sugar investment Atiak Sugar Factory. Collectively, these projects represent a significant portion of UDC's agro-industrial portfolio (Table 7).
- 259. Despite their scale, these non-tea agro-industries have yielded lower returns in terms of export earnings and development impact.** Combined, the six enterprises have attracted an investment of UGX 643.45 billion but generated only \$2.55 million in export revenue substantially lower than the \$11.58 million generated by UDC's four tea factories from just UGX 48.4 billion in capital. This disparity raises important questions about investment efficiency and return on public capital.
- 260. Tea investments have also outperformed other agro-industries in employment generation.** UDC's agro-industrial portfolio has created 2,263 direct jobs, of which 57% (1,282 jobs) were generated by tea factories alone. Even amid the current global tea crisis, the tea subsector continues to deliver higher marginal development returns in job creation and foreign exchange earnings compared to other cash crops supported by UDC.
- 261. Tea's superior performance is partly attributable to its labour intensity and long-term production cycle.** Unlike seasonal crops such as fruits, cassava, and cotton that require frequent replanting and high input costs, tea is a perennial crop that continues producing for decades once planted. This makes tea cultivation more cost-effective over time and better suited for sustainable job creation and rural development.
- 262. The observed return differential highlights the importance of refining UDC's sectoral investment strategy to maximise development impact.** While diversification across agricultural value chains remains necessary, future investment decisions should be guided

by comparative analysis of per-unit returns both financial and socio-economic. In particular, emphasis should be placed on high-employment, export-oriented, and regionally inclusive investments that align with UDC's mandate and Uganda's broader development priorities.

Table 7: List of Current and Pipeline Other Agro Industries Investments

Current Investments	Amount Disbursed (Billions)	Investment Share	Year of Investment	Export Earnings (\$ Million)	Export Earnings (Per UGX)
Soroti Fruits Limited	42.316	8%	2020	0.568	0.05
Nilezilla Limited	9.800	2%	2024	-	
Budadiri Arabica Coffee Mills	8.120	1%	2023	-	
Bukona Agro Processors Limited	17.457	3%	2021	1.653	0.36
Mutuma Commercial Agencies Limited	4.500	1%	2020	0.333	0.28
Atiak Sugar Factory Limited	481.510	85%	2020	-	
	563.703	100%		2.55	0.02
Pipeline Investments					
Luwero Fruit Factory	10.842	2%	2025/26		
Cocoa Processing Factory in Bundibugyo	89.469	14%	2025/26		
Nwoya Fruits Factory project	2.515	0.4%	2025/27		
Busoga Sugar Factory	193.334	29%	2024/25		
Amuru Sugar	95.000	14%	2025/27		
Soluble coffee processing in Wakiso	26.000	4%	2025/27		
Integrated Coffee Factory in Lyantonde	33.351	5%	2025/26		
Cassava Processing Factory in Pader	46.965	7%	2025/26		
Kabale Potato Processing Factory	7.500	1%	2025/27		
Revival of Lira spinning Mill	68.400	10%	2024/25		
Fine Spinners (Cotton Spinning)	30.080	5%	2025/27		
Poultry & Animal Feeds Production Plant	13.613	2%	2025/26		
Grains Value Addition Project - Afro-Kai	40.000	6%	2024/25		
	657.068	100%			

1.1.1.1 Operational Infrastructure and Services Industries

263. UDC's investments in operational infrastructure and hospitality services form a strategic pillar for stimulating job creation, tax revenue, and tourism growth. This portfolio includes five key investments: Kalangala Infrastructure Services Ltd, Abubaker Technical Services and General Supplies Ltd, Nile Hotel Ltd, Munyonyo Commonwealth Resort Hotel Ltd, and the Speke Resort Convention Centre (see **Table 8**). These projects are categorised under the Operational Infrastructure and Services Industries sector due to their role in supporting foundational services and high-value hospitality infrastructure.

264. As of 2023, UDC had invested a total of UGX 171.088 billion in this sector, with a strong concentration in large-scale hospitality infrastructure. The Speke Resort Convention Centre alone accounted for UGX 103 billion (60%) of total investment, reflecting UDC's commitment to positioning Uganda as a regional hub for meetings, incentives, conferences,

and exhibitions (MICE). In addition, UDC has two pipeline projects valued at UGX 52 billion that are ready for implementation pending the availability of funds, along with a planned additional investment of UGX 63 million into Abubaker Technical Services.

- 265. This sector has demonstrated significant development impact, particularly in employment generation and tax contribution.** To date, UDC's operational infrastructure and hospitality investments have created 1,494 direct jobs and generated the highest recorded gross tax payments across all sectors UGX 32.76 billion. These outcomes underscore the sector's catalytic role in delivering both fiscal returns and high-multiplier economic activity through tourism, logistics, and services.
- 266. Moving forward, strategic investment in this sector should continue focusing on nationally significant projects that crowd-in private investment and promote Uganda's service-led growth potential.** With the right planning and capital flows, infrastructure and hospitality investments can further unlock regional competitiveness, attract foreign exchange, and deepen linkages across value chains.

Table 8: List of Current & Pipeline Operational Infrastructure & Services Investments

Current Investments	Amount Disbursed (Billions)	Investment Share	Year of Investment	Export Earnings (\$ Million)	Export Earnings (Per UGX)
Kalangala Infrastructure Services Ltd	16.877	10%	2012	-	
Abubaker Technical Services and General Supplies Limited	36.150	21%	2023	-	
Nile Hotel Limited	0.000		2020	-	
Munyonyo Commonwealth Resort Hotel Limited	15.061	9%	2021	-	
Speke Resort Convention Centre	103.000	60%	2023	0	0.00
	171.088	100%		0.00	0.00
Pipeline Investments					
Abubaker Technical Services and General Supplies Limited	63.900	55%	0		
National Marketing Company (aggregation and trading)	26.400	23%	2024/25		
Plant for production of packaging materials	25.349	22%	2026/27		
	115.649	100%			

1.1.1.2 Knowledge Intensive Subsector

- 267. UDC invested in strategic investments in the pharmaceutical and life sciences subsector to strengthen Uganda's health security and industrial resilience.** The current portfolio includes two operational investments: East African Medical Vitals Ltd, which manufactures surgical and examination gloves, and Sanga Vet Chem Ltd, a producer of acaricides. Both

companies are located in the Central Kampala subregion and play a critical role in reducing Uganda's dependence on imported medical and veterinary supplies.

- 268. UDC is also preparing to scale its presence in this high-potential, knowledge-intensive sector through two advanced pipeline projects.** These include a UGX 38.2 billion intravenous fluids manufacturing plant in Kabarole and a UGX 50.4 billion investment in Microhaem Scientifics, a company producing malaria and HIV diagnostic test kits. Both projects are investment-ready and awaiting fund availability, with the potential to significantly enhance local production of essential health commodities (**Table 9**).
- 269. Over the next three years, UDC plans to increase its capital commitments to the pharmaceutical sector as part of its broader industrialisation strategy.** These investments are expected to boost Uganda's capacity for import substitution, reduce the cost of healthcare inputs, and support the emergence of a competitive life sciences industry. By targeting critical health-related manufacturing, UDC is aligning its investment priorities with national objectives for self-reliance, innovation, and inclusive industrial development.

Table 9: List of Current & Pipeline Knowledge Intensive Investments

Current Investments	Amount Disbursed (Billions)	Investment Share	Year of Investment	Export Earnings (\$ Million)	Export Earnings (Per UGX. Invested)
East African Medical Vitals	21.340	70%	2023	8	1.42
Sanga Vet Chem	9.000	30%	2024	-	-
	30.34	100%		8.00	1.00
Pipeline Investments					
Intravenous fluids manufacturing plant in Kabarole	38.161	43%	2026/27		
Microhaem scientifics (malaria and HIV diagnostic testing kits)	50.400	57%	2025/27		
	88.561	100%			

1.1.1.3 Mineral Beneficiation Sector

- 270. UDC's entry into mineral beneficiation is anchored on catalysing value addition in Uganda's extractives sector, with a focus on cement, steel, and iron.** The current project under this subsector is the Moroto Ateker Cement Factory, located in the Karamoja sub-region. While still at the exploration stage, the project represents a foundational step toward industrialising one of Uganda's most resource-rich yet underserved regions. UDC is currently conducting geological studies to assess the availability of raw materials necessary for sustainable operations and has applied for a mining license to secure long-term access.

- 271. To expand its footprint in this strategic sector, UDC plans to invest UGX 70 billion in mineral beneficiation, targeting large-scale manufacturing with regional impact.** Two pipeline projects are ready for investment: a partnership with Devki Steel Mills Limited, a leading Kenyan steel producer, and a Sponge Iron manufacturing plant in Mbarara. The Devki investment is structured as an equity deal in which UDC will contribute Uganda's abundant iron ore deposits particularly from Kabale in exchange for ownership, ensuring local resources are leveraged for industrial transformation.
- 272. These investments are expected to stimulate import substitution, enhance regional value chains, and position Uganda as a competitive player in mineral-based manufacturing.** By building domestic capacity in cement, steel, and iron production, UDC is directly supporting Vision 2040's agenda of adding value to Uganda's natural resources, unlocking industrial growth in mineral-rich areas, and creating jobs in high-capital, high-impact sectors.

Table 10: List of Current & Pipeline Mineral Beneficiation Investments

Current Investments	Amount Disbursed (Billions)	Investment Share	Year of Investment	Export Earnings (\$ Million)	Export Earnings (Per UGX.
Moroto Ateker Cement Factory	0.000	0%	2024		
	0	0%			
Pipeline Investments					
Devki Steel Mills Limited (steel mining)	64.600	93%	2024/25		
Sponge Iron Manufacturing Plant in Mbarara	5.000	7%	2025/27		
	69.600	100%			

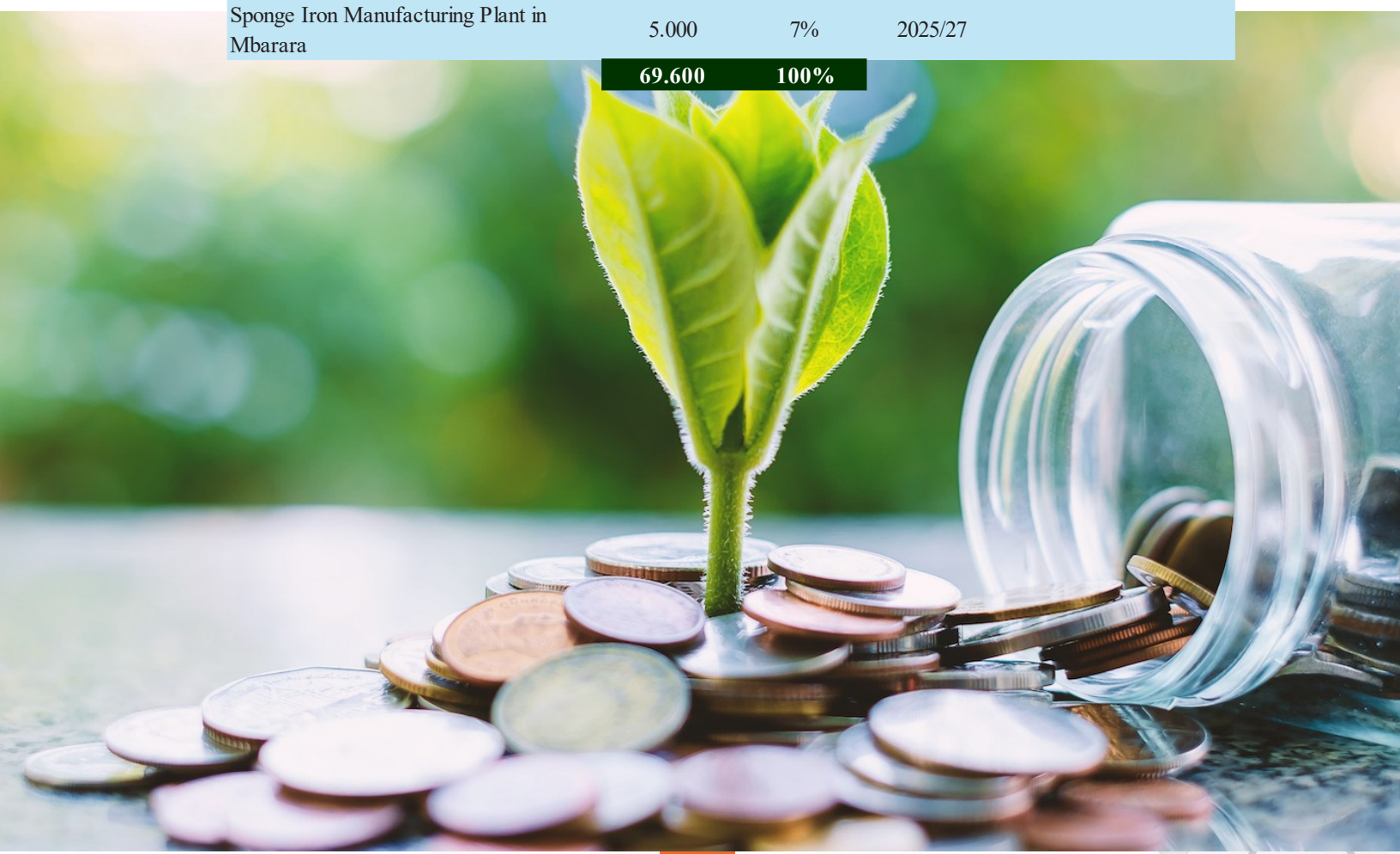


Table 11: List of Current UDC Projects as of August 2024

No.	Name of Institution	Category	Sub Sector	District	Region	Sub Region	UDC Intervention Year	Amount Invested (UGX Billion)	UDC Shares	Job Creation (Direct)	Source Model	Operational Status
1	Mabale Growers' Tea Factory Limited	Agro Industries	Tea	Kyenjojo	WESTERN	Toro	2019	24.00	48.5%	307	Presidential Directive	Operating Fully
2	Mpanga Growers' Tea Factory	Agro Industries	Tea	Kabarole	WESTERN	Tooro	2021	10.73	31.9%	330	Presidential Directive	Temporarily Closed
3	Kayanza Growers' Tea Factory Limited	Agro Industries	Tea	Kanungu District	WESTERN	Kigezi	2019	4.36		398	Presidential Directive	Operating Fully
4	Kigezi Highland Tea Factory Limited	Agro Industries	Tea	Kabale and Kisoro	WESTERN	Kigezi	2018	9.24		247	Presidential Directive	Operating Fully
5	Budadiri Arabica Coffee Mills	Agro Industries	Coffee	Sironko	EASTERN	Bugisu	2023	8.12	32.0%	3	Presidential Directive	Operating Fully
6	Soroti Fruits Limited	Agro Industries	Fruits	Soroti	EASTERN	Teso	2020	42.32	80.0%	97	Walk-Ins	Operating Fully
7	Nilezilla Limited	Agro Industries	Fruits	Yumbe	NORTHERN	West Nile	2024	9.80	39.0%	8	Walk-Ins	New Factory in preparation
8	Bukona Agro Processors Limited	Agro Industries	Cassava	Nwoya	NORTHERN	Acholi	2021	17.46	40.5%	194	Presidential Directive	Operating Fully
9	Mutuma Commercial Agencies Limited	Agro Industries	Cotton	Luuka	EASTERN	Busoga	2020	4.50	36.0%	136	Presidential Directive	Operating Fully
10	Atiak Sugar Factory Limited	Agro Industries	Sugarcane	Amuru	NORTHERN	Acholi	2020	481.51	40.0%	543	Presidential Directive	Temporarily Closed
11	Kalangala Infrastructure Services Ltd	Operational Infrastructure and Services	Infrastructure and Services	Kalangala	CENTRAL	Central	2012	16.88	45.7%	67	Taken Over Government Interest	Operating Fully
12	Nile Hotel Limited	Operational Infrastructure and Services	Hotels and Hospitality Services	Kampala	CENTRAL	Central	2020		100.0%	343	Taken Over Government Interest	Operating Fully
13	Munyonyo Commonwealth Resort Hotel Limited	Operational Infrastructure and Services	Hotels and Hospitality Services	Kampala	CENTRAL	Central	2021	15.06	25.0%	304	Taken Over Government Interest	Operating Fully
14	Speke Resort Convention Centre	Operational Infrastructure and Services	Hotels and Hospitality Services	Kampala	CENTRAL	Central	2023	103.00	50.0%	250	Presidential Directive	Operating Fully
15	Abubaker Technical Services and General Supplies Limited	Operational Infrastructure and Services	Infrastructure and Services	Mukono	CENTRAL	Central	2023	36.15	7.0%	530	Presidential Directive	Operating Fully
16	Moroto Ateker Cement Factory	Mineral Beneficiation	Cement	Karamoja	NORTHERN	Karamoja	2024				In-House Project	New Factory in preparation
17	East African Medical Vitals	Knowledge Intensive	Pharmaceuticals	Kampala	CENTRAL	Central	2023	21.34	6.5%	207	Walk-Ins	Operating Fully
18	Sanga Vet Chem	Knowledge Intensive	Pharmaceuticals	Kampala	CENTRAL	Central	2024	9.00	18.7%	-	Walk-Ins	Operating Fully
								813.46		3,964		

5.3 EFFECTIVENESS

273. UDC's institutional effectiveness was assessed across a comprehensive set of operational and strategic performance dimensions. These included its organisational structure and staffing capacity; investment origination and appraisal procedures; pricing mechanisms such as shareholding models, exit strategies, interest rates, and transaction costs; as well as turnaround times and risk management practices. The evaluation also examined UDC's the effectiveness of its marketing, branding, and public relations strategies which are critical enablers for delivering on its development financing mandate.

5.3.1 Organisational Structure

274. The evaluation assessed UDC's organisational structure to determine its alignment with the institution's mandate and long-term development objectives. This included a review of the organisational chart to confirm the presence of critical departments expected in a DFM, an analysis of staffing adequacy, the distribution of personnel between operational and administrative roles, and the extent to which staff skills were aligned with assigned responsibilities.

275. As of July 2024, UDC had 57 approved positions, of which only 34 were filled leaving 23 vacancies and a staffing gap of 40%. This shortfall significantly undermined institutional performance, with clear evidence of workload strain among staff members interviewed during the evaluation. The most critical impact was observed in UDC's ability to deliver post-investment functions, including advisory services, monitoring, and oversight all of which were essential for supporting high-risk, high-impact projects (**Figure 16**).

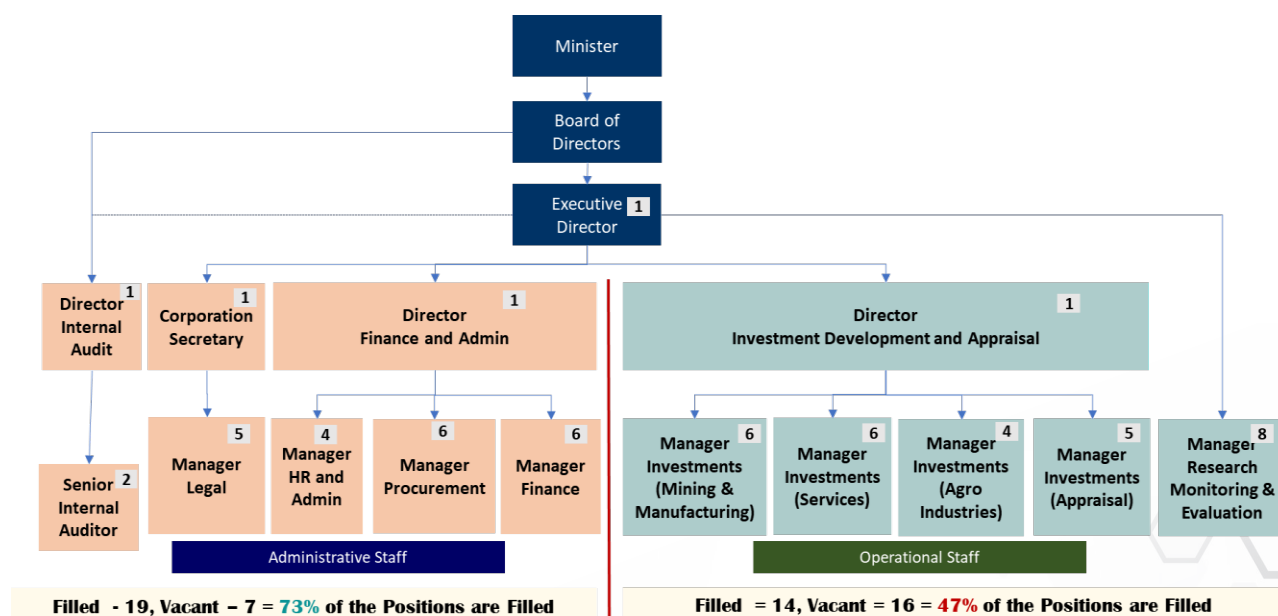


Figure 16: UDC Organisational Chart and Available Positions

276. Operational staffing gaps were particularly acute, with more than half of key customer-facing roles vacant. Of the 30 positions classified as operational, only 14 were filled (47%), leaving 16 essential posts unstaffed. These included functions directly linked to project appraisal, monitoring, technical support, and portfolio management. Such capacity constraints limited UDC's ability to track project progress, offer tailored investee support, and ensure development outcomes were achieved.

277. The organisational structure also reflected an imbalance between operational and administrative roles, limiting institutional efficiency. As shown in Figure 16, 45% of all positions (26 out of 57) were administrative and non-customer-facing. This deviates from recommended benchmarks for DFMs, where operational staff typically make up 70–80% of total personnel. A heavy administrative structure risks diverting resources from core development functions limiting UDC's capacity to provide hands-on engagement with funded enterprises.

The recommendation therefore is for UDC to fill open positions as quickly as possible and to increase the number and ratio of operational staff in comparison to the administrative employees for improved customer service delivery.

278. To strengthen institutional performance and deliver on its mandate, UDC should urgently prioritise recruitment and rebalance its workforce in favour of operational roles. Increasing the share of front-line technical staff will enhance the Corporation's ability to conduct effective project supervision, provide advisory services, and respond to investee needs in real time. This shift is critical to improving efficiency, sustaining project outcomes, and positioning UDC as a fully functional development finance institution.

Ensuring availability of enough front-line operational employees is crucial for interacting with investees, understanding their needs, providing advisory services, and ensuring that funded projects are progressing effectively. Having a heavy administrative organisational structure could limit UDC's ability offer such services to support its investments.

5.3.1.1 Departments Mapping

279. The evaluation assessed UDC's institutional structure beyond core departments to determine the presence of functions essential to a modern DFM. In addition to standard units such as Finance, Legal, Internal Audit, and Human Resources, effective DFIs require departments that drive transparency, innovation, client support, and impact delivery. These include active and well-structured Board committees; dedicated teams for advisory services, financial literacy, and investee oversight; a customer service unit; risk management;

monitoring and evaluation; research and innovation; sector-specific technical departments; funding mobilisation; and green finance or ESG compliance.

280. **Several of these critical institutional functions were either missing or insufficiently prioritised within UDC’s structure at the time of the evaluation.** Notably, UDC lacked a dedicated customer service team, a specialised unit for funding mobilisation, and formalised ESG or green financing roles key pillars in development financing institutions globally. These gaps limit UDC’s ability to engage with the public, attract diversified funding, and align with global sustainable financing practices.
281. **Other strategic functions such as risk management, advisory services, planning and performance management, and technology and innovation—existed but were not institutionalised as standalone, prioritised departments.** These roles were embedded within broader administrative functions, diluting their effectiveness and reducing their strategic visibility (**Table 12**). As UDC’s portfolio grows, formalising these departments will be essential to strengthening internal controls, driving innovation, and managing risk across high-impact, high-risk investments.
282. **A fully functional DFI must go beyond capital provision and establish strong client-centred service delivery mechanisms.** UDC’s organisational design should reflect its public development mandate by institutionalising customer service, investee support, and continuous monitoring structures. These functions are critical for tracking investment performance, providing real-time support, and ensuring accountability for development results. Dedicated research and innovation teams are also necessary to keep UDC responsive to emerging trends and evolving national priorities.

5.3.1.2 Skills Mapping

283. **In terms of skills mapping, UDC had a strong foundation of technical expertise aligned with its sectoral priorities.** The Corporation’s staff included professionals with backgrounds in finance, risk management, engineering, project management, architecture, and agriculture key for informed decision-making in investment appraisal and execution. For example, the agriculture department was led by specialists with deep sector knowledge, while infrastructure and manufacturing were managed by experienced engineers and architects.
284. **However, the evaluation identified a gap in development finance-specific expertise and emerging thematic areas such as ESG and climate-aligned investment.** While UDC had strong sectoral alignment, it lacked personnel with formal backgrounds in development financing, which is critical for aligning operations with global DFI standards. There were also clear opportunities to enhance team diversity and capability by recruiting specialists in ESG, green finance, and advanced risk management.

Table 12: UDC Organisational Chart Evaluation

	RAG Status	Why it's Important to for UDC to Have the Functionality	Comments
Board Committees		They provide specialised technical oversight to strengthen the institution's governance and decision making.	Framework existed.
Dedicated Advisory Services.		Continuous advisory services and financial literacy training are needed through the project's life span to derisk and support struggling investments to recover over time. As a DFM, UDC is expected to promote sustainable economic development, beyond providing capital.	UDC didn't have a dedicated team for this function. Advisory services were provided informally during appraisal phases only. Dedicated financial literacy training services were also unavailable.
Dedicated Customer Services.		Ensures that current and potential customers / receive timely response to their questions. As a corporation set up to serve the public's best interest, customer service delivery should be prioritised by UDC.	There was no customer service functionality during the evaluation.
Dedicated Risk Management Team.		UDC's projects are high-risk, high development impact investments. To effectively serve such clients early detection of potential risk and risk-based mitigation strategies are critical.	There was no dedicated risk management team. This role was informally being handled by the Finance Team.
Monitoring and Evaluation.		Effective monitoring and evaluation enable investee oversight to ensure projects are progressing as planned, supports proactive risk resolution and data collection.	UDC had an M&E team.
Research and Development.		Teams responsible for conducting research to evaluate trends, assess potential projects impact, etc. are needed to ensure that the corporation remains innovative and responsive to changing development needs.	UDC had a team handling this functionality. Responsibilities were merged and managed with the M & E Team.
Strategy, Planning and Performance Management.		Long-term planning is critical to UDC which primarily invests in long-term projects.	This role was informally being handled by the Finance Team.
Technology and Innovation.		Most DFMs such as UDC should have dedicated teams for evaluating and testing automation opportunities to increase efficiency and reduce turnaround times.	Opportunities of building an in-house IT team should be evaluated to develop custom software, tools, and platforms tailored to address UDC's specific needs.

	RAG Status	Why it's Important to for UDC to Have the Functionality	Comments
Sector Specific Departments.		UDC focuses on sectors such as agriculture and infrastructure and needs dedicated teams with specialised knowledge in these areas.	Sector specific teams were available at UDC.
Funding and Resource Mobilization.		A dedicated team that is responsible for raising funds from various sources, including governments, international organizations, private investors, and philanthropic foundations is needed to make sure that securing funds is prioritised.	There was no dedicated risk management team. This role was informally being handled by the Finance Team.
Green Finance or ESG Compliance.		A green financing department supports projects that focus on environmental sustainability, helping to drive environmental development impact. Having a green financing department also allows a DFM to tap into specialized funds, grants, and concessional loans designed for green projects.	This role does not exist.

5.3.2 Staffing

285. UDC's staffing adequacy was assessed to determine whether the Corporation had sufficient capacity to execute its core operational functions and deliver on its development mandate. Key functions evaluated included project appraisal, investee advisory, investment monitoring, and overall project supervision all of which are critical for ensuring that UDC's financing translates into tangible development outcomes.

286. The evaluation found that UDC was significantly understaffed, particularly within its operational departments that interface directly with clients and funded projects. These departments are responsible for investment origination, conducting due diligence, offering advisory support, and tracking project performance across the investment lifecycle. The lack of adequate staffing in these areas severely limits the Corporation's ability to support high-risk, high-impact investments effectively.

287. Out of 30 approved positions in UDC's operational teams including senior management only 16 were filled at the time of the evaluation. Critically, six of the 16 filled positions were held by senior managers,

At the time of conducting this evaluation, oversight of ongoing investments was limited to having a UDC personnel as a board member for each investee, who attends quarterly meetings as a mechanism for monitoring. This limited proactive mitigation of operational and financial risks which would be brought to UDC's attention after three months.

leaving just 10 technical staff available to provide one-on-one services to applicants, conduct appraisals, and monitor investees. This limited front-line capacity presents a major constraint to UDC's effectiveness, reducing its ability to guide projects, respond to investee needs, and safeguard the developmental returns on public capital.

5.3.2.1 UDC Staffing Models

- 288. High-level staffing models were developed to assess whether UDC's workforce was sufficient to meet operational demands and institutional performance targets.** The analysis focused on widget-driven functions particularly the Investment and Monitoring & Evaluation teams where workload can be quantified and directly linked to staffing needs.
- 289. The models considered projected workloads and employee productivity benchmarks to estimate optimal staffing levels.** These projections were then compared against current staffing levels to identify capacity gaps and determine the number of personnel required for UDC to operate efficiently within its expected turnaround times. This approach provided a data-driven basis for identifying under-resourced functions and prioritising recruitment to strengthen operational performance.

5.3.2.1.1 Monitoring and Evaluation Staffing Model

- 290.** The M & E staffing model considered strengthening UDC's ability to have direct onsite oversight of its ongoing investments as the key measure of the team's workload. Other responsibilities handled by the team were factored in by accounting for the percentage of the team's time dedicated to such other responsibilities (55%) (Table 13).
- 291. The M&E staffing model was designed to assess UDC's capacity for onsite oversight of its ongoing investments a core function of development finance supervision.** The primary workload indicator was the frequency and intensity of physical site monitoring. Other responsibilities assigned to the M&E team such as reporting, data analysis, and internal coordination were accounted for by allocating 55% of the team's time to these non-travel tasks (see Table 13).
- 292. Three distinct staffing models were developed to simulate the personnel required under different onsite monitoring frequencies.** These included models for monthly, quarterly, and annual site visits to all active UDC investments. The monthly model reflects the highest standard of project oversight, while the quarterly and annual models were included for comparison and to inform long-term strategic workforce planning.
- 293. Workload projections incorporated travel distances and time requirements for site visits to ensure realistic staffing estimates.** Using Google Maps data, the distance and estimated travel time from UDC's headquarters to each investee location were calculated. This information was used to estimate the total number of workdays required for travel and

onsite supervision across the portfolio. The resulting estimates formed the basis for determining optimal M&E staffing levels under each scenario, as summarised in **Table 13**.

Table 13: Staffing Model for the Monitoring and Evaluation Team

Onsite Oversight M & E Staffing Models				
		Monthly	Quarterly	Annually
Number of Onsite Visits per Investee (Annual)	Assumptions	12	4	1
Days spent traveling to all Investees	68	68	68	68
Days spent at Investee's Location for M & E	38	38	38	38
Days Needed to Complete One Onsite Monitoring Cycle of all 18 investments	106	106	106	106
Paid Working Days (Monthly)	22	22	22	22
Shrinkage (Nonproductive time – sick leave etc.)	30%	30%	30%	30%
Productive Paid Working Days	15.4	15.4	15.4	15.4
Time Spent on other Responsibilities	55%	55%	55%	55%
Time Spent on Onsite M & E	45%	45%	45%	45%
Productive Days spent on Onsite Monitoring	6.9	6.9	6.9	6.9
Onsite Monitoring Frequency		12	4	1
Days For Onsite Monitoring of 18 projects (Workload)		1,271	424	106
Number of M & E Officers Needed		15.3	5.1	1.3
Attrition (resignations, terminations etc.)		5%	5%	5%
Number of M & E Officers Needed (With Attrition)		16.05	5.35	1.34
Span of Control (1:10) Officers per Manager	10	10	10	10
Number of Monitoring Managers Needed		2	1	1
Total Staffing Demand		18	7	3
M & E Open Positions (Supply)		8	8	8
Shortfall/Excess		(10)	1	5
Average Salary (UGX / Monthly)	3,500,000			
Annual Cost Implications - UGX Millions		(422)		

- 294. UDC's Monitoring and Evaluation (M&E) function is significantly under-resourced, limiting its ability to provide the level of oversight required for high-risk, high-impact investments.** To assess optimal staffing needs, three high-level models were developed to estimate the personnel required to conduct monthly, quarterly, and annual onsite monitoring for all active investments. These models were used to inform both immediate and longer-term institutional planning for effective portfolio supervision.
- 295. The models were built on realistic workload projections, including travel time and distance to investment sites.** Using Google Maps, the travel distance and estimated time from UDC's head office to each investee location were calculated. This data was used to determine the total number of workdays required to reach and return from all project sites, ensuring that the staffing estimates reflect actual logistical demands.
- 296. Each onsite monitoring visit was assumed to require a minimum of two days per investee to conduct comprehensive reviews and related activities.** This includes time for performance tracking, operational oversight, financial review, and direct engagement with investees to identify and address implementation challenges.
- 297. Standard staffing assumptions were applied to calculate how much time each employee could dedicate to onsite work.** Based on a 22-day working month, a 30% shrinkage rate (accounting for leave, holidays, and other non-productive time), and a 45% allocation to monitoring functions, each M&E staff member was estimated to contribute 6.9 effective days per month to direct field oversight.
- 298. Model results revealed a major capacity gap: UDC needs at least 18 M&E staff to implement monthly oversight, compared to the current 8 positions, 3 of which are unfilled.** This indicates a net staffing shortfall of approximately 10 employees. With only 5 functional M&E personnel available at the time of the evaluation, UDC's ability to provide consistent, proactive field supervision was severely constrained.
- 299. Monthly monitoring is essential to support the recovery and financial viability of UDC's investments, most of which face repayment challenges.** Regular oversight can help identify early warning signs, support corrective action, and improve investee performance particularly for shareholder loan-funded projects that are underperforming or struggling to pay dividends.
- 300. Given the high-risk nature of UDC's portfolio, more frequent and rigorous field monitoring is essential.** However, during the evaluation period, the M&E team lacked the capacity to visit all investees regularly while also fulfilling other key responsibilities such as conducting feasibility studies, business valuations, due diligence, and research to inform industrial development strategy. The absence of adequate staffing undermined the institution's ability to protect public investment and maximise development impact.

5.3.2.1.2 Investment Teams Staffing Model

301. UDC’s investment team is also significantly understaffed, limiting its ability to meet turnaround targets and effectively manage pipeline volumes. A high-level staffing model was developed to assess how many employees are needed to meet UDC’s service level agreements (SLAs) as set out in its investment manual. These targets include providing feedback within 30 working days, finalising brownfield investment decisions within 90 days, and greenfield decisions within 240 days. The model was structured to ensure that these timelines could be realistically achieved.

Table 14: Target Turnaround Times for Investment Decision-Making

Targets		Comments
Review applications	30	Within 1 month, applicants must be informed of the decision to proceed or not.
Brown Investments	90	Within 3 months, the final decision must be made.
Green Investments	240	Within 8 months, the final decision must be made.

302. The staffing model was informed by workload projections based on actual application volumes and the complexity of the investment appraisal process. Based on feedback from its management, UDC received at least three new applications daily about 750 annually, and had 25 pipeline investments awaiting funding in FY2023/24. This translates into a high-level approval rate of just 3.5%, indicating the depth of due diligence required. Greenfield projects, which made up 11% of UDC’s portfolio, require significantly more time and resources, and were accordingly weighted in the model.

303. Workdays were estimated using process-based assumptions to determine staffing needs for each stage of the investment cycle. These included time for preliminary reviews, full appraisal, and internal approvals. The model aligned this workload with the turnaround targets in UDC’s manual to ensure proposed staffing levels would allow the team to deliver timely, well-informed investment decisions.

304. Two scenarios were modelled to enable strategic comparison: UDC’s current approach with outsourced studies, and a second scenario assuming all technical studies are conducted in-house. This dual approach allowed for more comprehensive planning, giving insight into how different operating models affect staff requirements and operational costs.

305. The results show a significant capacity gap: UDC requires at least 40 investment team members to operate effectively, yet only 21 positions exist 12 of which were vacant. This translates into a staffing shortfall of approximately 19 employees beyond the current structure. With only 9 active staff handling all investment-related work, the team is

overstretched, which risks delays, weaker appraisal quality, and missed development opportunities (Table 15).

Table 15: Staffing Model for the Investment Teams

G = Green Investments, B = Brown Investments

	Workdays			Applications				Processing Days		
	G	B	Drop Off Rate	All	G%	G	B	G	B	All
Investment Appraisal Steps										
1 Review for mandate alignment	5	5	100%	750	11%	83	667	422	3,373	3,795
2 Prepare and review preliminary review report.	10	10	10%	75	11%	8	67	83	668	750
3 Detailed assessment studies (Due Diligence, Feasibility Studies, Value Chain Analyses etc.	132	44	35%	26	11%	3	23	385	1,032	1,417
Studies are outsourced to external consultants										
4 Preparation of project appraisal reports, investment appraisal report, Board paper report preparation and presentation.	34	12	100%	26	11%	3	23	98	275	373
Employee Productivity										
Paid Working Days (Monthly)								22	22	
Shrinkage (Lunch Breaks, Paid Leave, Holidays etc.)								30%	30%	
Productive Paid Working Days (with Shrinkage)								15.4	15.4	
Time Spent on other responsibilities								25%	25%	
Time Spent on the investment appraisal processes								75%	75%	
Days spent on investment appraisal processes								11.6	11.6	
Available Days / Employee								139	139	
Days Needed (With Consultants)								602	4,316	4,918
Days Needed (Inhouse UDC Analytics)								987	5,348	6,335
Investment Officers Needed										
With support from consultants								4	31	35
Using Inhouse UDC Analytics								7	39	46
Attrition (resignations, terminations etc.)										
Span of Control Officers/Managers								5%	5%	
Number of Investment Officers Needed including management and after accounting for attrition										
With support from consultants								5	36	40
Using Inhouse UDC Analytics								8	45	53
Investment Teams Open Positions (Supply)										
Shortfall/Excess (Based on Open Positions)										
With support from consultants										(19)
Using Inhouse UDC Analytics										(32)
Average Salary (UGX / Monthly)										3,500,000
Annual Cost implication (With Consultant's support)– UGX Million										
										(816)

5.3.2.1.3 Use of Consultants to Conduct Investment Studies

306. **UDC currently outsources all key investment appraisal studies due to limited internal capacity, increasing costs and turnaround times.** These include baseline studies, due diligence, feasibility assessments, and value chain analyses, which are conducted by external consultants selected from a pre-qualified pool. UDC pays consultancy fees upfront and later adds the cost to the total project investment once the investment is approved.
307. **To improve operational efficiency, the evaluation recommends transitioning to an in-house model for managing all technical investment studies.** By building internal capacity to conduct due diligence, feasibility studies, and sector-specific analyses, UDC can reduce reliance on external consultants. This shift is expected to result in faster turnaround times, lower costs, and stronger alignment of technical work with UDC's investment strategy and development goals.
308. **Managing studies internally would enhance standardisation, reduce cost per output, and support institutional learning.** An internal team can develop uniform reporting formats, making it easier to compare impact across projects and sectors. Unlike external consultants, in-house staff can multitask, support multiple projects, and perform additional responsibilities. Given their fixed salaries, in-house resources are also more cost-effective over time than repeated consultancy engagements.
309. **In-house teams would also bring deeper institutional knowledge and greater contextual relevance to investment studies.** Internal staff are better positioned to align research with UDC's goals, portfolio structure, and sector priorities. This would likely improve the accuracy and relevance of studies, resulting in more actionable insights and stronger investment decisions.
310. **Benchmarking from UDB demonstrates the viability of this transition.** UDB has successfully internalised its investment research functions by shifting away from external consultants and modernising its internal systems. This has enabled greater data ownership, adaptability to changing technologies, and more responsive decision-making processes.
311. **For UDC, adopting a similar in-house model could save the institution approximately UGX 244 million annually.** Based on current projections, UDC incurs an estimated UGX 1.594 billion annually in consultancy fees derived from 1,417 working days of outsourced study time at an average daily rate of \$300 (UGX 3,750 exchange rate). By contrast, hiring the additional 32 employees required to manage this workload internally would cost UGX 1.349 billion per year (32 staff × UGX 3.5 million/month × 12 months). This results in potential annual savings of UGX 244 million.
312. **Implementing this strategy would require UDC to scale its investment team from the current 21 to at least 53 employees.** This includes filling all existing vacancies and hiring 32 additional staff. While the upfront cost of expansion is significant, the long-term gains in

cost-efficiency, institutional capacity, and turnaround performance make this a strategic shift worth prioritising.

5.3.2.2 Recommendations for Strengthening UDC's Organisational Capacity

313. The ongoing organisational restructuring presents a critical opportunity for UDC to strengthen operational capacity and institutional resilience. At the time of this evaluation, UDC was in the process of restructuring. The following recommendations are intended to inform and enrich this reform process, ensuring it aligns with UDC's development financing mandate.

314. UDC should rebalance its organisational structure to prioritise front-line operational teams. These include teams directly involved in financing, investment appraisal, project management, monitoring, and impact assessment. A more effective ratio commonly 70:30 or 80:20 in favour of operational staff would enhance the institution's responsiveness and development effectiveness.

315. Strengthening UDC's ability to support its high-risk, high-impact investment portfolio requires institutionalising critical functions. These include:

- Customer service delivery
- Post-investment advisory and technical support
- Financial literacy training
- Funding mobilisation and resource partnerships
- Strategic planning and performance management
- Risk management and mitigation
- ESG compliance and green financing
- Technology and innovation integration

316. Each of these functions should be managed by dedicated teams with clearly defined mandates. Establishing them as independent units within UDC's structure will ensure they receive the attention and resources necessary to deliver results across the investment lifecycle.

317. To reinforce investee-level accountability, UDC should also introduce a dedicated Investee Governance Management unit. This team would be responsible for ensuring that funded enterprises have functioning governance structures such as boards of directors prior to capital disbursement. This step is critical to ensuring transparency, long-term viability, and fiduciary responsibility within UDC-supported enterprises.

318. Approximately UGX 3.5 billion is needed to address UDC's staffing and digitalisation gaps. Staffing models identified a shortfall of 10 Monitoring and Evaluation officers, 19 investment staff, and an additional 39 roles required to strengthen the above functions. These

proposed hires summarised in **Table 16** should prioritise expertise in development finance, agriculture, engineering, architecture, and sector-specific specialisation aligned with UDC's investment priorities.

- 319. While digitalisation is important, UDC's current portfolio requires intensive in-person engagement.** Most UDC-funded projects are not yet generating sufficient returns through dividends or debt servicing. Therefore, face-to-face engagement remains the most effective risk mitigation and performance management strategy at this stage. Over time, as the investment portfolio matures and stabilises, UDC can progressively scale up the use of digital tools to enhance operational efficiency.

Table 16: UDC Proposed Employee Hiring by Function

	Hiring Demand	Estimation Approach
Hiring to ensure adequate capacity	29	
Research Monitoring and Evaluation	10	Staffing Model
Investment Teams	19	Staffing Model
Hiring to add new dedicated functionalities	39	
Advisory Services (Quarterly visits)	7	Staffing Model
Corporate Governance Center (Quarterly visits)	7	Staffing Model
Risk Management	5	Investees per Employee
Customer Services	4	Minimum Requirement
Funding Mobilization	4	Minimum Requirement
Strategic Planning & Performance Mgmt.	4	Minimum Requirement
Green Financing and ESG Compliance	4	Minimum Requirement
Technology and Innovation	4	Minimum Requirement
Total Proposed Hiring	68	
Cost Implication (UGX. Billions)	(2,856,000,000)	Based on UGX. 3,500,000 Monthly salary
Staffing Buffer	21.708%	
Annual Budget Impact of Proposed Hiring	(3,500,000,000)	

- 320. UDC should establish a dedicated in-house team to conduct investment appraisal studies to reduce costs, turnaround times, and improve institutional effectiveness.** As highlighted earlier, critical studies such as feasibility assessments, value chain analyses, and due diligence are currently outsourced to external consultants an approach that increases costs and extends approval timelines. Feedback from the National Planning Authority (NPA) indicates that the minimum cost of a single feasibility study is UGX 200 million. By internalising these functions, UDC can significantly lower expenses, improve quality control, and streamline decision-making processes.

321. To fully deliver on its mandate as a public-serving development finance institution, UDC must cultivate a customer-centred service culture. This requires adequate staffing with the right mix of technical skills, sector expertise, and operational support systems. Serving the public interest entails more than financing it means embedding excellence in service delivery at every stage of the investment process. Investing in the right people and institutional infrastructure will allow UDC to meet the expectations of its stakeholders while maximising the development impact of every shilling invested.

5.3.3 Advisory Services

322. By design, UDC's portfolio is dominated by high-risk, high-development-impact investments that require more than capital to succeed. These types of projects often face operational inefficiencies, financial management challenges, and capacity gaps especially in early-stage industrial ventures or enterprises recovering from economic shocks. In such cases, post-investment support becomes critical to ensure that enterprises not only survive but thrive over the long term.

323. Technical advisory and financial literacy services are essential complements to UDC's financing function but remain underdeveloped within the institution. As of the time of this evaluation, UDC lacked a dedicated advisory services team. Support to investees was largely limited to the application and appraisal phases, with no structured post-investment assistance or formal financial literacy training offered. While UDC staff reportedly explain loan terms to beneficiaries, this falls short of the tailored, ongoing guidance required to de-risk complex investments and build institutional capacity in the funded enterprises.

324. The absence of structured post-investment support limits UDC's ability to fully unlock the developmental returns of its investments. Without sustained advisory input, many investees risk underperforming due to weak planning, suboptimal financial management, or inability to adjust to market dynamics. This gap not only jeopardises the sustainability of UDC's portfolio but also constrains its contribution to Uganda's industrialisation agenda.

325. To maximise impact, UDC should urgently establish a dedicated advisory services unit to provide hands-on technical, financial, and operational guidance to its investees throughout the investment cycle. This team should be tasked with delivering targeted support including business plan development, performance monitoring, restructuring support, financial literacy training, and risk management advice. Embedding such services would help de-risk the portfolio, increase success rates, and ensure UDC's investments deliver long-term economic and social dividends.

326. Regional peers such as the Kenya Development Corporation have successfully institutionalised such support mechanisms. Kenya's DFI offers a wide range of advisory services through a dedicated department, including feasibility studies, business valuations, balance sheet restructuring, public-private partnership (PPP) advisory, ICT systems support,

internal audits, and corporate governance training. These services strengthen investee performance and increase repayment reliability, reinforcing the DFI's sustainability and impact.

327. Evidence from UDC's own beneficiaries highlights both a foundation and an opportunity for scale-up. In the evaluation, 86% (6 out of 7) of sampled UDC-funded projects confirmed receiving application support from UDC during the onboarding process. This demonstrates an existing capacity that can be formalised, resourced, and expanded into a comprehensive advisory function to support projects across their full life cycle (**Figure 17**).

328. Strengthening advisory services is therefore not just a capacity-building measure but a strategic necessity. If UDC is to remain effective in financing high-risk, transformative investments, it must go beyond capital provision to include tailored, continuous technical support. Doing so will improve investee performance, reduce default risk, and ensure that public resources yield measurable, inclusive, and sustainable development outcomes.

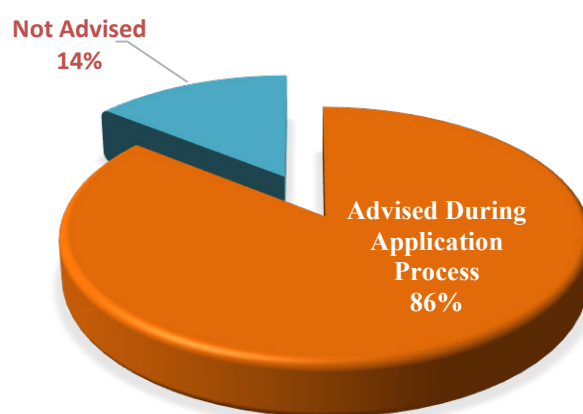


Figure 17: Investee Advisory Services Feedback

5.3.4 Investment Criteria, Processes and Procedures

329. Based on its investment manual, UDC's decision to invest in any project is guided by five fundamental principles relating to the project's demonstrated high likelihood to; create both direct and indirect employment, use significant volumes of local raw materials/resources, improve Uganda's trade balance position either through increased exports or reduced imports, develop local entrepreneurship, and contribute to balancing regional development within the country⁷.

330. UDC considers the following core principles when determining the eligibility of projects, it invests in as part of its lending procedure.

1. Job creation, both direct and indirect, with emphasis on productive jobs.
2. Use of locally produced materials or natural resources.
3. Import substitution or increase in export earnings.
4. Development of local entrepreneurship with a focus on investments likely to spur businesses within the area.
5. Level of innovation and technology transfer.

⁷ UDC Investment Manual

6. Balancing regional development within the economy.
7. Socio-economic viability of the investments.
8. Harnessing industrial/sectoral synergies between the suppliers and consumers.

5.3.4.1 Investment Appraisal Processes and Procedures

331. The choice of projects to invest in is guided by UDC's project appraisal and investment manual, which is divided into two sections.

- a. Project process and appraisal. This includes the steps followed to appraise a project up to its logical conclusion.
- b. Project implementation and management. This describes the steps followed during project execution upon Board Approval.

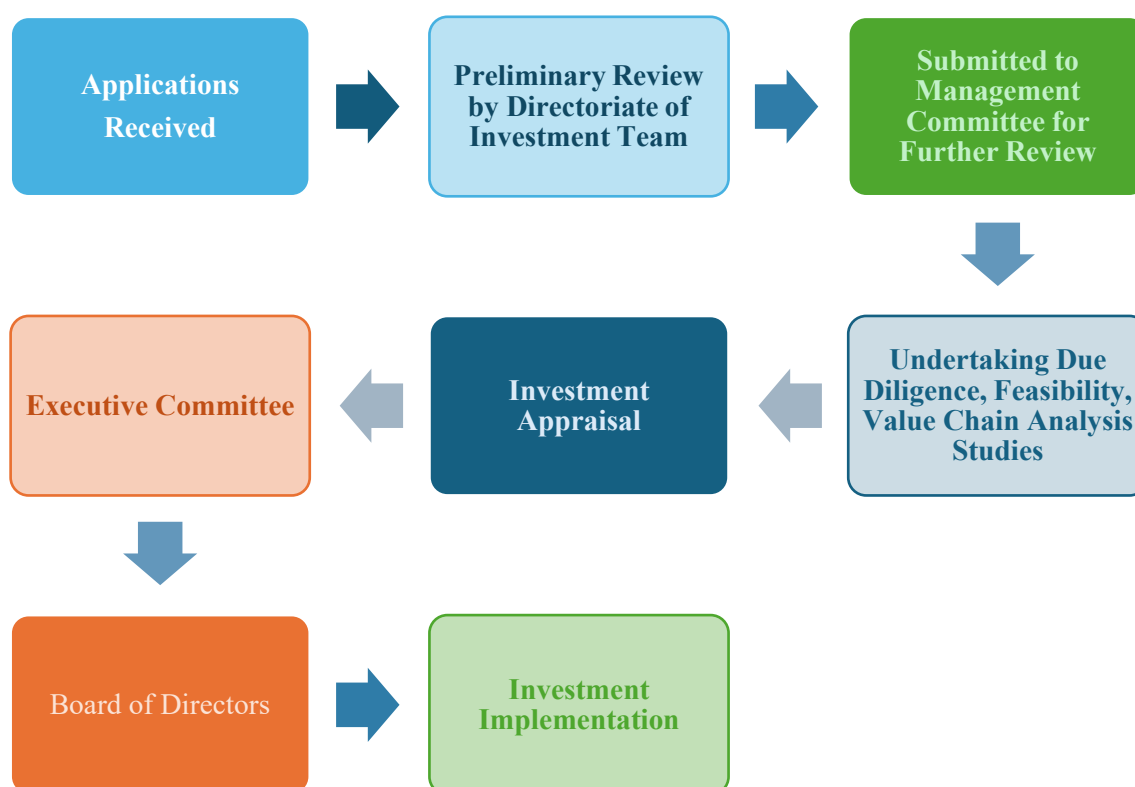
5.3.4.2 Project Process and Appraisal

332. UDC generate projects or receives proposals/concepts or investment syndications through various channels such as walk-ins, presidential directives or in-house concepts prepared by UDC to address investment in specific sectors. The Proposals/Concepts must be in line with the guiding principles of the Corporation to stand a high chance of consideration.

- i. The first step within the appraisal process is to check and confirm if the proposed investment is in line with the UDC mandate.
- ii. Proposals outside UDC's mandate may be rejected upon receipt, while proposals that are within the UDC's mandate are reviewed by the Directorate of Investment as the next step. The acknowledgement for the projects received within UDC's mandate may include an invitation for a meeting and/or a presentation of the proposal by the promoter/Investor.
- iii. The Directorate of Investments proceeds to prepare a Preliminary Proposal Review Report which is submitted to the Management Committee for further review. The promoter or Investor is invited for a meeting and/or presentation of the proposal to the Management Committee.
 - a) For In-house project proposals the Monitoring and Evaluation personnel present the **Research Paper** to management committee for guidance on required further studies.
 - b) For the Walk-in proposals, the Directorate of Investments presents preliminary findings from the Preliminary Proposal Review Report to the management committee.
- iv. If the preliminary review proposal fits the mandate of UDC and the preliminary viability for socio-economic, financial, and technical aspects, the management committee recommends it to the next level of undertaking a Due Diligence or field studies (e.g. feasibility report). This role is assigned to the Project Appraisal Team.

- v. The Project Appraisal Team presents the Due Diligence report, Value Chain Analysis, and Feasibility Study reports to the Management Committee for further guidance. Once the outcome is convincing, the project is approved for the Investment Appraisal stage. If the team unearths challenges in the project aspects, it is rejected at this point.
- vi. An Investment Appraisal report is then prepared from the information gathered by the Project Investment Team and presented to the Executive Committee for recommendation to the Board or for rejection.
- vii. Board Paper Presentation. The Director Investment Development and Appraisal or the designate presents the Investment Board Paper to the Board of Directors for an Investment Decision.

Figure 18: Summarised Investment Appraisal and Process Flow



5.3.4.3 Project Appraisal

333. UDC's Project Appraisal has three major sections: Preliminary review, Due diligence and Investment appraisal.
334. Projects invested in are identified as **Greenfield projects** for startup investments or new businesses and as **Brownfield projects** for existing investments looking to grow their businesses. Thereafter, the appraisal procedures depend on whether the prospective project is a Brownfield or Greenfield investment.

- Greenfield/In-house generated projects are guided by a Research concept, Value Chain and feasibility studies depending on the nature of the project. These are further analysed through the Investment Appraisal.
- Brown field projects are analysed through a two-stage appraisal process: the Preliminary Review and the Due Diligence and Investment Appraisal.

335. Preliminary review involves reviewing proposals and accompanying documents to ascertain alignment with the investment guidelines for eligible projects.

336. The due diligence stage involves undertaking a site field visit of the project and a series of other visits to verify the information presented to UDC. For new businesses, value chain and feasibility assessments are conducted to inform the viability of the investment, and for existing companies' due diligence is conducted to review the company's credit history, incorporation, and legal standing.

337. All studies are conducted by UDC using consultants. **The cost is, however, added to the money invested after the investment is approved.** The studies are presented to management for approval. Upon successful approval, the proposals are submitted to the Board and reviewed by the investment committee. The committee will structure the investment terms.

5.3.4.4 Investment Appraisal

338. Investment appraisal is the process by which UDC shall determine whether projects/investments are worth pursuing. This is accomplished together with the due diligence process to establish viability of the project Investment. An investment appraisal report is prepared and submitted to the Executive Committee/Management and the Board for approval with a due diligence attached.

339. During the investment appraisal phase, several key factors are considered to ensure a thorough evaluation of the project. These include the legal status, promoter's character and credibility, industry sector analysis, products and services being offered. Market analysis is also performed to gauge the size and trends of the target audience, alongside an evaluation of market strategies to effectively reach customers.

340. The impact on the export market is considered, as well as a competitor analysis to understand the strengths and weaknesses of rival businesses. The availability of raw

An investment is worth pursuing if it increases value of UDC indicated by the cash flows, Financial Net Present Value, Financial Internal Rate of Return, Payback period, Cost Benefit Ratio, Economic Net Present Value, and Economic Internal Rate of Return etc. Furthermore, only projects that are found to be environmentally sustainable and socially acceptable are approved.

materials is assessed to confirm the feasibility of the project plan, while the location and accessibility of the business site are reviewed for logistical advantages.

341. Additionally, the necessary machinery and equipment are identified, and the entire production process is outlined, including required operating conditions. It's important to estimate the project's production capacity and understand the labour requirements, along with how the factory will be organized and managed. Overhead costs are evaluated to determine ongoing expenses, and the organization chart is defined to clarify roles within the company.
 342. Finally, the composition of the board of directors and the expertise of the management team are assessed to ensure a solid foundation for the business. This comprehensive approach helps ensure that the investment project is well-prepared and realistic.
 343. **Financial analysis** is also conducted as part of the investment appraisal process, and factors considered include the underlying assumptions, investment costs and financing plan, project financing, capital structure, sponsors' obligations/contributions (UDC ensures that sponsors will be able to raise their financial obligations to the project as they fall due), and project operating costs.
 344. **Analysis of the profitability and return on investment** are other aspects considered during the investment appraisal phase. The analysis includes calculating projected profitability levels at gross profit, operating profit, profit before interest and tax (PBIT) and Profit after taxes (PAT), commonly known as Net Profit; return on total investment, return on shareholders' equity; NPV; payback period (period of time it takes for UDC to recoup its initial investment); Internal Rate of Return (IRR) (**UDC does not consider financing a proposal whose internal rate of return is less than its weighted average cost of capital**); projected cash flow and liquidity (Cash flow forecasts); debt service coverage ratio (DSCR); balance sheet statements; analysis of uncertainties and risks in projections; sensitivity analysis; and the break-even analysis. All other common financial ratios are also evaluated as part of the investment appraisal process.
-
345. **Under the economic aspects**, UDC determines the significance of the contribution of the investment to the development of the economy. It measures the effect of the project on the whole economy; Checks if the investment will generate positive economic net present value (ENPV) using the minimum required economic internal rate of return (EIRE) as the discount rate, i.e., if the project has an EIRR higher than the discount rate; and conducts economic valuation of project benefits and costs by converting their financial values into economic values, also known as “**shadow pricing**.”
 346. UDC uses the indicators below to determine the economic viability of investments.

- i. Economic Net Present Value (ENPV)
- ii. Economic Internal Rate of Return (EIRR).
- iii. Benefit-Cost Ratio (BCR).
- iv. Contribution to government revenue: This covers corporate tax, VAT, sales tax, excise duty and export tax.
- v. Number of jobs created including direct, indirect or induced employment.
- vi. Transfer of technology and skills. This covers the possibility of transfer of technology if applicable and related training of indigenous employees to improve their skills.
- vii. Foreign exchange savings/earnings.
- viii. Regional impact/linkage in respect to ownership and industrial complementarities in terms of raw material/inputs sourcing and marketing.
- ix. Environmental and social considerations assessment of potential environmental risks and impact as well as the commitment and capacity of the promoter to manage the risks and impact. The analysis is aligned with National Environmental and Management Authority (NEMA) guidelines. Thereafter, an environmental impact assessment report is prepared. **Only projects that are found to be environmentally sustainable and socially acceptable will be approved.**

347. Sectoral exposure. The Corporation's exposure in the sector is used to ensure that the limits are not exceeded thus overexposing the UDC to the related risks. **To maintain a well-balanced investment portfolio by distributing its commitment prudently among the sectors funded, total exposure in a single sector or entity or Individual will be limited to 25% of the Corporation's gross investments and shall be revised from time to time. Any exposure above this will need justification for Board clearance.**

348. Analysis of gender and cross-cutting issues includes an evaluation of factors such as sponsorship by women and youth entrepreneurs, policies in recruitment of staff, number of women employed, and preference of women employees due to the nature of processes. involved such as garments, horticultural operations, etc.; Target customers may include women and children; sources of inputs may be a women and youth-dominated activity; and impact on the health and socio-economic life of women and children.

349. Others for consideration:

- ❖ UDC will not provide funds amounting to more than 80% of the total funding needs of a new project promoted by an investor.
- ❖ UDC can only participate in the equity of viable enterprises in cases where such participation is required to improve the capital structure of the company.
- ❖ UDC will not accept a debt-equity gearing of more than 2:1. However, on exception basis, consideration may be given to specific cases providing adequate security.

- ❖ Where a UDC shareholder loan is involved, proposed repayment terms and grace period, if any, are indicated in the investment agreement. Repayment periods range between 1 to 15 years including grace period. The actual period is based on the ability of the enterprise to repay, i.e. it should be based on the enterprise's cash flow.

5.3.4.5 Investment Implementation

- 350. Project implementation includes processes following board approval and involves directly managing a project to ensure it meets the objectives outlined in the analysis and evaluation of the project appraisal phase. The Project implementation team must implement a project effectively to produce the deliverables required to satisfy the clients and key stakeholders.
- 351. The processes are dependent on whether the project is greenfield or brownfield. For the project implementation and management, the executive committee appoints the Project Investment team, which may include outsiders to the Corporation, to oversee these processes. In addition, the nomination of appropriate candidates to constitute the Board as stated in the Investment Agreements is completed at this stage. The following are accomplished in this phase: work schedule activities and execution, project management, project implementation, including the implementation timetable and project progress, operational management, etc.

5.3.4.6 Evaluation of UDC's Investment Appraisal Processes

- 352. UDC's investment appraisal processes and procedures are robust and consider most aspects of development financing in investment decision-making. As illustrated above, UDC considers the most known checks and balances that need to be conducted to ensure the financial, economic and environmental viability of investments when selecting projects.
- 353. Below are areas for improvement and opportunities to strengthen UDC's investment appraisal processes, for consideration by UDC's management.
 - i. Reinforce data-driven decision-making by adding more quantitative merit-based measures for selecting investments. This will strengthen the investment appraisal processes and procedures, most of which are qualitative, to minimise subjectivity's impact on the decision-making process. Examples include introducing development impact scoring systems (such as economic impact scores, social impact scores, environmental impact scores), gender inclusion scores, etc.,
 - ii. UDC should enhance adherence and enforcement to its investment guidelines to mitigate investments that contravene the thresholds therein, causing financial stress to the government. For example, the investment in Atiak violated UDC's 25% sectoral investment risk exposure as indicated in their investment manual.
 - iii. UDC should enforce robust governance and accountability to all its stakeholders by publicly disclosing the development impact and performance of all UDC investments regularly (Quarterly). This will strengthen the accountability of the public funds.

- iv. UDC should consider tailoring its investment processes to the project's origination channel to design policies aligned with risks associated with the project's origin.
- v. UDC should include consistent methodologies to guide its shareholding decisions in its investment appraisal manual. This includes developing clear, standardised guidelines that align investment levels with the shareholding acquired, considering critical factors such as sector priorities, impact, and project-specific risks. More about UDC's shareholding analysis is discussed in section 5.3.5.3 which is on page 97.
- vi. UDC should include a clear exit strategy stating the timing and approach for withdrawing from UDC-funded investments in its investment manual. Recommended exit strategies are discussed in section 5.3.5.4 which is on page 99 of this report.

5.3.5 Risk Management

- 354. Effective risk management is critical for UDC's development impact and sustainability. Since its revitalisation, UDC has invested in high-development impact and high-risk projects, the majority of which are unable to pay dividends or repay their debt obligations.
- 355. Given that UDC invests through equity financing, shareholder loans, and lease financing, the corporation must ensure it has the technical expertise to effectively manage the risks associated with these kinds of financial interventions.

5.3.5.1 Equity Financing Risk Management

- 356. With equity financing being the most prevalent development financing intervention, UDC should prioritise the mitigation of risk associated with this type of investment, some of which are listed below.

- ❖ **Portfolio Performance Risk.** This risk occurs when the investments are not performing as anticipated, leading to poor financial returns for the DFM. This in fact was the number one risk that UDC faced during the evaluation period. Except for one (Nile Hotel Limited) all other investments in which UDC owns share is that 98% projects were not paying dividends.
- ❖ **Corporate Governance and Control Risk.** Despite being shareholders, and majority shareholders in at least two investments, UDC does not have sufficient influence over management decisions of its investments. UDC only ensures that it's represented on the investees' Board of Directors by a UDC staff or other nominees to represent its interest, and the board of directors meet at least once every quarter. **Board representation is not enough to ensure effective oversight of UDC's investments. This results in reactive rather than proactive responses to challenges and risks faced by investees.**
- ❖ **Long-Term Investment Risk.** Development projects such as UDC investments often take many years to become profitable. This usually delays the realization of returns on these equity investments, leading to pressures from investors or that UDC's portfolio is

not diversified to include short-term and midterm investments. Most of its investments are long-term in nature. UDC is indeed under scrutiny for failure to make profits. This risk could have been managed through proactive mitigation by having a dedicated team that can analyse such potential risks and address them in advance.

- ❖ **Market Risk.** Emerging markets such as Uganda are often exposed to significant market risks, including, among others, economic downturns, fluctuations in commodity prices, or changes in demand. These adversely affect the investment's profitability, leading to low or delayed returns on investment. For example, UDC was significantly impacted by such risks during the Covid-19 pandemic, when markets collapsed, and recently, the tea industry has been facing a crisis due to a significant drop in the price of tea, which has led to the closure of Mpanga Growers' Tea Factory.

357. Listed below are recommendations for equity risk mitigation.

- i. The first line of defence for mitigating equity financing risk is to strengthen the corporation's investment appraisal processes to emphasise conducting thorough due diligence, including financial, operational, and market assessments, before making investments. This includes recommendations for strengthening decision-making for the presidential directives which are discussed in section 5.3.4.6 which is on page 94 to mitigate the potential political risk.
- ii. UDC should have direct oversight of its investments and monitor each project regularly, preferably monthly. This will enable proactive identification and mitigation of challenges.
- iii. UDC should also offer advisory and technical services through the investment span to help projects stay on track and improve performance. This will additionally allow UDC to have direct oversight of its investments and to have firsthand information about what is happening on the ground.
- iv. Diversifying the equity portfolio across different sectors and regions and including a mix of short-term, midterm, and long-term investments will reduce exposure to any single project failure and smoothen UDC's cash flow. Currently most of UDC's investments are long-term. The majority are still in their grace periods or underperforming and unable to pay dividends. Examples include investing in grain milling, high-value vegetables such as mushrooms, and other short to midterm agricultural crops.
- v. To strengthen corporate governance at the investee level, in addition to having board representation, UDC should negotiate certain governance rights, such as veto power over critical decisions, as part of the investment agreements. This will enable UDC to influence the direction of their investments.

5.3.5.2 Credit Risk Management

- 358.** UDC provides shareholder loans to investments where the Corporation owns some shares as a form of capitalization. These shareholder loans are meant to be repaid after an agreed period. Shareholder loans are extended as unsecured with no collateral requirements. In the event of imminent default, shareholder loans are converted to equity. Of the 18 UDC equity investments, 11 (61%) had shareholder loans.
- 359.** Like other forms of lending, there is the risk of credit loss associated with shareholder loans, which must be mitigated. At the time of the evaluation, all the above investments were past due and should have started paying back their shareholder loans.
- 360.** UDC mitigates this risk by converting the shareholder loans to equity in the event the companies are unable to repay these loans after a given period. However, failure to repay the shareholder loans adds to the risk of the equity investment since it also implies that such investments are struggling financially and unlikely to pay dividends.
- 361.** It is, therefore, ideal to manage shareholder loans just like other loan types by designing collection strategies that enforce debt repayment during earlier delinquency to stop the shareholder loans from being converted into equity. UDC, therefore, should implement credit risk management strategies to enforce timely debt repayment.
- 362.** For credit risk management, the ideal strategy involves proactively detecting financial vulnerabilities and supporting investments to find solutions. Different strategies should be implemented at different loan stages in the event of delinquency to reduce the probability of continued default.
- Examples include starting with phone calls or text reminders as the loan approaches the end of its grace period. Reminding investees 6 months to 1 year before the end of the grace period, would be ideal to ensure that investees plan and prioritise debt repayments.
 - This can be strengthened with in-person conversations during the regular monitoring and evaluation, which, if conducted more regularly, also improves the chances of debt repayment.
 - Other options can include restructuring the amount due every month to enable investments to pay according to their cashflow expectations.
 - **Converting a shareholder loan to equity should only be considered as a last resort since it's probable that by converting the shareholder loan to equity, UDC is potentially accepting a complete loss since such struggling investees are unlikely to pay dividends.**

5.3.5.3 UDC Shareholding

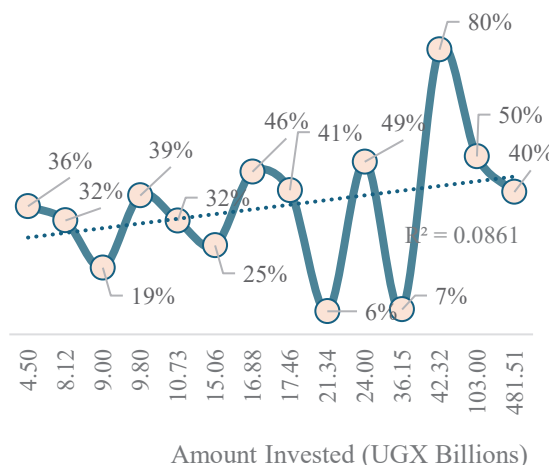
- 363.** Two of UDC's investments, Soroti Fruit Factory and Nile Hotel Limited, are Subsidiary companies where the corporation acquired more than 50% of the shareholding. The

remaining 16 investments are associate entities where UDC acquired less than 50% of the company's shareholding (**Figure 19**).

364. A comparison between the shareholding acquired by UDC and the amount invested was conducted to assess the alignment of this decision-making with effective risk management and development goals.

365. A high-level statistical analysis highlights a weak positive correlation between the shareholding that UDC acquires and the amount it invests in funded projects. Specifically Figure 19 indicates an R^2 (R-squared) value of 0.0861 implies that only 0.86% of the variation in the shareholding acquired by UDC can be explained by the amount invested, and other factors explain 99.14% of the variation. This suggests that the amount invested in a project is not a significant determinant of the shareholding acquired by UDC.

Figure 19: UDC Shareholding Compared to Amount Invested



366. The low correlation is not a clear indicator of the efficiency and effectiveness of UDC's shareholding decision-making, and the reasons for the observed trend can be explained in two ways. Other factors, such as project risk and the need to invest in neglected sectors or regions, could better explain the shareholding variations than the investment amount alone.

367. UDC probably chooses to take a smaller stake in high-value projects such as infrastructure, etc., that are expected to result in high development impact when the development outcomes outweigh the financial returns. Taking low shareholding in large investments may additionally foster private-sector partnerships and strengthen UDC's catalytic effects and coherence with other investment partners.

368. However, the lack of a clear correlation between the amount invested by UDC and the shareholding acquired raises important considerations for development financing.

369. All else constant, larger investments typically imply higher risk, and UDC may not have enough influence to ensure alignment with its developmental goals or mitigate risks effectively if it acquires a smaller shareholding in such investments. Likewise, larger shareholdings in smaller value projects may impact UDC's resource allocation and potentially reduce its ability to fund multiple projects.

370. The analysis highlights an opportunity to strengthen UDC's investment appraisal processes by implementing robust and consistent methodologies to guide its

shareholding decisions. This includes developing clear, standardized guidelines that align investment levels with the shareholding acquired, taking into consideration critical factors such as sector priorities, impact, and project-specific risks.

5.3.5.4 UDC Exit Strategy

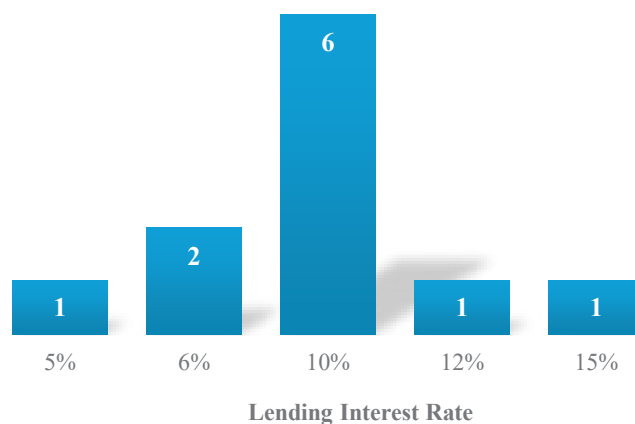
371. As a DFM, UDC's exit strategy should balance financial returns with developmental impact. However, a clear exit strategy stating when and what UDC's approach for withdrawing from UDC-funded investments is, was not clearly included in the corporations' investment appraisal manual.
372. UDC should ensure that its exit strategy aligns with its mandate to support by seeking strategic investors committed to continuing the developmental goals of the investee company and avoid exits that might lead to mission drift or negatively impact on beneficiaries.
373. Proposed below are exit strategies for UDC's consideration.
- i. **Phased exits.** UDC could opt for staggered exits over time to maximize returns as the investee matures and gains value. This can include, among other things, setting pre-agreed milestones (e.g., revenue targets, market entry) as triggers for selling UDC's shares.
 - ii. **Share buybacks.** Alternatively, UDC could negotiate share buybacks by structuring its investment agreements that allow the investee companies to repurchase shares at a fair valuation once they are financially stable.
 - iii. **Secondary sales to strategic investors.** UDC can opt to sell shares to institutions or strategic investors who can bring additional expertise, resources, or capital to the investee company and ensure that the investment continues delivering development impact beyond UDC's funding.
 - iv. **Listing on the stock exchange.** This will enable selling shares in the public market to achieve liquidity while enabling broader capital access for the investee.

5.3.6 Lending Interest Rates

374. In line with achieving development goals, UDC is expected to offer subsidized lending rates compared to the private sector while enforcing a balance between social economic development and achieving financial sustainability. **UDC meets this requirement and the institution's lending rates are among the lowest in the industry.**
375. Of the 11 investments with shareholder loans, 9 (82%) are paying a lending interest of 10% or below, with 3 investments at 6% or below and 6 investments paying 10% interest rate (Figure 20). Compared to commercial banking rates, which average above 20%, UDC investments pay much lower lending interests, as illustrated above (Figure 20).

376. The methodology used for determining the investee's lending rates considers the prevailing central bank rate at the time of investment approval as the base rate and adds a spread of 2 to 3% to account for administrative costs, risk premiums, and bad debt provisions. The use of risk-based scoring approaches to determine the borrower's lending rates based on their creditworthiness is not considered.

Figure 20: Investments Paying Given Interest Rates



5.3.7 Monitoring and Evaluation

377. Given the nature of projects that UDC invests in, most of which are high-risk high-impact investments, enhanced monitoring and evaluation is critical to assess whether UDC investments are on track to meet financial expectations and development impact.

378. UDC had a dedicated Research Monitoring and Evaluation team responsible for oversight of all its projects including ongoing projects and projects under appraisal. This team also provides technical assistance and conducts internal review of external consultants' reports such as due diligence, value chain analyses, and feasibility studies to check for validity of results and assumptions. Research studies to inform industrial development are also conducted by this team.

379. As demonstrated previously, UDC's monitoring and evaluation team seems understaffed and unable to complete all required roles in a timely and effective manner. The staffing model discussed in section 5.3.2.1.1 which is on page 79 estimated a team size of 18 with management included as required is the adequate staffing capacity for the team based on historical workload.

380. The recommendation for the monitoring and evaluation function is to increase staffing to provide enough capacity for UDC's monitoring and evaluation team to provide effective oversight of all UDC investments including ongoing, pipeline and project undergoing appraisal.

381. **During the evaluation period, the team had four functional employees with four open positions that were pending fulfilment. This means that beyond filling the open positions, UDC needs to ~ 10 new hiring requisitions for this team.** With 18 ongoing investments, 23 pipeline investments, and all other investments undergoing appraisal, it is evident that UDC's monitoring, and evaluation is understaffed and lacks the bandwidth. The

team must have sufficient capacity to enable frequent monitoring and tracking of the progress and outcomes of all funded projects.

- 382.** As an example, oversight of ongoing investments is limited to having a UDC personnel as a board member for each investee, who attends quarterly meetings as a mechanism for monitoring. Investee companies have boards and UDC ensures that it's represented by have one or two members on the board of directors of each institution depending on what the legal due diligence indicated, to represent the institution's interests. The investee board of directors' sit every quarter depending on the issue.
- 383.** UDC is, however, not involved in the investee's day-to-day operations. Board representation is not enough to ensure effective oversight of UDC's investments. With limited capacity, the institution becomes reactive and not proactive when it comes to incident resolution.

5.3.8 Awareness of UDC

- 384.** As a public institution mandated to serve the country's development needs, the awareness of UDC is critical in ensuring the relevancy and accessibility of its products and services. Without adequate awareness, UDC's ability to reach its target clientele and fulfil its mandate would be severely limited, as individuals and businesses can only utilize services they are informed about.
- 385.** This study's evaluation scope was therefore expanded to include awareness surveys that focused on assessing UDC's brand recognition, gauge interest in future use of UDC's products and services and identifying factors limiting the utilization of UDC's products and services.
- 386.** **The awareness of UDC was assessed through a public survey and a comparative survey involving beneficiaries of other government programs involved in the scope of this independent evaluation such as UDB, ACF, and MSC SACCO leaders.** Including an evaluation of UDC's awareness among the other DFMs provided insights into the banks' coherence to inform the future coordination and joint programming among these government institutions and mechanisms.
- 387.** Furthermore, awareness rates from both methodologies were compared across all the five DFMs included in the scope of this evaluation. This enabled a performance-based ranking of the DFMs in terms of public recognition and stakeholder visibility and provided an evidence-based foundation for helping each DFM to understand its relative position and identify practical measures to strengthen its stakeholder engagement and national visibility.
- 388.** UDC's current branding and public awareness strategy includes participating in several TV and radio programs, such as the NTV economic forum. Furthermore, UDC plans on providing periodic updates through targeted meetings with parliamentarians and investee

companies. There are also plans for undertaking an annual general meeting with key stakeholders.

5.3.8.1 Public Awareness of UDC

- 389.** The public awareness survey employed a structured digital questionnaire, which was distributed virtually to a randomly selected sample of respondents. This approach ensured a broad representation of individuals, including both past customers of UDC and members of the public across various regions of the country.
- 390.** The inclusion of past customers enabled gaining insights into customer experience with UDC, while responses from the public helped to gauge brand recognition and interest among those who may not have directly interacted with UDC.
- 391.** To facilitate a test-and-control analytical approach, the questionnaire distribution process ensured inclusion of respondents from the manufacturing sector. This category served as a proxy for the test group, and their responses were compared to those of the public.

Table 17: UDC Public Awareness Survey Results

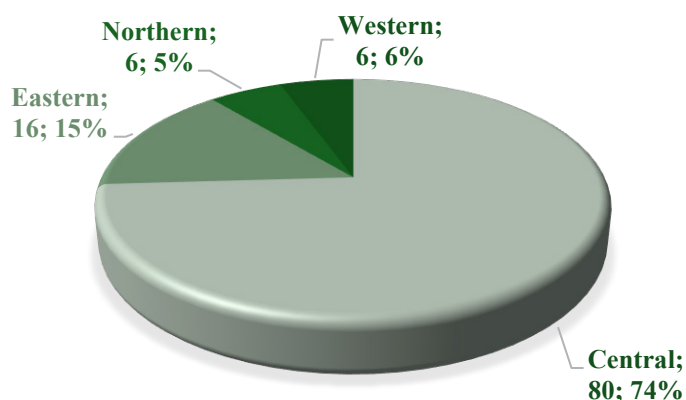
				Interested in Future Use				
	No	Brand Awareness	Know DFM's Role	Aware = Yes	Aware = No	DFM Clients	Will Use Again	Target Group
All Respondents	108	55%	100%	88%	88%	12%	100%	31%
General Public	75	51%	100%	83%	84%	11%	83%	
Target Group	33	64%	100%	100%	100%	14%	100%	

- 392.** A total of 108 randomly selected respondents participated in the UDC public awareness survey. Of these, 33 responses (31%) were individuals representing organizations in the manufacturing sector. This was identified as the target group due to the alignment with UDC's target clientele, making them more likely to demand UDC's products and services (**Table 19**). Most respondents (74%) were from the Central Region, with the highest percentages coming from Kampala and Wakiso districts (**Figure 21**).
- 393.** Results of the UDC public awareness survey indicate a 51% awareness rate among the public and a higher percentage of 64% within the manufacturing sector (**Table 17**).
- 394.** The higher awareness among individuals in the manufacturing sector suggests that UDC's initiatives and activities are more visible or relevant to stakeholders directly engaged in this

sector, indicating that its efforts may be resonating with its core audience. This aligns with UDC's focus on supporting industrialization, industrialisation, and economic development.

395. The awareness rate of 55% among all respondents indicates that UDC has gained some recognition among the public. However, nearly half (49%) of the general population (non-manufacturing) and 36% from the manufacturing sector are still unaware of its existence. This suggests a gap in UDC's outreach and communication regarding its role and activities. Additionally, the difference in awareness of 51% in the public versus 64% in the target group, indicates that UDC's presence and activities are not as widely recognized outside of its primary target audience.

Figure 21: Regional Distribution of the UDC Public Awareness Survey Respondents



396. These results indicate a need to enhance UDC's communication and outreach to ensure that the wider population equally understands its role and contributions. The low awareness of UDC's presence and mandate among the broader population may limit its ability to be seen as a key driver of national development, thus impacting its relevance as a DFM.

5.3.8.1.1 Potential Impact of Increased Public Awareness on the Demand

397. All respondents were asked about their interest in utilising UDC's products and services to assess the potential impact of increased awareness on demand. For those unfamiliar with UDC, the corporation's role and mandate were explained before gauging their interest in future use of its products and services.

398. The results indicate that 83.5% of the public and 100% of the manufacturing sector (Target group) expressed interest in the future use of UDC's products and services. The 83.5% services-interest rate suggests strong potential demand for UDC services across the broader population and demonstrates that even among those who may not have been unaware of UDC, there is a clear recognition of its value and relevance once its role is communicated.

399. Furthermore, the unanimous interest from the manufacturing sector in the target group suggests that UDC's services are well-tailored to address its specific needs, which aligns with its mission to support industrial growth and economic transformation.

400. The high level of interest from both the public, even among those previously unaware of UDC, and UDC's target group (the manufacturing sector) suggests a strong return

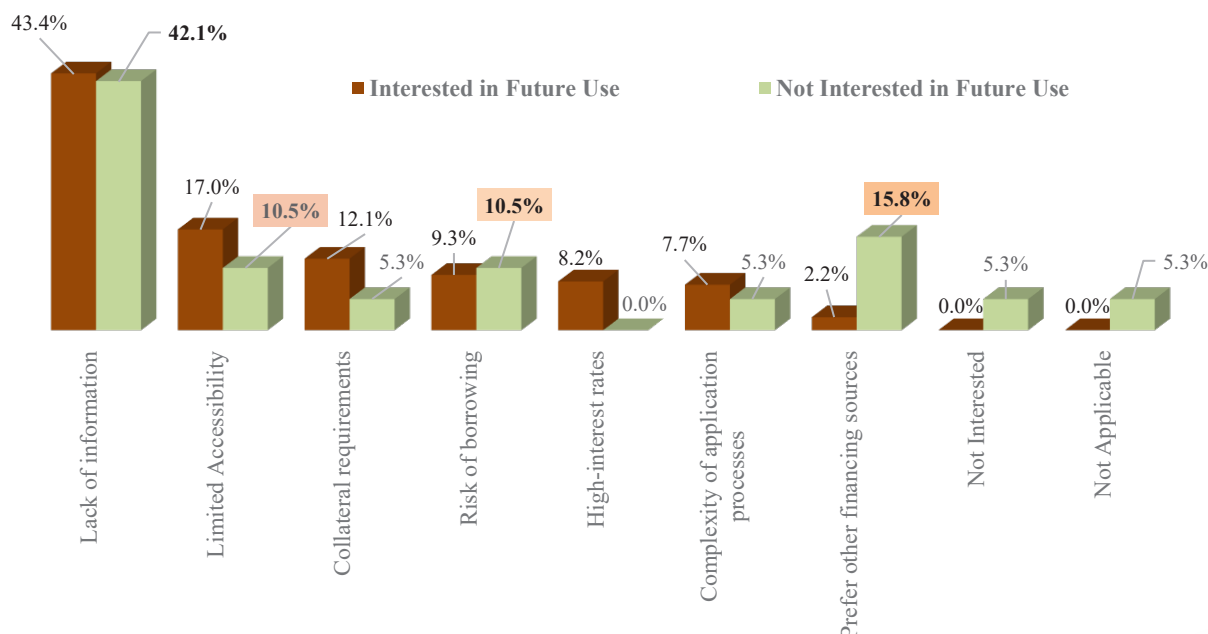
on investment for awareness campaigns and outreach initiatives. This implies that increasing public awareness could significantly boost demand and strengthen UDC's relevance from the public's perspective.

401. These findings reaffirm the need for UDC to strengthen its public awareness by investing in campaigns to raise awareness about its mandate, services, and success stories, especially among the 45% of the population currently unaware of the corporation.

5.3.8.1.2 Barriers Limiting Public Access and Utilization of UDC's Services

402. Identifying and addressing potential barriers hindering the public, as the ultimate beneficiaries, from potential utilisation of UDC's affordable financing is essential for enhancing demand and strengthening the corporation's long-term impact and sustainability.

Figure 22: Factor Limiting Public Access to UDC Financial Services



403. Reasons for the interest or lack of interest in the future use of UDC's services were therefore analysed to identify potential factors limiting access to the affordable financing offered by UDC (Figure 22).

404. Lack of information was identified as the number one reason limiting access to UDC's financial products and services. Nearly 44% of the respondents interested in future use of UDC's services and 42% of those who expressed lack of interest cited a lack of information as main factor influencing their feedback.

- 405.** For those interested in future use of UDC's services, other reasons limiting their access beyond lack of information included Limited accessibility (17%); Collateral requirements (12%); Risk of borrowing (9.3%); and High interest rates (8.2%).
- 406.** However, beyond the lack of information, the 2nd most common reason cited by those who expressed lack of interest in future use of UDC's services was preference for other financing sources (15.8%), followed by the risk of borrowing (10.5%) and limited accessibility (10.5%). High lending interest rates and collateral requirements were not ranked among the top reasons for the lack of interest in UDC's products and services.

5.3.8.2 Awareness of UDB Among the Other DFM Beneficiaries

- 407.** The awareness of UDC among the other DFMs was assessed by asking beneficiaries from other DFMs included in the scope of this evaluation if they had ever heard of UDC. Likewise, UDC's beneficiaries were also asked if they had ever heard of the other DFMs. Data was collected during the field survey phase of this evaluation through in-person key informant interviews.

Table 18: Awareness of UDC Among UDC, ACF and MSC SACCO Leaders

DFM Surveyed	Respondents	Aware of UDC	Awareness Rate
UDB	9	6	67%
MSC SACCO Leaders	170	46	27%
Total	179	52	29.1%

- 408.** A total of 179 respondents including 9 UDB investments, and 170 MSC SACCO leaders were asked about their awareness of UDC. Of these 52 (29.1%) acknowledged having heard about UDC, and 71% indicated no prior knowledge of UDC. These results highlight opportunities for improvement in cross-programmatic initiatives to increase the awareness of UDC among beneficiaries from the other programs.
- 409.** When compared with public awareness rate of 55%, results demonstrate that UDC has achieved a slightly higher recognition among the public than among peer-program beneficiaries (29.1% awareness rate). In addition to an urgent need to increase the awareness of UDC, these differences indicate a potential gap in sectoral coordination and cross-institutional engagement between UDC and other DFMs. Strengthening the corporation's awareness among the other DFMs could not only enhance UDC's reach but also foster more coherent and complementary delivery of Uganda's national development finance interventions.

5.3.8.3 Awareness Ranking Among UDB, UDC, MSC, ACF, and UAIS

- 410.** UDC's institutional awareness remains significantly low, both among the general public and beneficiaries of other government financing programs. According to the public

awareness survey conducted by NPA, only 54.6% of respondents had heard of UDC, ranking it third out of five development finance mechanisms (DFMs). In contrast, the Microfinance Support Centre (MSC) had the highest public awareness at 93%, followed by UDB. Awareness of the Agricultural Credit Facility (ACF) and Uganda Agricultural Insurance Scheme (UAIS) was even lower than UDC, at 48.7% and 29.2% respectively (**Figure 24**).

411. Among beneficiaries of government programs, UDC ranked the lowest in awareness across all DFMs. Only 29.7% of surveyed beneficiaries had heard of UDC, compared to 95.2% awareness of the Parish Development Model (PDM), 61.7% for MSC, 42.1% for ACF, and 30.2% for UAIS (Figure 24). This suggests that UDC's visibility is not only limited among the general public but also severely constrained among its potential investees and collaborators (**Figure 23**).

412. Strengthening institutional visibility is critical for expanding demand for UDC's services. While UDC primarily targets large-scale and strategic industrial investments, broadening awareness among the wider public and beneficiaries of other government initiatives can help amplify its reach through word-of-mouth, community networks, and cross-program referrals. Increasing visibility is an essential first step in building a strong pipeline of viable investment opportunities across regions and sectors.

Figure 24: Awareness Ranking Among the Public

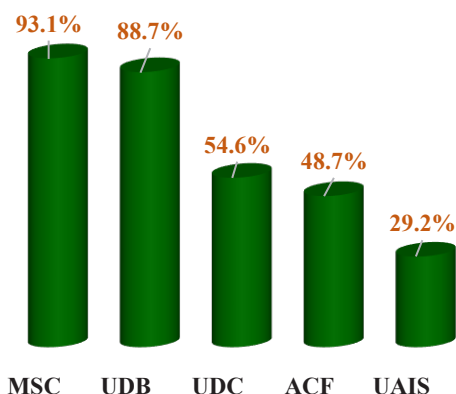
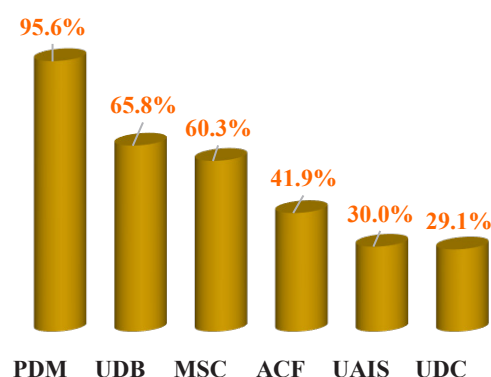


Figure 23: Awareness Ranking Among Other DFMs



413. Implication of the Awareness Findings

- i. The fact that most respondents cited lack of information as a reason for their interest in or lack of interest in UDC's services implies a gap in the cooperation's public awareness initiatives to ensure that the public is informed about its role, products, services, and benefits. This suggests a need for robust communication and education initiatives to improve visibility and inform potential clients about UDC's services.

- ii. UDC's exclusive presence in Kampala, Uganda's capital city, appears to create a geographical constraint, resulting in limited accessibility. This was the second most prevalent factor highlighted by respondents interested in its products as a barrier to accessing its services.
- iii. Factors limiting financial inclusion, such as collateral requirements and high interest rates, though not most prevalent, are others cited by respondents interested in UDC's services as barriers limiting their access. UDC, however, offers the lowest interest rates on Uganda's market, as low as 6%, and the fact that respondents indicated high interest rates as a challenge suggests a gap in the communication or understanding among the public about UDC's competitive interest rates.
- iv. Collateral requirements were also cited as a financial barrier limiting access to UDC's services. High collateral requirements, however, reflect the nature of UDC's investments which are mostly capital-intensive industries. Educating the public on why collateral is necessary (e.g., to secure long-term factory investments) and highlighting UDC's competitive rates can help address misconceptions.
- v. The results further underscore an opportunity for UDC to offer financial literacy training to create awareness, build trust, and mitigate the impact of the risk of borrowing on potential users, which 9.3% of the respondents cited.
- vi. Fifteen percent of those who expressed lack of interest in UDC's services indicated preference for other financing sources as the second most prevalent reason for their feedback. This indicates an impact of competition from alternative financing options and suggests that UDC must differentiate its services and emphasise its unique value propositions, such as affordable and patient long-term financing.
- vii. Collateral and lending interest rates were not among the top reasons limiting access for those uninterested in UDC's services. This suggests that these respondents may prioritise access to financial services and availability of information over financial terms.

414. Strategic Recommendations

- i. UDC should invest in more campaigns to raise awareness about its mandate, services, and success stories. This will address the widespread lack of information and strengthen UDC's relevancy from the public's perspective.
- ii. Furthermore, the analysis has demonstrated a positive return on investment for awareness campaigns and outreach initiatives. This implies that increasing public awareness could significantly boost the demand for UDC's products and services.
- iii. UDC should consider implementing national financial education campaigns to build trust and implicitly strengthen its unique value proposition as the institution offering patient capital at the lowest interest rates and supporting the public in increasing the bankable population.
- iv. UDC should establish formal partnerships with other DFMs especially those included in the scope of this evaluation which are UDB, MSC, UAIS and the ACF to design tailored

communication strategies aimed at businesses, communities and individuals already engaged with these DFMs to cohost sensitisation campaigns and develop joint referral systems. Specific examples of such initiatives could include:

- Using community-level platforms, SACCO meetings, and DFM partner networks to disseminate UDC information.
- Including UDC informational materials or outreach officers within other DFM offices and programming where feasible.
- Regularly measuring institutional awareness not only in the public but also within key target sectors, regional groupings to adjust strategy accordingly.

5.3.9 Funding

415. The availability and sustainability of funding are essential for maximizing UDC's effectiveness and optimizing its effectiveness and efficiency. All else constant, without sufficient funding, DFMs such as UDC face the risk of underperformance. Evaluation of UDC's funding structure included understanding the sources of funds, cost of funds, funds sustainability and stability, and the impact on UDC's development outcomes.

5.3.9.1 Source of Funding

416. The government is the primary and only source of funding for UDC's operations. UDC is in the fifth year of its strategic plan, and the expectation was that by the fifth year, the government would contribute 40% of the funding, and the remaining 60% would come from UDC initiatives. This has, however, not been achieved. As of July 2024, all UDC's funding was provided by the government, and this has become one of the performance limitations. Government funding is insufficient and disbursed in inconsistent tranches. During the evaluation period, UDC had 26 approved pipeline investments worth UGX. 1 trillion awaiting the availability of funds for investment.

417. At the time of this evaluation, UDC was exploring other funding opportunities and was in the initial phases of securing a joint loan from AFRI ExIm Bank, Stanbic Bank, and Citi Bank, which is expected to be guaranteed by the government of Uganda. UDC was also exploring syndication opportunities with the private sector to co-invest in some of its pipeline projects.

5.3.9.2 Funding Sustainability

418. During the evaluation period, financial information shared by UDC confirmed that the corporation could not sustain its operations and was unable to contribute to the funding of its activities. UDC was not receiving any reflows from the shareholder loans debt repayment and only one or two equity investments were paying dividends. Furthermore, UDC financed equipment through lease financing for two investments which were also not paying their

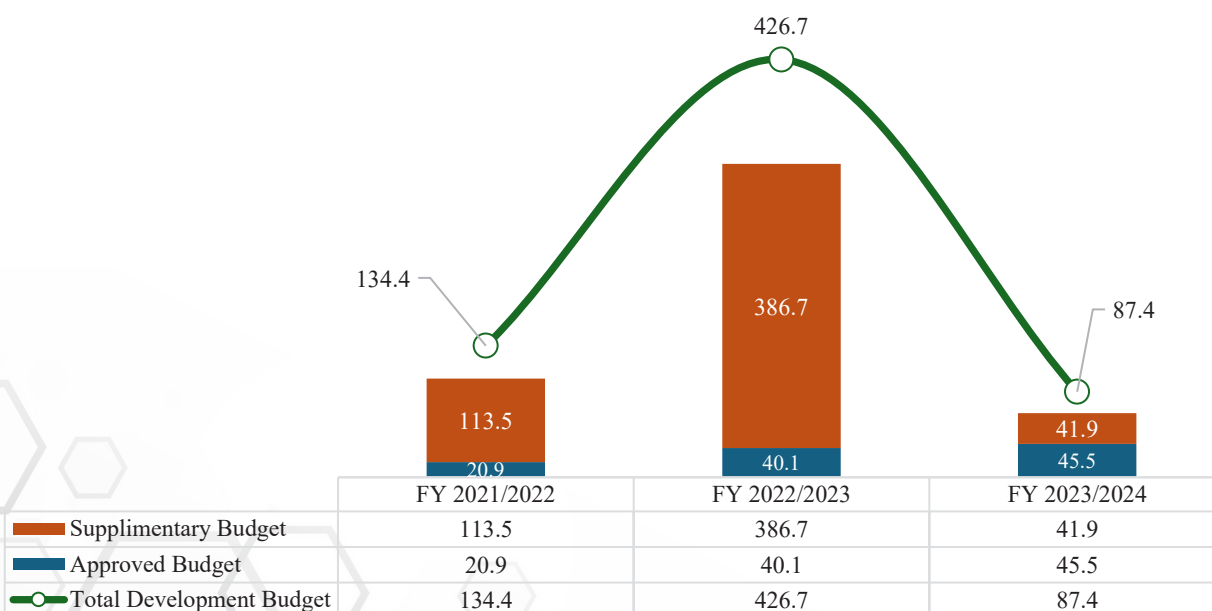
lease rental fees. The corporation's operational costs were additionally being covered using government funding.

- 419.** Of the 16 equity financing projects invested in, only one company, Nile Hotel International Limited, has so far paid dividends to UDC. Since 2020, Nile Hotel International Limited has paid UGX. 371.9 million cumulatively to UDC as dividends. Soroti Fruit Factory also paid revenue to UDC based on the financial statements.
- 420.** Since its reopening, 59% of UDC's total disbursements, equivalent to UGX 481.51 billion, were invested in one company, Atiak Sugar Factory, which opened in 2021 and closed a year later due to operational issues. This has resulted in high sectoral and industry-level risk. The fact that over 59% of UDC's invested funds cannot yield any dividends since Atiak Sugar Factory is closed has significant implications for the institution's long-term sustainability. **As of September 2024, UDC management communicated action plans for reviving this Atiak Sugar Factory and the factory was scheduled for reopening in the FY Q2 2024.**

5.3.9.3 Funds Stability

- 421.** In three financial years between 2021 to 2024, UDC received funding totalling UGX. 648 billion. However, the amount invested each year has fluctuated significantly and ranged between UGX. 87 billion and UGX. 427 billion (Figure 25).
- 422.** Significant fluctuations in UDC's funding such as those observed negatively impact its ability to plan, fund, and execute investment projects consistently. These variations can create challenges in managing cash flow, project completion, and responding to development opportunities.

Figure 25: UDC Government Funding: 2021 - 2023



423. Furthermore, UDC receives over 80% of the funds through the supplementary budget (Figure 26). This uncertainty further affects the implementation of planned and approved projects. Funds are also usually received towards the end of the quarter, impacting timely funds disbursement.

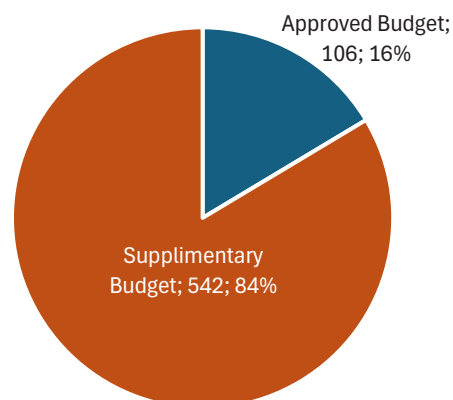
424. Another impact of the funding modalities is that funds allocated to UDC are usually ringfenced for specific presidential directive projects leaving the institution's already approved pipeline project with no funds for investment.

UDC's funding structure limits its effectiveness and efficiency by impacting its ability to plan, fund, and execute investment projects consistently.

425. This is impacting the turnaround times as most presidential directive (Blue Letter) projects are usually not ready for investment, regardless of funds being pre-allocated to these institutions. For example, The UGX. 100 billion received during the Covid-19 pandemic was also projectized for the Blue Letter projects.

426. As illustrated, UDC faces funding challenges stemming from the fact that the government is the corporation's only source of development funds, which are insufficient, fluctuate significantly from year to year, and are received in inconsistent tranches by the end of each quarter.

Figure 26: Approved Compared to Supplementary Budgets



427. Furthermore, UDC receives over 80% of the funds through the supplementary budget resulting in uncertainty which affects the implementation of planned and approved projects, and funds allocated to UDC are usually ringfenced for specific presidential directive projects leaving the institution's already approved pipeline project with no funds for investment.

5.3.9.4 Recommendations for Improving UDC's Funding Structure

- i. UDC should enhance opportunities of diversifying its sources of funding by attracting private sector investments, international development grants, or co-financing arrangements to smooth out fluctuations in government funding. Suggested operational initiatives include:
 - ❖ Prioritisation of resource mobilization to raise funds from various sources by dedicating a specialised unit for the mobilization of additional funding.

Organizationally, no unit within UDC specializes in resource mobilization which is a crucial function of a development financing institution.

- ❖ Strengthening syndication opportunities with other financiers. Including exploring opportunities for syndications with other DFMs such as UDB and ACF, the private sector, donors, and other development partners.
 - ❖ UDC should lobby for the Government of Uganda to guarantee its borrowing to mitigate the risks associated with lending to the corporation. UDC is hindered by its inability to consistently demonstrate the financial profitability of its investments, a requirement for most development partners. Projects invested in are, however, of national importance and expected to result in significant development impact.
- ii. UDC should seek approval from the Ministry to ringfence a portion of the funding as a special fund for the for blue letter projects which are projects of national importance recommended by the president. The remaining portion can be used by UDC to fund approved pipeline investments.
 - iii. To strengthen its financial sustainability, UDC should consider the possibility of a mixed model that allows it to invest in development projects that are expected to become viable over time and financially viable projects that are expected to make profits in the short term.
 - iv. Additionally, as recommended previously, the corporation's investment strategy should include a diversified portfolio of short-term, mid-term, and long-term projects. This will enable UDC to adjust its project pipeline based on the available funding in any given year.

5.3.10 Financial Performance

5.3.10.1 Sources of Revenue

428. In the past five years, UDC has primarily financed its operations through two key sources: Internally generated revenue (operational revenue) and Government capitalization (releases) along with other grant income. The internally generated revenue includes earnings from subsidiaries (equity investments with 51%+ shareholding) and income from associates (equity investments with less than 51% shareholding).
429. Approximately 95% of UDC's revenue is derived from government funding and grant income. Income generated from UDC's investments is marginal at 5% of the total revenue. Given UDC's significant reliance on government funding, its financial stability could be at risk if the government, as the primary funder, prioritises other pressing financial needs. This represents a sustainability risk that requires urgent attention. Note that the government releases data obtained from UDC's financial statements, as indicated in Table 17, varies from

government funding information received from other sources, as graphed in Figure 25 on page 109. The difference could be due to differences in accounting.

430. As mentioned previously, at the time of this evaluation, UDC was exploring other funding opportunities and was in the initial phases of securing a joint loan from AfriExim Bank, Stanbic Bank, and Citi Bank, which is expected to be guaranteed by the government of Uganda. UDC was also exploring syndication opportunities with the private sector to co-invest in its pipeline projects.

Table 19: UDC's Sources of Revenue

	2019	2020	2021	2022	2023
Source of Revenue	UGX Million				
Revenue from Subsidiaries					
Soroti Fruit Factory		166,311	818,761	1,270,142	1,500,038
Nile Hotel Limited			722,068	1,504,141	2,312,149
Revenue from Associates					
Share of Profits of Associates		1,976,179	1,314,795		36,109
Rent from Kalangala Infrastructure	3,480	3,480	3,480	3,480	
Revenue from Lease Financing					
Kigezi Highland Tea Limited	459,814	459,814	459,814	508,305	
Operational Revenue	463,294	2,605,784	3,318,918	3,286,068	3,848,296
Government Releases			137,270,758	163,222,908	
Grants	1,480,116	1,588,317	15,504,564	7,948,220	7,382,881
Total Revenue	1,943,410	4,194,101	156,094,240	174,457,196	11,231,177
Government Releases & Grants	76%	38%	98%	98%	

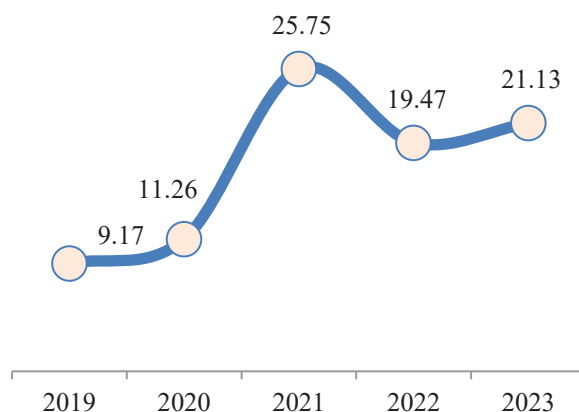
431. In terms of contributions to UDC's revenue from its investees, the corporation explicitly indicates receiving revenue from three investments since its revitalisation. These include Nile Hotel, Soroti Fruit Factory and Kigezi Highland Tea. Revenue generated from other investments is summed under the "share of profits from associates" line item in UDC's financial reports (Table 19).
432. Revenue generated from UDC's investments has grown from about UGX. 460 million in 2019 to 3.85 billion in 2023, indicating an 8-fold growth since its revitalization. The growth in operating income is primarily a result of payments from UDC's subsidies (Soroti Fruit Factory and Nile Hotel Limited). This indicates a positive shift towards financial sustainability for UDC. If this trend continues, UDC's dependence on government

funding will decrease, allowing the corporation to transition and achieve financial self-sufficiency. The revenue generated through UDC's investment activities is however not sufficient to cover the corporations' operational costs which average at UGX. 21 billion.

5.3.10.2 Operational Costs

433. In the past three years, UDC's annual operational costs ranged between UGX 19.5 and 26 billion. (Figure 27). The observed increase is aligned with the corporation's portfolio growth. The 2021 spike in operational costs was primarily due to a one-time expense of UGX. 10.6 billion, which was used to transport Sugarcane from the Busoga subregion to the Atiak Sugar Factory in northern Uganda.

Figure 27: UDC Operating Costs (UGX Billions)



5.3.10.3 Drivers of UDC's Operational Costs

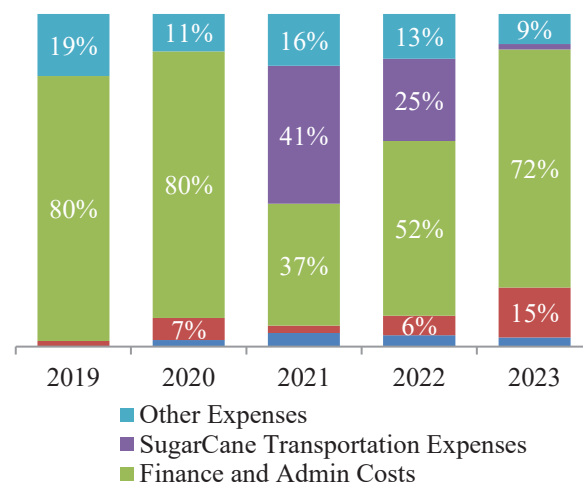
434. Finance and administrative expenses are the largest contributor to UDC's operational costs, ranging between 72% and 80% of the total in the last five years (Figure 28).

435. Under the finance and administrative costs, staff costs are highest at least 70% of all finance and admin costs (Figure 29). This is an indicator of the heavy reliance on human capital and probably less adoption of technology and innovation.

436. However, operating an institution that manages high risk investments as UDC's portfolio requires substantial human resources.

437. This is because managing risk for high-risk investments may require a more supportive approach to keep these investments engaged and focused on achieving financial sustainability.

Figure 28: Distribution of UDC's Operational Costs



5.3.10.4 UDC's Operational Efficiency

438. UDC's operational efficiency has continuously improved in the last five years. This evaluation was based on the corporation's cost-to-income ratio estimated by dividing the operational costs (Figure 27) by the operational income (Figure 30).

439. As demonstrated in Figure 31, UDC's cost-to-income ratio has been increasing since 2019 (lower numbers mean higher operational efficiency). This means that since 2019, UDC has consistently achieved its development impact at lower costs. The reason for increasing operational efficiency is that the operational income in Figure 30 has grown at a faster rate than the growth in operational costs in Figure 27.

440. The growth in operating income is primarily a result of payments from UDC's subsidies (Soroti Fruit Factory and Nile Hotel Limited). If UDC can maintain operational costs as is and continue nurturing its investments to pay dividends, its efficiency will increase, and the corporation will become profitable over time. As it stands, operational efficiency has improved but UDC continues to register negative profitability.

Figure 29: Distribution of Finance and Admin Costs

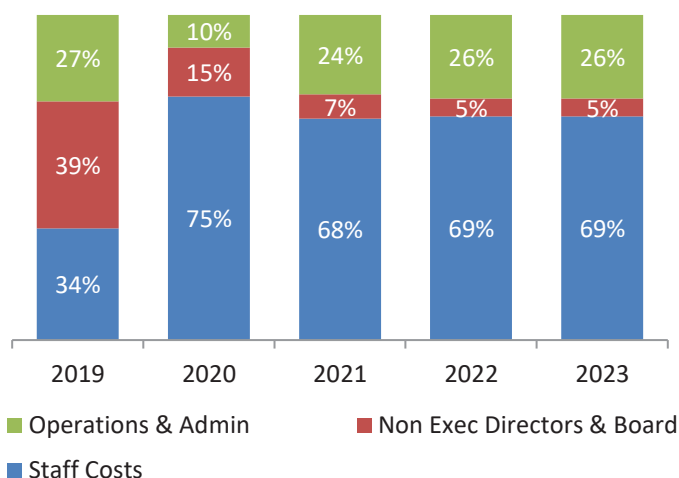


Figure 30: UDC Operating Income

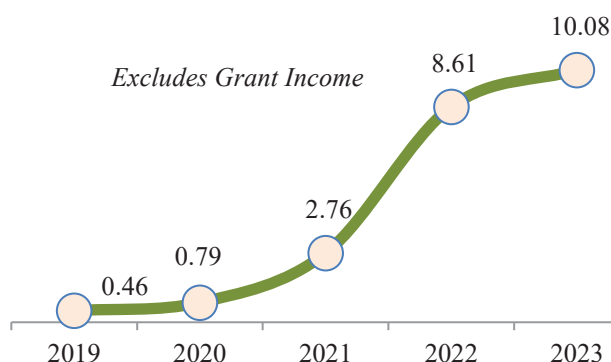
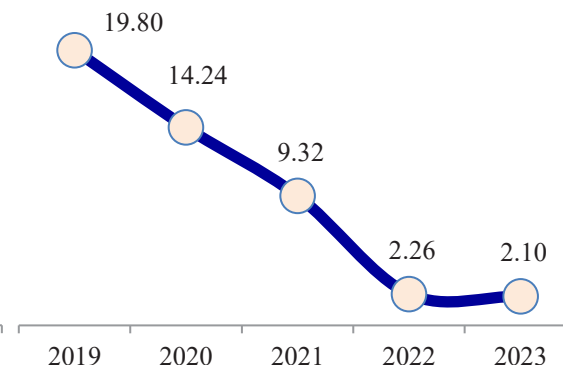
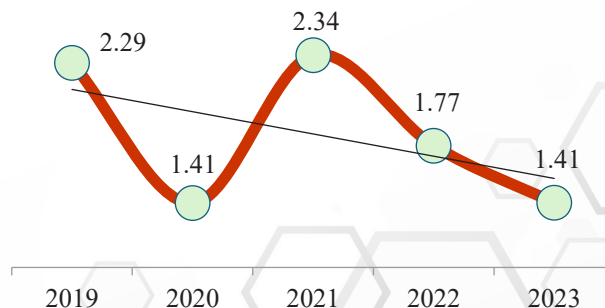


Figure 31: UDC's Cost to Income Ratios



441. Another metric computed to understand UDC's operational efficiency is the cost of managing an investment estimated by dividing UDC's operations costs by the number of ongoing investments. In 2019 the average cost of managing each investment was estimated at UGX. 2.29 billion. This has continuously reduced year after year to UGX. 1.41 billion per investment in 2023 (Figure 32). This

Figure 32: Cost of Managing a UDC Investment



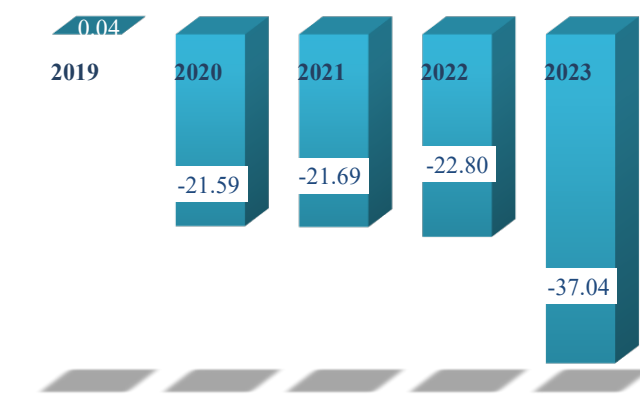
metric also indicates an improvement in UDC's operational efficiency, which is a result of increasing economies of scale due to the growing portfolio. This has enabled UDC to spread its fixed costs across more investments.

5.3.10.5 Profitability

442. UDC continues to face an uphill task of successfully turning its high risk yet strategically important investments into profitable and financially viable ones that can recover and continue delivering development impact. As revenues have continued to grow, and the cost of managing each investment has reduced, indicating improved efficiency, the revenue growth has not been substantial to cover UDC's operational costs (**Figure 33**).

443. This is because very few of UDC's investments are paying dividends or repaying their shareholder loans and leasing fees. As recommended in previous sections, UDC needs to strengthen its capacity through a combination of additional staffing and digitalisation to enable handholding of its investments, support their recovery, and ensure that they pay back their dividend and debt obligations as expected.

Figure 33: UDC's Profitability



5.3.10.6 UDC Investee Financial Performance

444. For this evaluation financial statements were provided for only two investments which are the subsidiaries where UDC has over 51% shareholding. These are Nile Hotel Limited and Soroti Fruit Factory. Financial statements for other investments are not provided to UDC since UDC is not the majority shareholder.

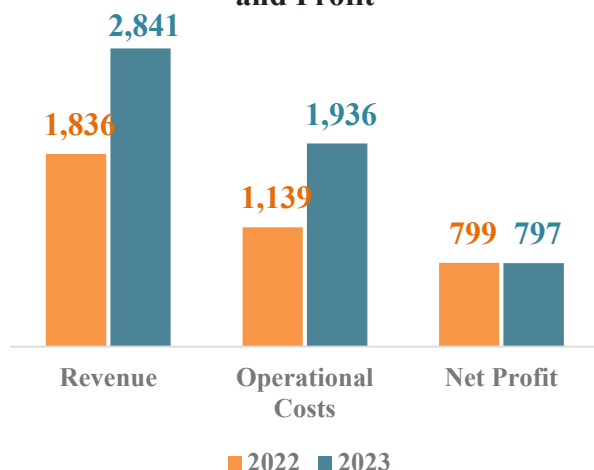
5.3.10.6.1 Nile Hotel Limited

445. Nile Hotel International Ltd is a Company limited by shares incorporated on 28th October 1994 and existing under the Companies Act. It is an asset-holding company owned by the Government of Uganda through UDC and is listed under Class II of the Public Enterprises Reform and Divestiture Act.

446. Nile Hotel International Ltd.'s main activity is to monitor concessions and ensure that the concessionaires comply with their obligations under the Concession and Lease Agreements. In 2020, UDC acquired the interest of GoU in Nile Hotel International Ltd, namely 100% shares in the hotel, which attracted dividends.

447. It is important to note that Nile Hotel International Ltd manages the concession of Kampala Serena Hotel, a five-star hotel. Furthermore, Nile Hotel International Ltd has grown its portfolio by acquiring a stake in the Igongo Country Hotel and Cultural Center in Mbarara District.
448. Nile Hotel is one of the few investments that are paying dividends to UDC. During the 2020/2021 financial year, UDC was paid UGX 572,620,674 as dividends from Nile Hotel.

Figure 34: Nile Hotel LTD - Revenues Costs and Profit



449. Its performance shows an increase in revenue between 2022 and 2023. This was, however, mitigated by similar increase in operational costs during the same period, leading to comparable profitability in both years (Figure 34).

450. There are also opportunities to enhance Nile Hotel's operational efficiency, which averaged 65% in 2022 and 2023. This was calculated by dividing the expenses by the revenue. Theoretically, 50% is considered the optimal operational efficiency ratio. It means, for example, that for every shilling of expenses spent, the institution generates two shillings of revenue. The lower the ratio, the higher the efficiency.

451. The 65% operational efficiency ratio indicated that Nile Hotel Limited generates roughly 1.5 shillings of revenue for every shilling of expense sent. Reducing this metric to 50% and below will imply doubling of revenue for a given amount of expenses which leads to higher profitability.

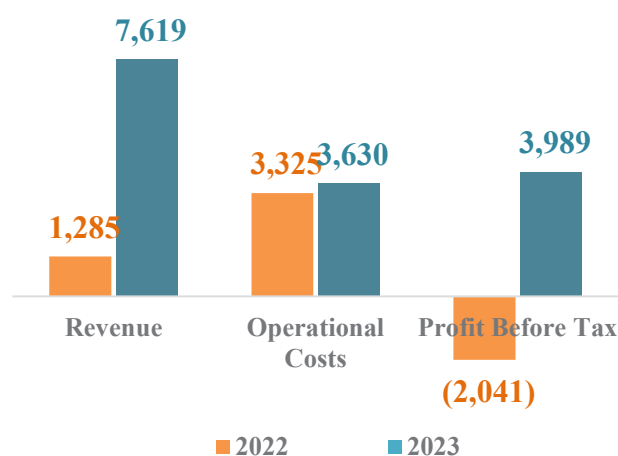
5.3.10.6.2 Soroti Fruit Factory

452. Soroti Fruit Factory a presidential directive investment established in 2020. The Government of Uganda through UDC partnered with Korea International Cooperation Agency (KOICA) to establish a fruits processing factory in Soroti district, Teso Sub-region (Soroti Fruits Ltd- (SOFTE)). The shareholding of SOFTE is between UDC (80%) and Teso Tropical Fruits Cooperative Union –TEFCU (20%).
453. Fruits, which are its main raw materials, are predominantly purchased from smallholder farmers across the TESO sub-region and surrounding areas. They are processed into fruit puree/concentrates and natural ready-to-drink juice under the brand name 'Teju juice'.
454. Soroti Fruit Factory was unprofitable in 2022 and 2023 and opportunities for increasing the level of direct oversight offered to this institution should be considered by UDC.

455. Soroti Fruit Factory's financial statements indicate a loss of UGX. 2.041 billion in 2022. For 2023, the factory reported revenue of UGX 7,619,019,458, of which UGX 6,118,981,024 was a government grant intended for capital expenditure (**Figure 35**). This was added to the total revenue and recognizing it in full as revenue distorted the factory's financials, inflating both the revenue and the bottom line. In essence, after discounting the grant revenue, profit before tax for 2023 is negative by ~ UGX. 2.2 billion.

456. An in-depth review of Soroti Sugar Factory's operational costs highlights opportunities for resource prioritisation. The top five drivers of the factory's expenses are staff costs (46.52%), Board costs (32%), Security and guards costs (2.9%), travel and per diem (1.25%), and Fuel, Lubricants, and Oils (3.25%) (Table 20). The large Board of director expenses, and cost of security guards stand out as anomalies and opportunities for improving efficiency.

Figure 35: Soroti Fruit Factory - Revenues Costs and Profit



457. The annual expense of UGX 438 million is relatively high compared to the board expenses of larger corporations, which likely hold meetings more frequently. Unless these costs are linked to essential strategic operations, this considerable expenditure underscores the need for improvements in resource optimization and governance at Soroti Fruit Factory.
458. Furthermore, the factory spends only 0.16% of its expenses on advertising and public relations. For a consumer goods business with products such as fruit juice, this allocation appears critically low. Advertising is a key driver for boosting brand awareness, expanding market share, and growing sales. Without adequate funding for marketing and public relations activities, the factory is likely to face challenges in creating visibility for its products, building a customer base, and competing effectively in the market.
459. This imbalance in resource allocation needs attention to support sustainable growth and financial health and highlights another opportunity for UDC to strengthen its investee's performance with enhanced direct oversight.

Table 20: Breakdown of Soroti Fruit Factory Expenses

	Finance and Admin Costs		Distributions	
	2022	2023	2022	2023
Staff Costs	787,752,676	639,623,548	63.09%	46.52%
Board Costs (Allowances, retainer etc.)	119,265,028	437,991,459	9.55%	31.86%
Security and guards	61,416,000	39,185,997	4.92%	2.85%
Travel and perdiem	54,117,975	17,243,000	4.33%	1.25%
Fuel, lubricants and oils	48,325,480	44,413,149	3.87%	3.23%
Utilities	39,516,463	28,016,466	3.16%	2.04%
Admin and management	28,368,559	26,842,754	2.27%	1.95%
Cleaning and sanitation	15,592,356	14,994,936	1.25%	1.09%
Consultancy services	14,939,816		1.20%	0.00%
Vehicle running and maintenance	14,343,581	17,619,064	1.15%	1.28%
Printing and stationery	13,854,900	1,999,000	1.11%	0.15%
Maintenance other	12,794,040	46,631,413	1.02%	3.39%
Carriage haulage etc.	10,605,000	13,071,350	0.85%	0.95%
ICT	10,333,777	24,886,193	0.83%	1.81%
Advertising and public relations	7,275,432	2,161,017	0.58%	0.16%
Recruitment costs	5,413,560	16,452,407	0.43%	1.20%
Staff training	2,050,000	2,950,000	0.16%	0.21%
Telephone costs	1,730,433	776,935	0.14%	0.06%
Maintenance civil	890,000		0.07%	0.00%
	1,248,585,076	374,858,688		

460. As of June 2024, the management of Soroti Fruit Factory was transitioned to Kimaki Agro, following a recommendation from the President of Uganda. The factory faces several challenges, including limited marketing efforts, an insufficient number of distribution trucks, and operational inefficiencies stemming from a lack of a results-driven culture, as SOFTEE employees are on the government payroll.

*Some of the Soroti
Fruit Factory Products*



5.3.11 Capitalisation of UDC

461. By 2026/2027, UDC estimates that it will require ~ 1.1 trillion to fund its pipeline projects in the next three years. This capitalisation plan was submitted to the Ministry and was pending approval during this evaluation period.

462. The capitalisation plan includes investing UGX. 395 billion in 2024/2025, UGX. 325 billion in 2025/2026 and UGX. 384 in 2026/2027. The plan also includes an investment of UGX. 25 to 30 billion annually in the construction of a UDC House (Figure 36).

463. Management could not confirm the projected development impact that UDC anticipates achieving from the planned future investment of UGX 1.1 trillion in terms of the number of jobs, forex earnings, tax collections, etc., during the evaluation period. In lieu of this, the evaluation team developed a high-level model to estimate the potential development impact of UDC's planned capitalization investment.

464. Assumptions used to forecast UDC's development impact for the given annual planned capitalisation amounts were based on a regional comparative analysis which compared the development impact of four regional development financing institutions. These included the Development Bank of Rwanda (BRD), Kenya Development Corporation (KDC), Uganda Development Bank (UDB) and UDC (Table 21).

Figure 36: UDC Planned Pipeline Investments (UGX. Billion)

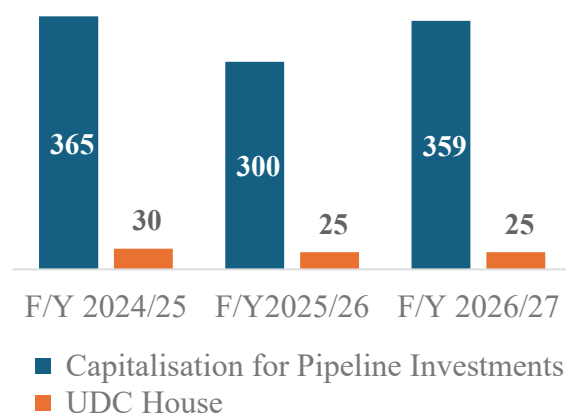


Table 21: Regional Development Impact Comparative Analysis

Regional Development Impact Comparative Analysis				
	Rwanda	Kenya	UDB	UDC
Loan Portfolio (UGX Billion)	1,112	948	1,580	1,018
Jobs Created	116,714	85,115	51,841	86,187
Export Revenue (UGX. Billion)	634		953	83
Tax Revenue (UGX. Billion)			236	34
Jobs/Billion Loan Portfolio	105	90	33	85
Export Revenue/Billion Loan Portfolio	0.57		0.60	0.08
Tax Revenue/Billion Loan Portfolio			0.15	0.034

Table 22: Expected Development Impact of UDC's 2025 – 2027 Planned Capitalisation

	F/Y 2024/25	F/Y 2025/26	F/Y 2026/27	Total
Capitalisation for Pipeline Investments	365	300	359	1,024
UDC House	30	25	25	80
Total	395	325	384	1,104
UDC Operational Costs for 2022/2023	21	21	21	
Operational Costs Buffer (Accounts for Inflation etc.)	20%	20%	20%	
Operational Costs Estimate	25	25	25	75
Amount Invested (Less Operational Costs)	340	274	334	948
Jobs Created / Billion Invested (Comparative Assumption)	85	85	85	
Proposed Jobs to be Created	28,778	23,238	28,252	80,268
Foreign Exchange / Billion Invested	0.16	0.16	0.16	
Foreign Exchange Earnings (Billions)	55	45	54	155
Tax Collections / Billion Invested	0.07	0.07	0.07	
Tax Collections (Billions)	23	19	23	64

465. Based on an assumption of creating 85 jobs per UGX, billion invested into UDC's pipeline projects, which is based on the corporation's actual performance, the investment of UGX. 1.1 trillion is projected to result in creation or maintenance of over 80,000 jobs.

466. The total foreign exchange generated from the proposed capitalisation is forecasted at UGX. 155 billion (**Table 22**). This estimate assumes that UDC will double the foreign exchange earnings UGX. 80 million per UGX Billion invested (Table 21) to 160 million per UGX billion invested. This will be achieved by improving the financial performance of UDC's investments to increase the export contributions from more of its investments. Currently, the majority of UDC's export earnings (53%) are generated from the Tea Factories, Pharmaceuticals (36%), and 11% from all other industries. This expectation is achievable given that Tea and Pharmaceuticals are among the prioritised pipeline investments.

467. Similarly, the total tax revenue generated from the proposed capitalisation is forecasted at UGX. 64 billion (**Table 22**). The model equally assumes that UDC will double the tax revenue generated from its pipeline investments from UGX. 30 billion per UGX. billion invested to UGX. 70 billion per UGX. billion invested.

468. With the expectation of creating over 80,000 jobs and generating forex earnings UGX. 155 billion, and tax revenue of UGX. 65 billion, UDC's proposed pipeline investments are projected to contribute meaningfully to Uganda's industrialisation objectives.

5.3.12 Investee Perspectives on UDC's Effectiveness

469. UDC's client-facing operations are generally perceived as effective, but operational gaps remain. The evaluation assessed the effectiveness of UDC's engagement from the perspective of its investees using a four-point satisfaction scale across three core areas: the ease and transparency of UDC's processes, responsiveness when contacted for support, and overall satisfaction with the products and services offered. All seven sampled investments rated both the quality of UDC's services and the transparency of its procedures as satisfactory or very satisfactory, with 29% awarding the highest rating and 71% expressing satisfaction. This positive feedback confirms UDC's relevance and credibility as a responsive public investor, particularly in Uganda's underserved and high-risk sectors.

470. Positive practices such as technical support and post-disbursement supervision stood out. Several investments commended UDC for its hands-on approach, including technical guidance, skills development training, and continued supervisory support after funds were disbursed. This level of engagement distinguishes UDC from commercial lenders and underscores its role not just as a financier but as a development partner. Notably, businesses appreciated UDC's continued support during the COVID-19 pandemic, which they credited with helping them remain operational during an economically disruptive period.

471. Despite positive feedback, issues of turnaround time and funding adequacy persist. While most responses reflected general satisfaction, one of the seven investments expressed concern over delayed responsiveness, specifically citing high turnaround times that had constrained timely implementation of project activities. Additionally, some investments reported that the funds received from UDC were insufficient relative to their capital requirements, and in certain cases, disbursements were made in smaller, staggered tranches, which disrupted project planning. These concerns highlight two recurring bottlenecks across the evaluation: the need to improve speed of service delivery and the need to match capital

Figure 37: Rating of the Products and Services and Ease and Transparency Processes

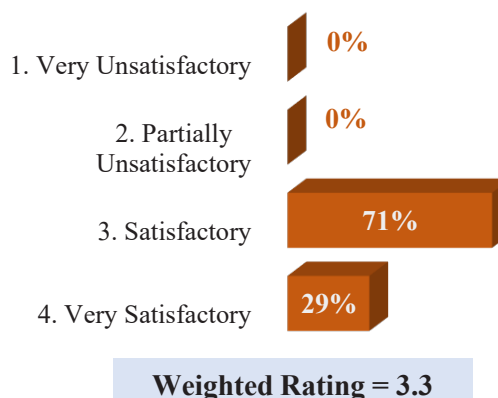
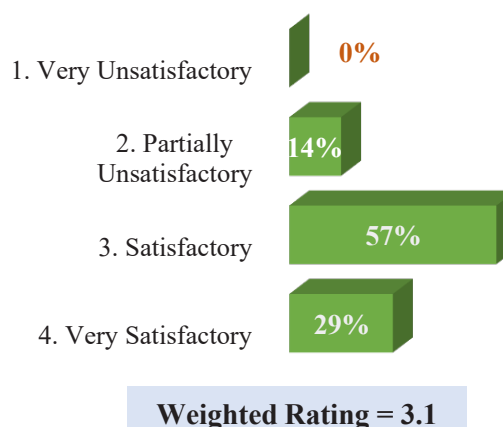


Figure 38: Rating of the Responsiveness of UDC When Contacted for Help



deployment with realistic project needs particularly for capital-intensive sectors such as manufacturing and agro-industry.

- 472. The findings confirm UDC’s development additionality and client-centred delivery model.** However, the corporation must address operational inefficiencies, especially in loan turnaround time and funding adequacy, to maximise its development impact. UDC should urgently digitise its loan processing systems, adopt time-bound service level agreements (SLAs), and increase staffing in investment and project appraisal departments. To address funding gaps, UDC should pursue resource mobilisation strategies including co-financing, partnerships, and syndicated investments to reduce underfunding of high-potential projects. Furthermore, the continuation of value-added services such as training and supervision should be institutionalised as part of UDC’s standard offering, with dedicated technical assistance teams to support investees in meeting performance milestones.

5.4 EFFICIENCY

- 473.** The efficiency of UDC’s operations was evaluated by assessing the corporation’s optimal use of resources. This measured the extent to which UDC is economically delivering effective and timely results at the least cost. Operational indicators considered included turnaround times, technology adoption/extent of digitalisation, data management, and operational efficiency.

5.4.1 Turnaround Times

- 474. UDC’s turnaround times are significantly longer than regional and domestic benchmarks, affecting its competitiveness and responsiveness.** UDC currently operates with a turnaround time of up to 90 days for brownfield investments and up to 240 days for greenfield investments. These durations from application appraisal to final investment decision are nearly double those of regional peers such as the Kenya Development Corporation (KDC), which targets a 120-day turnaround for equity financing approvals and disbursements.
- 475. UDC’s turnaround times also lag behind Uganda’s commercial financial institutions.** For instance, Stanbic Bank used here as a benchmark for private sector efficiency has reported decision-making timelines as short as 60 days, underscoring the need for UDC to improve its responsiveness in order to remain relevant in a competitive investment environment.
- 476. Reducing turnaround times is critical for improving UDC’s effectiveness and investment impact.** Opportunities for improvement include process automation, digitalisation of workflows, and strategic staff expansion particularly in frontline investment and appraisal teams to increase decision-making capacity and eliminate operational bottlenecks. These reforms would enhance UDC’s ability to serve high-impact enterprises

more efficiently, reduce opportunity costs for potential investees, and align the institution more closely with national industrialisation timelines.

5.4.2 Technology and Innovation

- 477. UDC’s reliance on manual processes continues to slow turnaround times and poses information management risks.** At the time of this evaluation, most of UDC’s operational workflows particularly those related to investment processing, monitoring, and customer engagement remained largely manual. This not only contributed to delays but also heightened risks associated with data tracking, storage, and decision-making. However, automation efforts were underway. UDC was in the process of installing an Enterprise Resource Planning (ERP) system to improve its Finance, HR, and procurement functions, and had also engaged NITA-U to develop a customer management system.
- 478. Beyond outsourced automation, UDC should invest in internal IT capacity to drive long-term efficiency.** To enhance agility, reduce licensing costs, and build systems tailored to its unique operational requirements, UDC should recruit in-house software developers and IT specialists. These professionals can create fit-for-purpose tools to automate critical workflows that are not covered by external IT solutions. This strategy has been successfully adopted by several international development finance institutions that have moved away from high-cost, rigid external platforms in favour of leaner, internally managed IT ecosystems.
- 479. Internal systems to track development impact and investment performance can be built efficiently and affordably.** Customised monitoring and evaluation tools designed in-house can be deployed rapidly to capture real-time investment data, improve oversight, and enhance evidence-based decision-making. These tools would also ensure continuous learning and accountability in line with UDC’s development mandate.
- 480. Digital transformation is a strategic investment.** Implementing modern IT systems will reduce operational bottlenecks, cut down turnaround times, and increase employee productivity. More importantly, automation will enhance customer experience and position UDC as an efficient, responsive, and data-driven development finance institution, better aligned with Uganda’s industrialisation and economic transformation agenda.

5.4.3 Data Management and Reporting

- 481. UDC must urgently strengthen its data reporting systems to communicate its development impact.** Currently, the corporation’s progress is primarily conveyed through financial statements in its annual reports, which do not adequately reflect the transformative impact of its investments. Key development metrics such as direct and indirect job creation, increased household incomes, raw material uptake from local producers, and social or

environmental gains remain underreported or absent, undermining UDC's visibility and value proposition as a development finance institution.

- 482. Stakeholders are unable to appreciate UDC's full contribution to Uganda's economy due to limited impact disclosures.** As a national development vehicle, UDC was revived specifically to address market failures by supporting high-risk, high-impact investments that the private sector typically avoids. Since its revitalisation, UDC has directed funding towards industries of national importance that were either distressed or overlooked such as agro-processing, pharmaceuticals, and manufacturing playing a counter-cyclical and catalytic role in sustaining livelihoods, industrial capacity, and regional economic activity.
- 483. By design, UDC's investments are not made for short-term profit but for long-term national value.** Many of these projects were commercially unattractive at the point of entry due to perceived risk or low immediate returns. UDC's intervention is therefore developmental, targeting sectors that are foundational for inclusive growth but require patient capital and institutional support to thrive.
- 484. To evaluate UDC fairly, performance metrics must centre on long-term development returns.** Indicators such as the number of jobs sustained, value of local raw materials purchased, net foreign exchange generated, and contribution to government revenues should be the primary measures of success not just annual financial profitability. These are the real dividends of development finance, reflecting UDC's mission of improving the quality of life for Ugandans.
- 485. Providing UDC's Impact over time is critical for stakeholder confidence and institutional legitimacy.** UDC should proactively showcase how formerly distressed enterprises have progressed towards financial viability under its support. Documenting and communicating these transformation journeys including shifts from negative earnings to profitability will not only affirm UDC's effectiveness but also enhance public and stakeholder confidence in its mandate, resource use, and strategic direction.

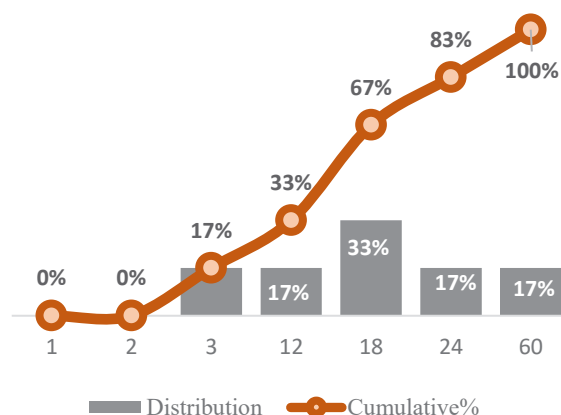
5.4.4 Customer Perspectives on UDC's efficiency

- 486. UDC's operational efficiency was assessed from the perspective of its customers, revealing critical insights into turnaround times and digital service delivery.** Feedback from funded investments highlighted mixed experiences regarding UDC's responsiveness and the impact of its timelines on project implementation. Clients specifically assessed the Corporation's use of technology such as online applications, mobile platforms, and digital tools during the investment application process.
- 487. UDC's turnaround times significantly exceed its internal targets, with delays impacting investee performance and agricultural seasonality.** The Corporation's operational efficiency was assessed from the perspective of its clients, focusing on actual funding

timelines and satisfaction with service delivery. Seven sampled investments were asked to report how long it took from the time they submitted complete documentation to the point of disbursement.

- 488. Findings reveal that only one out of seven investments (17%) received funding within UDC's targeted timeframe of 3–8 months,** with 3 months designated for brownfield and 8 months for greenfield projects. The remaining six (83%) experienced prolonged delays: two projects reported waiting 1.5 years (33%), another two reported a two-year delay (33%), and one indicated a five-year wait (17%) (Figure 39).

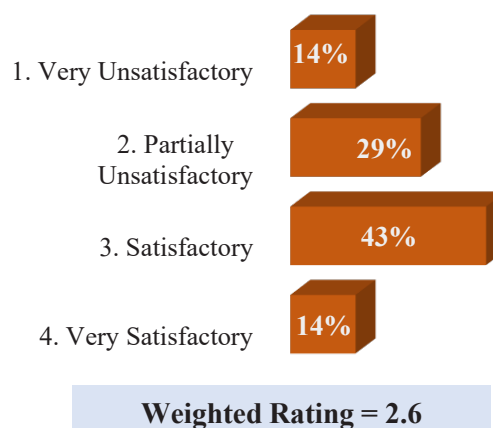
Figure 39: UDC's Turnaround Times



- 489. Client satisfaction with UDC's turnaround times remains mixed, with notable dissatisfaction among beneficiaries.** While 57% (4 of 7) expressed satisfaction 1 (14%) was very satisfied and 3 (43%) were satisfied the remaining 43% expressed dissatisfaction, including 2 (29%) who were partially dissatisfied and 1 (14%) who was very dissatisfied.
- 490. Beneficiaries who expressed satisfaction with UDC's process cited clear communication and strong due diligence as key strengths.** These clients noted that UDC provided timely and transparent guidance throughout the application process, with procedures followed as advised. Several also appreciated the level of engagement shown by UDC teams, including factory visits and onsite assessments during appraisal demonstrating a commendable level of investee follow-up.

- 491. Conversely, those dissatisfied with the process raised critical concerns around delayed and fragmented disbursements.** They reported that funds were often released in instalments and not aligned with their operational timelines, especially for agro-based or seasonal enterprises. Some described the process as overly bureaucratic, highlighting that rigid procedures fail to accommodate the time-sensitive nature of agricultural cycles. These investees recommended that UDC adopt more responsive and flexible approaches for seasonal businesses to ensure financing aligns with planting and production timelines.

Figure 40: Rating of UDC's Turnaround Times



- 492. These delays highlight the need for urgent reforms in staffing, process efficiency, and digitisation.** UDC must address operational bottlenecks by filling staffing gaps, streamlining internal procedures, and accelerating digital transformation to ensure timely investment decision-making.
- 493. For agriculture-based investments, which dominate UDC's portfolio, delays have particularly high opportunity costs.** Many funded projects are seasonal in nature, and prolonged turnaround times can disrupt planting and harvesting schedules, reduce productivity, and erode the intended development impact.
- 494. UDC's limited use of digital tools remains a missed opportunity to enhance efficiency and client experience.** From the perspective of funded investments, the evaluation assessed UDC's adoption of technology as a measure of operational efficiency. Investees were asked whether they had access to digital channels such as mobile platforms or online application systems during the loan application process. The majority reported that the process remained largely manual, requiring physical document submissions and in-person follow-ups. This highlights a critical opportunity for UDC to accelerate digital transformation and introduce user-friendly platforms that simplify application procedures, reduce turnaround times, and improve service accessibility, especially for enterprises operating outside Kampala.

5.5 DEVELOPMENT IMPACT

- 495.** This assessment included evaluating UDC's development impact processes and procedures, and the corporation's analytical framework for documenting and tracking its development impact. Aspects considered include the appropriateness, accuracy, and timeliness of UDC's development impact framework.

5.5.1 Development Impact Processes and Procedures

- 496.** The evaluation assessed how UDC's ex-ante/baseline studies are conducted and how the post-ante development impacts are estimated to ensure accuracy, transparency and validity.

5.5.1.1 Baseline Studies

- 497.** Baseline studies are initial assessments or surveys conducted at the start of the intervention in any investment to collect status quo data about the current situation or status of key variables related to the project. Baseline studies serve as a point of reference (baseline) against which monitoring and evaluation are conducted to track the investment's progress over time and against which UDC's effectiveness is measured in terms of the development impact.
- 498.** A data gap due to scanty baseline data availability was observed. UDC shared household baseline survey studies during the evaluation period for 2 of its 18 (10%) investments. These

included Bukona Agro Processors and Soroti Fruit Factory. Furthermore, baseline data such as the number of jobs, export earnings, etc., which is supposed to be collected before investing in a project, was not readily available.

- 499.** The lack of baseline studies and data has limited UDC's ability to monitor and track the progress of investments and to accurately quantify the corporation's development impact, which cannot be properly measured without baseline studies.
- 500.** Development financing is highly dependent on baseline studies as they are the foundation for clearly and holistically understanding UDC's interventions' economic, social, and environmental impact. The lack of such studies limits UDC's ability to showcase its success.

5.5.2 Development Impact Data Collection

501. This study emphasised showcasing UDC's development impact over time to highlight the corporation's success stories regarding the ultimate performance measure that UDC should be evaluated upon. UDC's development impact was assessed based on the core development aspects used by the corporation to determine projects to invest in, as indicated in its investment appraisal manual (discussed in section 5.3.4.6 on page 94).

502. These include:

- i. I. Job creation, both direct and indirect, with emphasis on productive jobs.
- ii. Use of locally produced materials or natural resources.
- iii. Import substitution or increase in export earnings.
- iv. Development of local entrepreneurship focusing on investments likely to spur businesses within the area.
- v. Level of innovation and technology transfer.
- vi. Balancing regional development within the economy.
- vii. Socio-economic viability of the investments.
- viii. Harnessing industrial/sectoral synergies between the suppliers and consumers.

503. However, data for understanding UDC's development impact based on its listed measures of impact was not readily available for all investments. Evaluators received information for 4 (22%) of the 18 investments, and there were noticeable data gaps.

504. UDC management communicated limited, delayed, and sometimes complete lack of counterparty responses as one of the challenges limiting the collection of development impact data.

505. The failure to collect data due to a lack of response from investees highlights opportunities for enhancing this process to improve the data reporting and availability by holding investees accountable for failure to share relevant data requested by UDC. Among others, this can be

achieved by stipulating data sharing expectations in the investment agreements. More recommendations are discussed in the section 5.5.3.3 which is on page 132 of this report.

Development Impact Measures Based on the Investment Criteria



Jobs Created



Environmental Impact



Innovation and Technology Transfer



Raw Materials Used



Harnessing Synergies



Social Economic Viability



Local Entrepreneurship



Foreign Exchange

- 506.** Data for understanding UDC's development impact based its listed measures of impact was, however, not readily available for all investments. Evaluators received information for 4 (22%) of the 18 investments and there were noticeable data gaps.
- 507.** UDC management communicated limited, delayed, and sometimes complete lack of counterparty responses as one of the challenges limiting the development impact data collection.
- 508.** The failure to collect data due to lack of response from investees highlights opportunities of enhancing this process to improve the data reporting and availability by holding investees accountable for failure to share relevant data requested for by UDC. Among others this can be achieved by stipulating data sharing expectations in the investment agreements. More recommendations are discussed in section 5.5.3.3 which is on page 132 of this report.

5.5.3 UDC's Development Impact

- 509.** Among others UDC estimates its development impact in terms of the number of direct and indirect jobs created, purchase of raw materials, export earnings, tax revenue, production volume, volume of sales, value of sales and lots more. Summarised below are highlights of the UDC's quantified development impacts.

5.5.3.1 Jobs Created or Maintained

510. The latest reports shared by UDC indicated that through its intervention in 18 investments, the corporation has so far generated nearly 4,000 direct jobs (3,091 excluding closed investments), which measures the number of people employed by all UDC-funded projects.

511. Indirect jobs created by UDC are estimated at 64,748 after adjusting for the impact of the two projects Mpanga Tea Growers and Atiak Sugar Factory which were closed during the evaluation period. These are jobs generated through the provision of products and services to support the running of all UDC-funded projects. Examples include the outgrowers/farmers providing raw materials for production, transportation of raw materials and distribution of finished goods, jobs in companies providing equipment maintenance, security services, legal services, accounting services and others required to operate the company.

Figure 41: UDC's Development Impact

		Jobs Created/Maintained				
Name of Insitution	Direct Jobs	Indirect Jobs	Export Earnings (USD)	Export Earnings	Tax Contributions	Purchase of Raw Materials
			USD	UGX Billion		
Mabale Growers' Tea Factory Limited	307	3,750	1.56	5.85	0.22	4.50
Mpanga Growers' Tea Factory	330	2,475	1.24	4.65	0.65	3.91
Kayonza Growers' Tea Factory Limited	398	7,100	4.48	16.80		
Kigezi Highland Tea Factory Limited	247	1,853	4.3	16.13		
Budadiri Arabica Coffee Mills	3	30,000				
Soroti Fruits Limited	97	728	0.568	2.13	0.63	0.26
Nilezilla Limited	8	60				
Bukona Agro Processors Limited	194	2,500	1.653	6.20	0.04	9.03
Mutuma Commercial Agencies Limited	136	6,000	0.333	1.25	0.04	2.29
Atiak Sugar Factory Limited	543	15,000				
Kalangala Infrastructure Services Ltd	67	503			1.60	
Nile Hotel Limited	343	2,573			14.20	
Igongo Country Hotel and Cultural Centre (ICHCC)						
Munyonyo Commonwealth Resort Hotel Limited	304	2,280			0.01	
Speke Resort Convention Centre	250	1,875				
Abubaker Technical Services and General Supplies Limited	530	3,975			16.95	
Moroto Ateker Cement Factory						
East African Medical Vitals	207	1,553	8	30.00		
Sanga Vet Chem						
Totals	3,964	82,223	22.13	83.00	34.34	20
Adjusted Total	3,091	64,748	22.13	83.00	34.34	19.98
Kalangala Infrastructure Services Ltd		Impact		Total Jobs = 64,748		
Provision of ferry transport services (Trips)	5,395					
Ferry Transport Revenue (Billions)						
Provision of water (Metric Tonnes)	9,733					
Water Sales Revenue (Billions)	292					
Provision of electricity (KWH)	867,033					
Power Sales Revenue (Billions)						

Total Jobs = 64,748

512. Indirect jobs data was provided for a few of the investments and these numbers are highlighted and bolded in . Due to this data limitation, indirect jobs for projects where such information was missing were estimated using economic multiplier effect assumptions based on economic input-output modelling research conducted by the CDC Group plc and Steward Redqueen⁸. The model estimated indirect employment effects at a multiple of 7.5 to one direct job in 100 African businesses.

Through its 18 interventions, UDC has generated employment for over 67,000 Ugandans, paid at least UGX. 20 billion to farmers for raw materials contributing to enhancement of their household incomes, generated \$22 Million in export earnings, and contributed 33% to Uganda's tea exports.

513. This high-level assumption of 7.5 indirect jobs per direct job was therefore used to estimate the number indirect jobs created for every direct job generated in UDC funded investments. UDC's true indirect jobs impact is most likely more than double what has been estimated. This is because most of UDC's investments are in agro processing, and sourcing raw materials from the communities and outgrowers. This should have a much higher multiplier effect than other sectors.

514. Compared to the 18.3 million employed Ugandans⁹, UDC's contribution to Uganda's job creation is 0.37% highlighting opportunities for further improvement. Proposed strategies for enforcing development objectives among the investees as discussed in section 5.5.3.3 which is on page 132 should be emphasised, to enhance UDC's impact.



⁸ Measuring Total Employment Effects: a lean data methodology for a portfolio of investments in developing countries by Alex MacGillivray, René Kim, Tias van Moorsel, and Alice Kehoe, 2017

⁹ Uganda Bureau of Statistics, 2023 Statistical Abstract.

5.5.3.2 Other Development Impact Metrics

- 515.** Other development impact measures tracked by UDC include foreign exchange, the purchase of raw materials, tax revenue, and project specific measures such as the number of ferry trips, water and electricity usage which are applicable to Kalangala Infrastructure services project.

Purchase of Raw Materials

Based on UDC's August 2024 ministerial update, UDC's agro industries annually consume 18,007 MT of green tea leaf, 6,186 MT of maize, 279 MT of fruits (mangoes and oranges), 1,098 MT of sorghum, 247 MT of seed cotton, 15 MT of cassava.

These raw materials are locally sourced, and annually, UDC's agro industrial firms pay at least UGX 20 billion to farmers for raw material supplies contributing to enhancement of household incomes.

Export Earnings

Export earnings from UDC investments are estimated at 22 million Dollars, and majority of the export earnings (64%) are from the agro industries.

Of the \$22 million in export earnings generated by UDC, \$11.58 million comes from the four tea industries funded by UDC.

Despite the ongoing tea crisis, the tea industry remains the largest contributor to UDC's export earnings, accounting for nearly half of the total export revenue.

In terms of National development, the \$11.58 Million in UDC tea exports accounts for 33% (\$11.58M out of \$35.5M) of Uganda's annual Tea export earnings, which is quite significant.

Furthermore, the gross investment in UDC's tea factory stands at UGX. 48.33 billion and compared to the export earnings of (\$11.58 Million or UGX. 43.4 billion) generated from this investment. This implies that every shilling invested in UDC's tea subsector generates an equivalent amount in export earnings.

Tax Revenue

UDC's tax revenue contributions are estimated at UGX. 34.34 billion of which 95% comes from the Operational Infrastructure and Services sector. Agro industries contribute the least to tax revenue.

- 516.** It is important to note that development impact data needed to evaluate the environmental impact of UDC's interventions was not provided. Furthermore, beyond jobs created, UDC lacked data for quantifying the impact of its interventions on broader social issues such as the impact on income, income diversification, access to social services, impact on education and wellbeing of Ugandans. This is an area of improvement that should be considered by UDC.

Development impact is UDC's core performance measure and yet such information is scanty.

- 517.** Additionally, UDC did not have a clearly documented theory of change framework against which their performance could be evaluated.
- 518.** UDC also faces challenges of limited investee data availability which has impacted its ability to showcase its true development impact. As mentioned previously, limited staffing capacity is another of the issues that the corporation faces. The already thin Monitoring and Evaluation team does not have sufficient width for effective investee oversight and conducting onsite to gather and validate development impact data. Additionally, UDC investees don't prioritise providing development impact data to UDC.

5.5.3.3 Recommendations for Enhancing Development Impact Data Collection

- 519.** Recommendations for enhancing UDC's development impact data collection and analytics include strengthening the data collection, developing UDC's formal theory of change structure, Enhancing the development impact estimation analytics, establishing KPIs and milestones, and measuring the trickledown effect of UDC's investments on households and individuals.

5.5.3.3.1 Enhance the Impact Data Collection

- 520.** Strengthening data sharing between UDC and its investees is critical for showcasing UDCs performance and enhancing stakeholder engagement. Below are recommendations for enhancing UDC's development impact data collection processes and procedures.
- i.** In case this isn't being done, training investees on data collection, monitoring, and reporting processes will improve the effectiveness of these data collection processes.



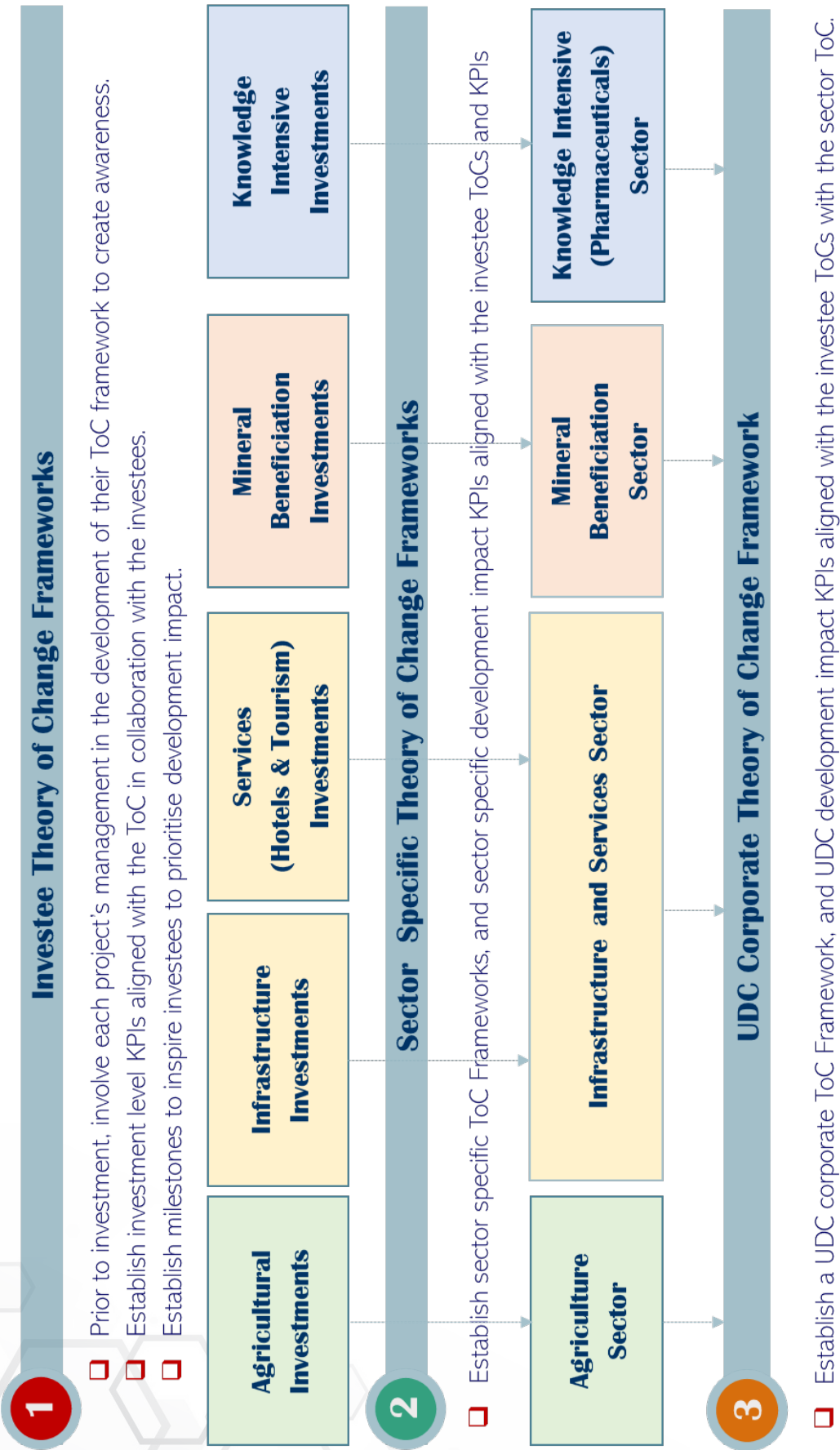
Many investees may lack the capacity to track and report development impact systematically, so capacity building can help improve compliance.

- ii. It is easier to collect data in person than through emails and phone calls. UDC should, therefore, enhance their data collection through on-site visits and monitoring. This will enable verification of the impact data on the ground, such as interviewing employees or local suppliers to confirm the reported job creation or social impacts. Other DFMs, such as UDB, indicated that it's much easier to collect data from customers through site visits.
- iii. UDC should enforce data sharing by making the provision of development impact data a legally binding obligation in the investment agreement. The agreement should clearly state the specific data requirements, such as the number of direct or indirect jobs, the frequency of reporting (e.g., monthly, quarterly, or annually), and the format for submission.
- iv. Investees could also be encouraged to adopt stronger governance practices, such as assigning responsibility for impact reporting at the board or management level.
- v. Positive reinforcement can be leveraged through performance-based incentives such as:
 - a. Offering technical support if investees meet or exceed their development impact reporting requirements. This positive reinforcement can motivate other investees to comply.
 - b. Publicly recognising or rewarding investees that consistently meet or exceed their impact reporting requirements.
 - c. Make compliance a factor in deciding whether investees will be considered for future investments or expansions by the DFI. Companies that fail to meet their reporting obligations may be deprioritised.
- vi. Where applicable, UDC can structure investments so that some of the disbursements are conditional upon the investee providing development impact data at agreed milestones.
- vii. The data collection processes could further be automated by designing in-house digital tools to streamline the data collection and reporting. This can simplify the process and improve the accuracy and speed of data provision.
- viii. Lastly, stakeholder engagement can be leveraged as a forum for encouraging investees to share data by publicly publishing development impact data on the UDB website and in the annual reports. This public disclosure can incentivize investees to share correct data to avoid reputational damage.

5.5.3.3.2 Develop a Formal Theory of Change Structure

- 521.** UDC should develop a formal theory of change framework to provide a clear and structured approach of achieving and measuring its development impact. The existence of such frameworks was not confirmed during the evaluation period.
- 522.** The recommendation is to develop Theory of Change (ToC) Frameworks at three levels including the corporate level, the sector level, and the investee level. This will enable accounting for differences in expected development outcomes which vary by sector and investee, and enforce oversight and tracking of development impact at the corporate level (Refer to Figure 42 for an illustration of the proposed three-tier ToC framework).
- i.** The corporate-level Theory of Change Framework should encompass UDC's strategic direction and development goals and ensure alignment with the most recent NDP plan.
 - ii.** Different sectors and subsectors have different development impact measures, and these differences can be captured in the sector or subsector-level ToC frameworks. An example is tracking productivity for the Agricultural sector, which is not a necessary metric for the services industry.
 - iii.** Furthermore, investee-level theories of change can be developed in collaboration with the project's senior management prior to the start of the investment to foster a clear understanding of the investee's role in achieving UDC's goals and expected results.
 - iv.** The investee's theory of change should clearly define the development impact expected from the project and how the investee is expected to achieve these results. This will ensure that investees clearly understand what data will be required, why it's needed and when it must be provided.
 - v.** Such a robust Theory of Change framework will enable alignment of UDC's operations and that of its investees with the corporation's development goals and foster a strategic planning structure that enables tracking of relevant development impact KPIs to maximize the corporation's development impact.

Figure 42: Proposed Three-Tier Theory of Change Framework



5.5.3.3 Enhancing the Development Impact analytics

523. There is need for enhancing the analytics to strengthen UDC's investee, sector and corporate level development impact tracking and reporting. Among others, the following are proposed economic, social, and environmental development impact measures for UDC's interventions.

524. Listed below are development impact measures applicable to all sectors.

- i. The number of newly created direct jobs.** This is estimated by counting jobs added to each investment's employment numbers because of UDC's funding. This includes documenting the baseline staffing at each investment prior to investment and subtracting from this number annually to track the growth in jobs due to UDC's interventions.
- ii. Number of direct jobs maintained** through UDC's investment. This includes all other jobs (excluding those created through UDC's funding) that have continued employment because UDC funding has allowed the project to continue.
- iii. Job quality:** Measured by tracking the change in number of temporary vs permanent jobs created by the UDC-funded projects.
- iv. Impact on income.** Measures the change in (salaries/wages) of the UDC Funded project's employees. Requires documenting average salaries before UDC's investment.
- v. Gender inclusivity:** Measured by tracking the change in the proportion of women vs men employed by the UDC-funded projects.
- vi. Youths' inclusivity:** Measured by considering the change in the proportion of youths employed by the UDC-funded projects.
- vii. Persons with disability (PWD) inclusivity:** Measured by considering the change in the proportion of PWDs employed by the UDC-funded projects.
- viii. Tax Revenue:** Increase in tax revenue paid by UDC-funded projects.
- ix. Foreign Earnings:** Measured by tracking the increase in export earnings or reduction in imports.
- x. Turnover / Revenue** for all UDC-funded projects, including the change in revenue
- xi. Net Profits** for all UDC-funded projects, including the change in net profits.

Proxy measures of the multiplier effect of UDC's interventions

- xii. Number of indirect jobs:** Estimated by tracking the change in the number of indirect beneficiaries such as outgrower farmers, other investee suppliers, or service providers.
- xiii. Purchase of raw materials:** A proxy measure for improved income opportunities through local purchase.
- xiv. Payments to other suppliers or service providers.**
- xv. Business growth:** Measures the number of new businesses established in the area after UDC's intervention and funding.

525. Listed below are proposed environmental impact development impact measures.

- i. Number of trees planted by the UDC-funded projects** – Including such as including tree planting in the investment agreements as part of the investee’s requirements will enforce tree planting and the number of trees planted could be counted to measure the environmental impact.
- ii. Assess the Greenhouse gas (GHG) emissions** generated by the project to determine how the project contributes to reducing or increasing GHG emissions. This approach aligns with global sustainability and climate action goals.
 - This can be estimated by obtaining investee information regarding their fuel consumption (amount of diesel or petrol used annually), electricity consumption (kilowatt-hours (kWh)), waste disposal, etc.
 - The above can be multiplied by GHG emission factors that represent the amount of CO₂, CH₄, and N₂O emitted per unit of fuel used to estimate the total GHG emissions impact for the projects.
 - The emissions profile of each project can be evaluated before UDC’s intervention, and this can be tracked over time to evaluate the reductions or increases.

5.5.3.3.4 UDC Should Establish Performance KPIs for its Investments

- 526.** To boost the prioritisation of UDC’s development agenda, UDC should establish development impact performance measures, which are monitored periodically. This will ensure alignment with its goals, strengthen accountability to stakeholders, and evaluate effectiveness by assessing whether UDC investments are achieving intended outcomes.
- 527.** KPIs should be established at the investee, sector, and corporate levels and aligned with the corresponding theory of change frameworks as discussed in section 5.5.3.3.2 on page 134.
- 528.** Examples include establishing milestones for investee companies to aspire to. For example, expecting a specific investee to have created 100 jobs by the first year and 200 jobs by the second year due to UDC’s investment, after which at least 270 jobs must be maintained.

5.5.3.3.5 Government Should Establish KPIs for UDC and other DFMs

- 529.** Before approval for investment, the government should establish development impact performance targets as part of the capitalisation framework. The government should outline the expected social economic, and environmental impact outcomes for any given amount of funding disbursed for development financing.
- 530.** This will reinforce accountability and foster more strategic alignment in achieving Uganda’s development goals. UDC should then consider the government KPIs when developing its strategies and determining which investments to fund.

531. As a baseline, determining appropriate KPIs for UDC and the other DFMs could be benchmarked against the performance of regional DFMs, including the Development Bank of Rwanda and the Kenya Development Corporation Uganda Development Bank, since their economic conditions are comparable to Uganda's.

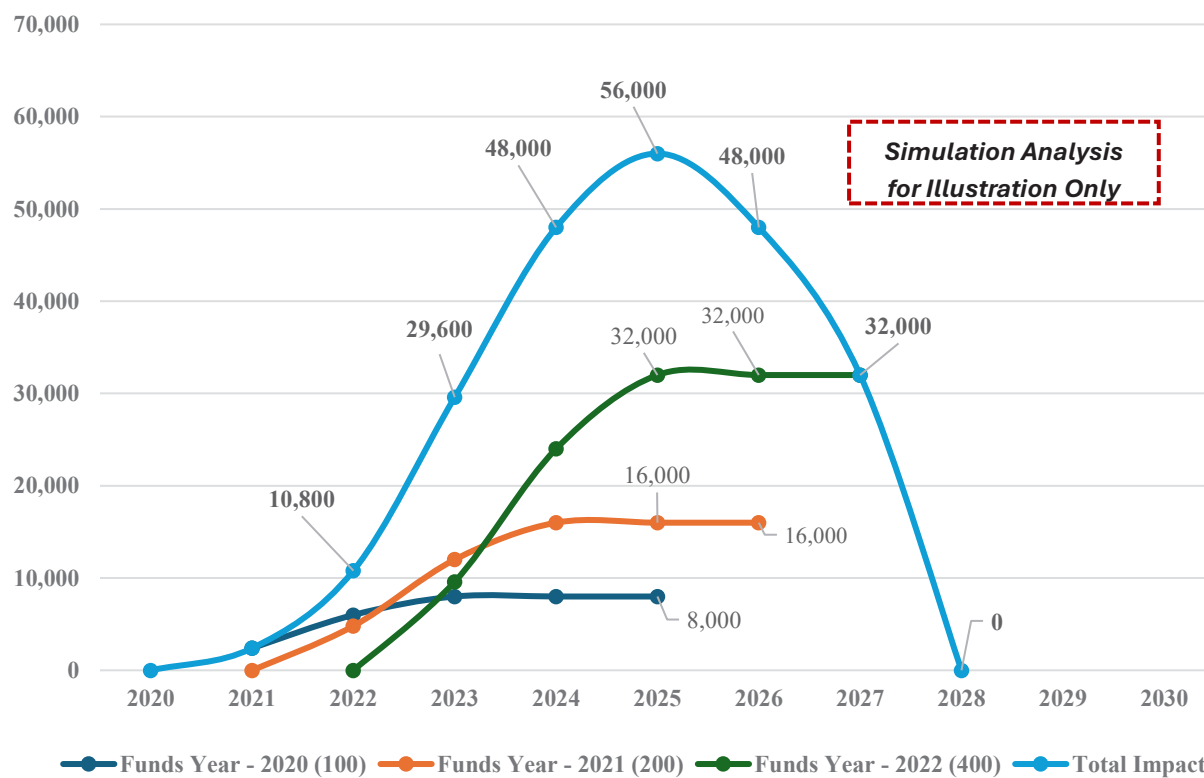
Table 23: Regional Development Impact Comparative Analysis

Regional Development Impact Comparative Analysis				
	Rwanda	Kenya	UDB	UDC
Loan Portfolio (UGX Billion)	1,112	948	1,580	1,018
Jobs Created	116,714	85,115	51,841	64,748
Export Revenue (UGX. Billion)	634		953	83
Tax Revenue (UGX. Billion)			236	34
Jobs/Billion Loan Portfolio	105	90	60	64
Export Revenue/Billion Loan Portfolio	0.57		0.60	0.08
Tax Revenue/Billion Loan Portfolio			0.15	0.034

532. As an example, a benchmark KPI of creating at least 80 jobs per UGX billion Government capitalization in each period (2 years, 5 years etc.) would enable UDC to aspire and improve performance to achieve this target, which is 25% better than its current performance. Similar metrics could be established for the other impact measures.
533. **To align with the capitalization based KPI approach, and enforce accountability to its stakeholders, UDC and other DFMs could develop Investment-vintage based frameworks that enable tracking development impact over time based on amount and year funds were invested (Figure 43).**
534. Tracking the development impact of funds invested in a given period (investment vintages) enables understanding how external factors, such as changes in policy and economic conditions, affect the success of the DFM's projects. For example, comparing the development impact of funds invested in 2020 and 2021 during the pandemic to funds invested in 2022 and 2023 after the pandemic could enable specific quantification of the impact of the COVID-19 pandemic on development. This ensures that past investments inform future actions.
535. Furthermore, this approach enables isolating the impact of completed projects on the DFM's annual development. For example, a drop in the number of jobs created could be due to some projects reaching the end of their tenure and not necessarily due to the DFM's performance.
536. By comparing investments across vintages, DFMs can benchmark success and identify investment periods that were most impactful and what factors contributed to their success.

537. Figure 34 displays a high-level simulation analysis to demonstrate how results from an investment year vintage-based development impact analysis could look like. **This is for illustration only.** The simulation analysis assumed that UDC received capitalization of UGX. 200 billion in 2020, another 200 billion in 2021 and UGX. 400 billion in 2022. The model further assumed that the government capitalisation would generate 80 Jobs per Billion invested. Lastly the simulation analysis was limited to 5-year tenure investments.

Figure 43: Tracking New Jobs Created Across UDC Investment Vintages (2020–2022)



538. As demonstrated above, the total number of jobs created has been broken down to account for the development impact contribution from the UGX. 100 billion invested in 2020, the UGX. 200 billion invested in 2021 and so on. Furthermore, as investments approach the end of their tenure, the impact of such projects that ended in a given year can be isolated. Similar models could be developed for other development impact measures such as government taxes, foreign exchange etc.

5.5.3.3.6 Conduct Household Surveys

539. Beyond understanding UDC's development impact in terms of jobs created, foreign exchange and tax collections etc. measured at the investee level, it's critical to assess the trickledown effect of UDC's investments to ascertain the wider impact of its interventions on the quality of life of Ugandans which is the ultimate goal of the NDP III.

- 540.** This can be accomplished by conducting household surveys in communities surrounding UDC investments to assess the project's impact on key areas such as food security, household incomes, income diversification, education, community health, and poverty reduction. By evaluating how these investments improve the daily lives of Ugandans, UDC can ensure its projects are inclusive, equitable, and aligned with the nation's broader development objectives.
- 541.** To reduce the cost of conducting household surveys UDC could consider integrating their household survey tools with surveys conducted by the Uganda Bureau of Statistics (UBOS) such as the Service Delivery and the Uganda National Panel Survey etc.

5.5.4 Additivity Evaluation - Risk of Crowding Out the Private Sector

- 542.** UDC's interventions should fill gaps or address market failures and add value beyond what would have been achieved in their absence, rather than compete with the private sector. This enabled balanced economic growth by leveraging public resources to unlock potential in areas where private investment is limited or non-existent.
- 543.** When DFMs serve customers that have potential of accessing credit from the private sector, their development impact could be marginalised unless their investment in such projects leads to better development outcomes such as more jobs created, more foreign exchange and tax collections etc., compared to what the private market would have achieved. If this cannot be achieved, then the DFM risks crowding out of the private sector.



- 544.** To mitigate this risk, DFMs should provide better financial terms (e.g., longer debt repayment periods; reducing or removing collateral requirements, advisory services, etc.), finance firms that would have difficulty accessing financing from the private sector and

ensure that projects funded result in more development impact that the private could achieve for similar investments.

- 545.** For UDC, the risk of crowding out the private sector was assessed qualitatively and quantitatively by evaluating the counterfactual effect of its funding.

5.5.4.1 Qualitative Assessment

- 546. UDC's interventions demonstrate strong additionality and do not crowd out the private sector.** The evaluation assessed both qualitative and quantitative counterfactuals to determine whether UDC's investments displaced private capital or filled critical financing gaps. Central to this analysis was the likelihood of business continuity in the absence of UDC support a core measure of development additionality. The findings confirm that UDC is financing projects the private sector and other DFMs such as UDB or ACF are unwilling to support due to their high-risk profiles or early-stage nature.

- 547. UDC is complementing not replacing market-based finance by absorbing risk others avoid.** Many of UDC's investments involve distressed assets or startups that had either defaulted on commercial loans or failed to secure funding altogether. These include cases such as Mabale Tea Growers Ltd, rescued from foreclosure by KCB Bank; Budadiri Arabica Coffee Factory, which defaulted on a UGX 4 billion UDB loan; and Soroti and NileZilla fruit factories, which lacked proof of concept and were considered too risky for private or DFI investment.

- 548. These interventions have preserved nationally strategic assets and safeguarded livelihoods.** Without UDC's intervention, these enterprises many of which are vital to regional economies and agricultural value chains would have collapsed, triggering massive job losses and economic disruption. UDC's role in absorbing high risk and stabilising essential industries underlines its importance as a state-backed development investor with clear market additionality.

5.5.4.2 Quantitative Assessment

- 549. Survey findings confirm UDC's strong additionality and its role in addressing market failures.** The risk of UDC crowding out the private sector was quantitatively analysed based on three key dimensions: whether UDC-funded projects could have qualified for private sector loans, why they chose UDC, and whether the businesses would have continued without UDC support. These indicators collectively offer a robust measure of the Corporation's additionality and impact.

- 550. Most UDC clients could not access private sector loans underscoring UDC's catalytic role. Fifty-seven percent (57% / 4 out of 7) of surveyed UDC-funded projects reported they**

would not have qualified for private sector loans. Their reasons included inability to meet collateral requirements, prior loan defaults, and the prohibitively high cost of commercial credit. In contrast, 43% (3 out of 7) indicated they would have qualified for commercial loans due to strong collateral or well-prepared projects (**Figure 44**).

551. While the 43% minority confirms that not all UDC clients are fully excluded from the market, it presents a valuable opportunity for UDC to further strengthen its impact accountability. To mitigate any potential risk of crowding out the private sector, UDC should institutionalise counterfactual impact tools, set development-focused KPIs for all projects, and adopt milestone-based monitoring frameworks. This will ensure that even commercially viable projects deliver strong developmental returns, reinforcing UDC's complementary role within Uganda's financing ecosystem.

Figure 44: Sampled UDC Projects that Would Have Qualified for the Private Sector Loans

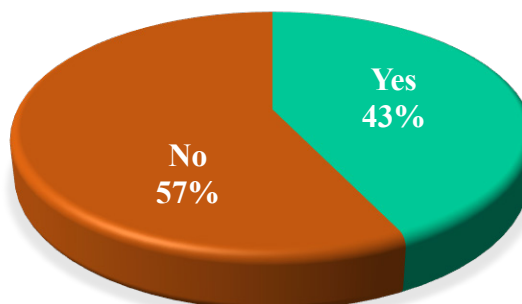
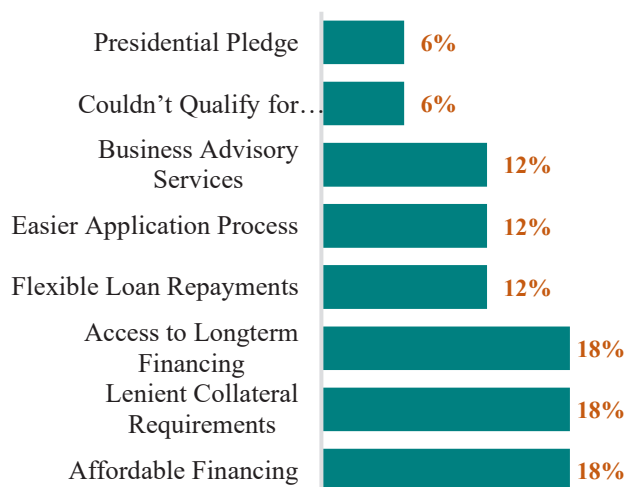


Figure 45: Reasons for Choosing the UDC Loans (Field Study Results)



552. UDC is chosen for affordability, flexibility, and long-term financing which are typical DFM functions. When asked why they selected UDC over other sources, respondents consistently cited affordable financing, lenient collateral conditions, and access to long-term capital as the top reasons. Other factors included simplified application processes, access to business advisory services, and referrals linked to the presidential pledge. These attributes mirror international best practices for DFMs and confirm UDC's alignment with its policy mandate to correct credit market failures (**Figure 45**).

553. Without UDC, most businesses would not have survived highlighting development additionality. Only 2 of the 7 projects (29%) stated they would have continued operating without UDC's support. The remaining 71% indicated that UDC's intervention was essential to business continuity. This is a powerful counterfactual that affirms UDC's role in preserving nationally important enterprises and preventing economic distress across sectors.

554. These findings imply that UDC is not crowding out the private sector but rather complementing it by financing projects that are too risky, too early-stage, or insufficiently collateralized for private lenders. To build on this impact, UDC should embed counterfactual analysis across its portfolio and institutionalise milestone-based KPIs for all investments to track impact delivery. Further, public awareness of UDC's development finance role should be scaled up to attract high-impact projects that align with national priorities but are excluded from traditional credit markets.

5.5.5 UDC's Development Impact from the Investees Perspectives

555. Beyond institutional metrics, beneficiary feedback reveals UDC's tangible impact on business performance and community transformation. While macro-level indicators demonstrate UDC's national contributions, it is the firsthand perspectives of funded businesses that provide critical insight into real-world outcomes. The evaluation incorporated direct feedback from UDC investees to assess whether the Corporation's interventions are effectively translating into increased turnover, profitability, and operational resilience. These perceptions further offered deeper understanding of how UDC financing is communities validating UDC's role as a driver of inclusive development.

5.5.5.1 Employment Creation and Retention

556. Respondents were asked to report the total number of individuals employed by their businesses, disaggregated by gender, youth status, disability, nationality (Ugandan vs. non-Ugandan), and employment type (temporary vs. permanent). Additionally, interviewed businesses were asked whether UDC's funding enabled them to create new jobs or retain existing ones that would have otherwise been lost in the absence of the intervention, and requested to estimate the number of new or retained jobs directly attributable to UDC's support. This data provided the basis for calculating job creation rates, job retention rates, and the proportion of temporary employment, as well as understand the gender, youth, and PWD inclusivity of UDC's funding in the perspective of its investees.

5.5.5.2 Job Creation Rates

557. UDC investments are significantly expanding employment opportunities in Uganda's formal economy. The evaluation reveals that 86% of sampled UDC-funded projects (6 out of 7) confirmed that UDC financing enabled them to expand their workforce by adding new employees. Across the projects that submitted employment data, a total of 1,551 individuals were employed of which 875 jobs, or 56%, were newly created as a direct result of UDC support. This high job creation rate demonstrates UDC's ability to inject productive capital into businesses that not only scale operations but also absorb labour, particularly in sectors where formal employment is often limited (**Table 24**).

- 558. UDC is enabling investees to expand their workforce by over 50%, directly advancing inclusive employment and economic resilience.** By enabling firms to add new positions equivalent to over half of their existing workforce, UDC is not just filling financing gaps it is actively generating decent jobs that contribute to household income, economic resilience, and inclusive growth. This level of workforce expansion achieved through UDC's strategic capital injections demonstrates powerful additionality in a national context of high youth unemployment, informal labour, and weak private sector absorption. UDC is not merely filling financing gaps; it is unlocking enterprise-level growth that translates into formal, decent jobs. These jobs contribute meaningfully to household income, economic security, and the broader goal of inclusive national development.
- 559. To strengthen reporting of its development impact,** UDC should adopt employment creation as a formal investment selection and monitoring criterion, incorporating targets for job quantity, quality, and inclusivity (e.g. women, youth, and PWDs). All investees should be required to report disaggregated employment data during the investment lifecycle. In addition, UDC should consider introducing an employment-linked performance incentive to reward companies that exceed job creation benchmarks particularly in high-unemployment regions or priority sectors such as agro-industry and manufacturing.

Table 24: Customer Survey Employment Data Compared to UDC's Aggregate Data

Interviewed Projects	Total Employed	New Jobs Created Due to UDC's Intervention	Retained Jobs Attributable to UDC's Intervention	Temporary Jobs
7	1,551	875	554	793
Data Source		Jobs Creation Rate	Attributable Job Retention Rate	Temporary Jobs Rate
Survey Findings		56%	36%	51%
UDC Data			<i>Not tracked</i>	

5.5.5.3 Job Retention or Job Maintenance Rate

- 560. Furthermore, UDC support is safeguarding jobs and stabilising livelihoods in at-risk enterprises.** A total of 71% of the sampled UDC-funded projects (5 out of 7) reported that UDC's financing directly enabled them to retain jobs that would have otherwise been lost. Across these projects, 554 positions were preserved, resulting in an estimated job retention rate of 35.7%. This is particularly significant in Uganda's employment landscape, where external shocks, limited working capital, and business distress frequently lead to layoffs especially in capital-intensive sectors.
- 561. These findings reinforce the value of UDC not only as a job creator, but also as a job stabiliser.** In the context of economic uncertainty and uneven private sector recovery, UDC

plays a counter-cyclical role by enabling distressed enterprises to maintain staffing levels, prevent loss of household income, and avoid the social consequences of sudden unemployment. Preserving existing jobs especially in rural or economically marginalised areas is a critical component of inclusive development and economic continuity.

- 562.** The findings highlight the importance of differentiating between attributed and non-attributed employment outcomes in impact assessments to accurately reflect development impact contribution.
- 563. Going forward, UDC should institutionalise the tracking of both job creation and job retention as separate indicators within its monitoring and evaluation (M&E) framework.** All funded projects should report disaggregated employment data that clearly identifies newly created jobs, jobs retained due to UDC financing, and overall staffing levels. In parallel, UDC should strengthen its capacity to conduct employment attribution analysis during project evaluations ensuring more accurate, evidence-based reporting of its contribution to labour market outcomes.

5.5.5.4 Temporary Jobs Rate

- 564. Over half of the jobs created under UDC-funded projects are temporary, signaling opportunities to enhance job quality and long-term impact.** Surveyed businesses reported that 51% of their employees were engaged on a temporary basis, underscoring a gap in the quality of employment outcomes. While UDC financing has successfully enabled firms to expand their workforce, the high proportion of non-permanent roles limits the developmental benefits associated with decent work. Permanent employment is widely recognised as a proxy for job quality offering stable incomes, long-term skill accumulation, social protection, and greater economic security for households.
- 565. High levels of temporary employment may undermine the sustainability of UDC's employment impact and reduce the multiplier effects on household welfare and community development.** While short-term jobs can be necessary in certain sectors, a continued reliance on them risks perpetuating job insecurity, particularly for youth and women who are already disproportionately excluded from quality employment opportunities.
- 566. To strengthen its developmental contribution, UDC should encourage investees to progressively shift towards more permanent staffing models.** This can be achieved through employment-linked loan conditions, performance-based incentives for formalisation, and capacity-building support that helps businesses sustainably integrate permanent roles. UDC should also incorporate job quality metrics into its investment monitoring framework including tracking of job type (temporary vs permanent), gender, age, and wage levels to better align employment outcomes with inclusive and sustainable development goals.

5.5.5.5 Inclusivity of UDC's Employment Impact

- 567. UDC's employment footprint reflects moderate inclusion at the employee level, but leadership remains overwhelmingly non-inclusive highlighting a missed opportunity for equitable representation.** The evaluation assessed UDC's inclusivity performance by disaggregating employment across gender, age, disability status, and nationality at both leadership and non-leadership levels. While some progress is evident in workforce diversity, significant gaps persist especially at the top (**Table 25**).
- 568. Leadership-level inclusion is notably weak.** Among the seven UDC-funded investments surveyed, all senior managers interviewed were male (100%), above the age of 35 (100%), and none were persons with disabilities. Only 71% were Ugandan nationals. Although these patterns may reflect the technical complexity and capital intensity of UDC's investment portfolio which tends to require experienced professionals, such homogeneity in leadership limits broader developmental outcomes. Critically, the absence of women and youth in senior roles suggests a lack of intentional effort to build inclusive leadership pipelines, potentially entrenching exclusion over time.
- 569. Leadership diversity is a proven enabler of institutional innovation, inclusive policy adoption, and workforce representativeness.** When women, youth, and PWDs are excluded from decision-making positions, their perspectives and needs may be underrepresented in project design, implementation, and resource allocation dampening the developmental returns of public investment.
-
- 570. At the workforce level, inclusion is stronger but still uneven.** Women constituted 42% of the total employees, a fair level of representation given national employment patterns. Youth inclusion was particularly notable, with 66% of employees under the age of 35, a strong performance in light of Uganda's demographic structure and high youth unemployment. However, persons with disabilities remained significantly underrepresented, comprising just 1% of the total workforce.
- 571. UDC should take a dual approach to advancing inclusive employment. First, it should integrate clear inclusivity indicators covering gender, age, and disability into its investment performance monitoring framework.** Funded projects should be required to report these metrics and set inclusion improvement targets, particularly for leadership roles. Second, UDC should develop incentive schemes, such as preferential scoring or concessional terms for investees that meet defined inclusivity thresholds. It may also partner with government and civil society actors to support leadership development programmes for underrepresented groups in priority sectors, helping to address pipeline challenges and build a more representative industrial ecosystem over time.

Table 25: Inclusivity Metrics: Customer Survey Compared to UDC's Aggregate Data

Based on Customer Survey			
Employment Inclusivity	Among Projects Leadership	Among all Other Employees	UDC Data
Females%	0%	42%	Not Tracked
Youths%	0%	66%	Not Tracked
PWD%	0%	1%	Not Tracked
Ugandans Employed	71%	99.6%	Not Tracked

5.5.5.6 Impact on Exports

572. UDC funding is directly accelerating export growth among its investees, with 71% of sampled projects reporting an average export increase of 61%. Five out of the seven sampled UDC-funded companies confirmed that the corporation's financing enabled them to expand into export markets or grow their existing export volumes. On average, these firms experienced a 61% increase in exports, driven by improved production capacity, access to equipment, and enhanced operational stability made possible through UDC's capital injection.

573. This export performance signals UDC's growing role in boosting Uganda's foreign exchange earnings and strengthening the global competitiveness of domestic industries. In line with national priorities under NDP IV and Vision 2040, UDC should further consolidate this role by targeting more export-oriented investments across agro-industry, manufacturing, and value addition sectors, supporting firms with export-readiness advisory services; and integrating export performance indicators into its post-investment monitoring frameworks. This will reinforce UDC's contribution to industrial transformation, trade diversification, and inclusive economic growth.

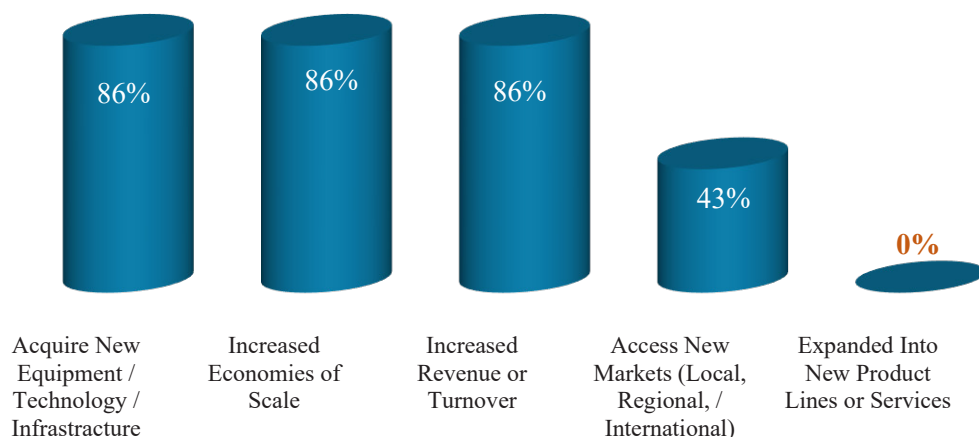
5.5.5.7 Impact of the UDC Funding on the Competitiveness of the Funded Projects

574. The impact of UDC financing on the business performance of investee companies was assessed through direct feedback from enterprise managers, focusing on competitiveness, market expansion, and operational capacity gains. The evaluation asked UDC-funded businesses to reflect on how the financing influenced their growth, productivity, and competitiveness. The results demonstrate that 86% (6 out of 7) of the sampled projects reported a notable increase in their competitiveness following UDC's support (**Figure 46**).

575. Key drivers of this improvement included the acquisition of new equipment, expansion of production capacity, and increased revenue due to enhanced economies of scale. These are critical indicators of enterprise-level strengthening, confirming that UDC financing is enabling firms to move toward more efficient, scalable, and sustainable operations.

- 576. In addition to operational upgrades, 43% of the sampled firms (3 out of 7) indicated that UDC's support enabled them to access new markets locally, regionally, and internationally.** This is a strong signal that UDC investments are helping enterprises overcome entry barriers to higher-value markets, which is essential for Uganda's structural transformation, especially in the agro-industrial and manufacturing sectors.
- 577. However, none of the surveyed businesses reported introducing new product lines or diversifying into new services as a result of UDC funding.** While this may be attributed to the fact that most of these enterprises are already operating at an advanced or specialised stage of business development, it also points to a potential area of opportunity where UDC could do more to support innovation and product diversification among its investees.

Figure 46: Impact of UDC's Funding on Business Performance



- 578. The strong performance improvements reported confirm that UDC's financing is not merely plugging funding gaps but driving real competitiveness gains across strategic sectors.** These improvements are key to building resilient national industries capable of contributing to export growth, import substitution, and job creation. However, limited product diversification may constrain long-term adaptability and revenue streams, especially in volatile global markets.
- 579. To deepen its development impact, UDC should strengthen its enterprise support beyond financing by embedding technical assistance that promotes innovation and product diversification.** This includes providing or facilitating access to market research, product development expertise, and innovation financing particularly for firms in agro-processing, light manufacturing, and industrial value chains. UDC could also consider performance-linked financing that rewards product innovation and export expansion. These steps will ensure that gains in competitiveness are not only maintained but also translated into long-term growth, market leadership, and greater contributions to Uganda's industrial transformation agenda.

5.5.5.8 Other Social Economic and Environmental Impacts

580. To assess UDC's full development footprint, the evaluation examined not just direct beneficiaries but also the wider ripple effects on local communities and value chain actors. While enterprise-level outcomes like business growth, job creation, and competitiveness are vital, they only tell part of the story. For a development finance institution like UDC, broader ecosystem effects such as new income sources for local suppliers, expanded community services, and indirect job creation are equally critical indicators of additionality and public value.

581. Two complementary channels were used to capture this ripple effect. First, investee managers were asked whether their companies sourced inputs from nearby communities and whether new micro and small enterprises (MSMEs) had emerged within a 10-kilometre radius following UDC's investment. They also reported on contributions to local development initiatives such as education and health programmes, and environmental activities like tree planting and clean energy use. This helped assess how UDC-funded projects stimulate economic activity and social investments beyond their immediate operations.

582. Second, a direct survey of indirect beneficiaries such as outgrowers, vendors, and input suppliers was conducted to understand how partnerships with UDC-funded businesses had affected their livelihoods. They were asked whether these partnerships led to increased incomes, income diversification, job creation within their own enterprises, and better access to food, education, healthcare, and markets. This approach enabled a more granular understanding of how UDC's financing triggers improvements across entire local value chains.

583. By capturing these secondary effects, the evaluation provides a more accurate picture of UDC's real-world development impact especially in underserved rural and peri-urban areas. These findings are key for demonstrating UDC's catalytic role in Uganda's development finance ecosystem and for aligning its interventions with national objectives such as inclusive growth, community resilience, and poverty reduction.

5.5.5.1 Contribution to MSME's Growth

584. UDC-funded projects are stimulating the emergence of local businesses, with an average of 80 new MSMEs established per project within a 15-kilometre radius. Across the seven sampled investments, a total of 560 micro, small, and medium enterprises (MSMEs) were reported to have emerged in the surrounding areas, confirming the catalytic role UDC plays in local economic development. These MSMEs include input suppliers, service providers, traders, and processors that have taken advantage of the increased economic activity, infrastructure improvements, and market linkages created by the anchor investments supported by UDC.

585. The development implications are significant. In Uganda's context of widespread unemployment and a largely informal economy, the emergence of MSMEs around UDC-funded projects contributes directly to community resilience, income diversification, and inclusive economic transformation. It also indicates that UDC's impact extends well beyond the primary investees, helping to stimulate broader private sector development, deepen value chains, and create more sustainable local economies.

586. Going forward, UDC should formally integrate enterprise ecosystem development into its investment framework. This includes tracking MSME growth around funded projects as part of routine impact monitoring, setting MSME linkage targets in high-potential sectors, and coordinating with district authorities and development partners to deliver targeted support to these emerging enterprises. Strengthening local business ecosystems will magnify UDC's development footprint and enhance its value as a driver of inclusive industrialisation.

5.5.5.8.2 Income Contribution Through Purchase of Local Raw Materials

587. UDC-funded projects are generating widespread community linkages, sourcing from an average of 3,575 outgrowers and service providers per investment. All seven sampled companies confirmed that they sourced raw materials and services from surrounding communities, collectively engaging over 14,300 indirect beneficiaries. The majority of these were outgrowers smallholder farmers integrated into the supply chains of UDC-funded investments ranging from 1,000 to 8,000 per project. This strong local sourcing model not only supports inclusive value chain development but also injects income directly into rural households and reinforces UDC's mandate of broad-based socioeconomic transformation.

588. These results underscore UDC's role in anchoring local economies and connecting underserved populations, particularly smallholders, to structured markets. The scale of community integration also positions UDC as a key enabler of rural development, food system resilience, and agricultural industrialisation.

589. To deepen this impact, UDC should institutionalise value chain strengthening as a core objective of its investments. This should include tracking outgrower and service provider numbers across projects, facilitating capacity-building and aggregation services for smallholders, and integrating inclusive sourcing KPIs into investment agreements. This will ensure that development benefits extend deep into rural communities while improving the reliability, quality, and sustainability of inputs for the funded enterprises.

5.5.5.8.3 Impact on Corporate Social Responsibility

590. The UDC funding enables businesses not only to grow economically but also to adopt more socially responsible and environmentally conscious business models. Beyond economic growth, the survey revealed UDC funded investments extended their impact into community and environmental development. About 71% (5 out of 7) of respondents reported

contributing to local health and education initiatives and confirmed participating in environmental sustainability activities such as tree planting. These results suggest that UDC-financed businesses are increasingly adopting integrated business models that consider their broader role in improving community wellbeing and environmental stewardship.

- 591. These findings indicate that UDC has the potential to drive not only economic, but also social and environmental transformation.** By enabling businesses to reinvest in their communities and adopt sustainable practices, UDC strengthens the triple bottom line of development: people, planet, and profits. However, these outcomes also remain informally measured by UDC. Without a structured framework, these contributions may remain incidental rather than intentional limiting the ACF's potential to systematically promote inclusive and sustainable enterprise development.
- 592. To strengthen its impact UDC should integrate community engagement and environmental sustainability metrics into its loan appraisal and monitoring frameworks.** This could include incentivising activities such as tree planting, support for education and health, or partnerships with local service providers among its funded investments. To maximise local impact, UDC should also deepen its collaboration with local governments.

5.5.5.9 Indirect Impact of the UDC Funding

- 593. UDC's investments are generating strong indirect development impacts, particularly through rural job creation, agricultural integration, and community-level inclusion.** The evaluation systematically assessed UDC's broader development footprint by examining its indirect contributions across three core domains: inclusive employment, household livelihoods, and environmental stewardship. This was done through direct interviews with **44 indirect beneficiaries**, including outgrowers, suppliers, and service providers linked to UDC-funded enterprises, as well as analysis of enterprise-reported data on value chain linkages.
- 594. Collectively, the sampled UDC-funded projects reported engaging over 14,300 indirect beneficiaries**, primarily drawn from communities within close proximity to the investment sites. On average, each UDC-supported project reached approximately **3,575 indirect actors**, ranging from 1,000 to 8,000 individuals.
- 595. A striking 93% of all interviewed indirect beneficiaries were outgrowers smallholder farmers embedded within UDC-funded agricultural and agro-industrial value chains.** This underscores UDC's catalytic role in deepening rural economic linkages, stimulating inclusive agricultural markets, and driving demand for local produce. The engagement of thousands of outgrowers further illustrates UDC's effectiveness in amplifying its reach beyond direct financing, strengthening entire community-based ecosystems around each investment.

596. This strong rural integration underscores UDC’s catalytic role in building inclusive agricultural value chains, stimulating demand for locally sourced inputs, and anchoring community-level economies in productive enterprise. These findings reflect the institution’s additionality and its ability to strengthen entire ecosystems around each investment, especially in underserved rural areas where market linkages and off-farm employment opportunities remain limited.

5.5.5.9.1 UDC’s Indirect impact on Jobs Inclusivity

597. UDC’s investments are engaging large numbers of rural value chain actors, but inclusivity gaps remain. Evaluation findings show that UDC-funded projects are creating substantial indirect benefits through engagement with outgrowers, suppliers, and service providers. However, demographic analysis reveals opportunities to strengthen gender, youth, and disability inclusion.

598. Women represented only 25% of the indirect beneficiaries, pointing to a gender imbalance in outgrower and service provision roles. This highlights the need for targeted efforts to increase women’s participation, such as gender-responsive sourcing policies, training programs, and outreach through women-led cooperatives (**Table 26**).

599. Youth made up 30% of beneficiaries, while over 70% were above 35 years. This suggests that younger populations remain underrepresented in these economic linkages, despite their potential to drive innovation and rural productivity. UDC can build on this foundation by supporting youth-focused agribusiness models and encouraging its investees to create more youth employment pathways.

Table 26: Inclusivity Among the Indirect UDC Beneficiaries

Inclusivity	Among the UDC Indirect Beneficiaries
Females%	25%
Youths%	30%
PWD%	5%

600. Persons with disabilities (PWDs) accounted for 5% of those interviewed. While this is a positive starting point, there is clear potential to expand inclusion through accessible procurement practices and targeted community mobilisation.

601. Education levels varied, with 66% having secondary-level education, 16% holding bachelor’s degrees, and 11% having only primary education. These figures suggest an opportunity to integrate basic business, financial, and technical training into community engagement to strengthen productivity and resilience.

602. By building on this strong foundation of reach, UDC has a powerful opportunity to drive not just economic growth, but inclusive transformation ensuring its investments benefit all segments of Uganda’s population by adopting the recommendations below.

- i. UDC should institutionalise the number of indirect beneficiaries and their inclusivity metrics into its investment selection criteria ensuring that gender, youth, education, and disability inclusion are part of both the due diligence and monitoring processes.
- ii. Funded businesses should be supported and incentivised to implement inclusive sourcing and recruitment plans, with practical tools and peer learning on best practices.
- iii. Partnerships with local institutions should be leveraged to offer inclusive training, capacity-building, and enterprise support services to the UDC investments.
- iv. Finally, UDC could consider launching a “Community Inclusion Compact” for its investee companies a light framework that encourages proactive inclusion of women, youth, and PWDs in value chain engagement, backed by technical guidance and recognition awards.

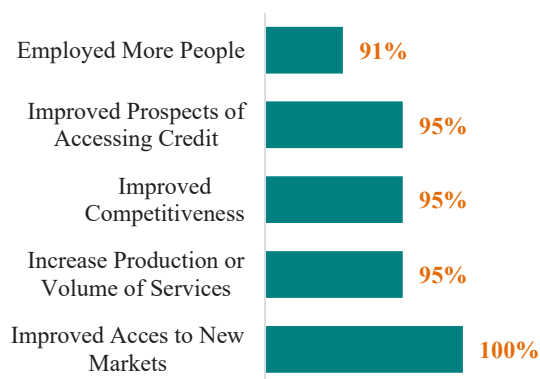
5.5.5.9.2 UDC’s Indirect Impact on Value Chain Businesses of Funded Investments

603. All respondents (100%) confirmed that UDC partnerships enabled them to access new markets or customer bases, both locally and regionally. This access is essential for expanding the scale and sustainability of small enterprises that would otherwise remain confined to fragmented, low-demand markets (**Figure 47**).

604. Competitive capacity among indirect beneficiaries also improved significantly. 95% reported that their relationship with UDC-funded businesses enhanced their competitiveness, citing increased production capacity, better-quality products, and more reliable supply chains. These improvements have positioned rural micro-entrepreneurs to operate more sustainably, scale their operations, and better respond to market demands.

605. Access to finance and financial inclusion were strongly catalysed. 95% of indirect beneficiaries stated that their engagement with UDC-funded projects improved their chances of accessing formal or semi-formal financial services including commercial loans, SACCO financing, or participation in Village Savings and Loan Associations (VSLAs). Among these, 55% reported improved savings capacity, while 21% noted they had joined a savings group as a direct result of their increased financial stability. These shifts represent vital steps toward financial inclusion, which remains a national development priority.

Figure 47: Indirect Impact of UDC Funding on Value Chain Businesses



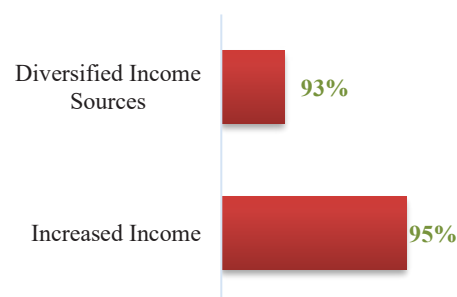
606. Job creation among indirect beneficiaries was another key success result where 91% of respondents indicated that they were able to hire additional workers due to the business growth stemming from their relationship with UDC-funded firms. Most of these newly created jobs were confirmed to be at least **five employees per enterprise**, amplifying UDC's employment impact and underscoring the multiplier effect of its financing across rural economies.

5.5.5.9.3 UDC's Indirect Impact on Income and Income Diversification

607. UDC-funded projects are improving incomes and building economic resilience among value chain actors. Evaluation findings from indirect beneficiaries including outgrowers, suppliers, and service providers demonstrate that UDC's investments are creating substantial economic gains beyond the directly funded businesses. A remarkable 95% of respondents reported increased incomes, with an average income growth of 22%. These income improvements are not only enhancing household welfare but also enabling rural smallholder actors to reinvest in their enterprises and better withstand economic shocks, particularly in regions prone to income volatility (**Figure 48**).

608. Further strengthening economic resilience, 93% of beneficiaries reported diversifying into additional income-generating activities. This diversification reflects how partnerships with UDC-supported firms are enabling households to broaden their economic base, reduce dependency on single revenue streams, and foster financial independence. These benefits are critical in the Ugandan rural context, where most livelihoods are informal, and income insecurity remains a structural challenge.

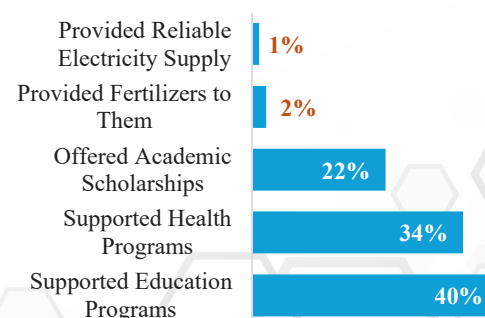
Figure 48: Impact of UDC Funding on Income of Indirect Beneficiaries



5.5.5.9.4 UDC's Indirect Impact on Access to Food, Health and Education Services

609. UDC investments are directly improving the quality of life among rural households and communities. Findings from the evaluation reveal that 95% of indirect beneficiaries reported improved access to food, with many citing increased income stability as the driver of greater food security (**Figure 49**). Similarly, 95% confirmed improved access to education, with the majority stating they were now able to pay school fees on time, while 15% reported enrolling more dependents either those who had previously

Figure 49: Impact of UDC Funding on Access to Basic Needs by Indirect Beneficiaries



dropped out or those shifted to better-quality schools. Beneficiaries also noted a greater ability to afford school-related expenses such as uniforms, books, and transport, pointing to more inclusive access to education across rural communities.

- 610. Health outcomes improved markedly as well. 95% of respondents indicated that their business relationship with UDC-funded projects enabled them to access better healthcare services or facilities**, either through increased income to pay for treatment or via proximity to health services supported by the investee companies. This result highlights the linkage between livelihood improvements and access to essential social services.
- 611. Beyond individual households, broader community development outcomes were reported. 48% of indirect beneficiaries confirmed that UDC-funded projects supported educational initiatives** such as school construction, bursary schemes, or supply donations in their local areas. 34% reported that UDC investments had supported health-related programmes, including clinic refurbishments, medical camps, or sanitation drives. These contributions signal that UDC-funded businesses are not only generating economic value but are also emerging as anchors of social investment within their regions of operation.
- 612.** These findings affirm that UDC’s development financing is contributing significantly to Uganda’s national goals of human capital development and poverty reduction. To build on this momentum, it is recommended that:
- i. UDC formalise community engagement as part of its investee performance monitoring**, with incentives for companies that support health, education, or food security initiatives in their localities.
 - ii. Integrate basic needs access indicators (e.g. food, education, health) into its impact reporting framework** to more holistically measure development outcomes beyond financial returns.
 - iii. Promote shared value partnerships** by encouraging funded projects to co-invest in local infrastructure and social services that benefit both the enterprise and surrounding communities.

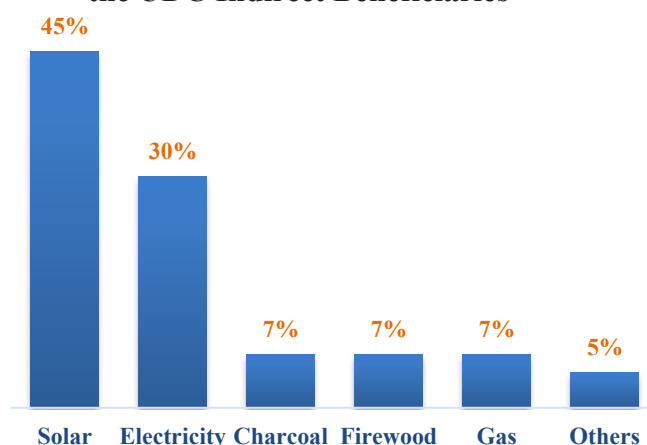
5.5.5.9.5 UDC’s Indirect Environmental Impact

- 613. UDC is catalysing positive environmental practices across its investment value chains.** Findings from the evaluation show that over 82% of sampled indirect beneficiaries adopted more environmentally friendly energy sources a shift directly linked to their engagement with UDC-funded projects. Specifically, 45% reported increased use of solar energy, 30% relied more on electricity, and 7% transitioned to gas as an alternative to firewood or charcoal (**Figure 50**). These shifts not only reduce environmental degradation but also reflect improvements in household energy access and operational sustainability among suppliers and outgrowers.

614. In addition to energy transitions, UDC is advancing sustainable agricultural practices. Approximately 82% of indirect beneficiaries received guidance on adopting climate-smart and environmentally sustainable production methods. This included training on proper fertiliser use, crop rotation, and eco-friendly pest management. Moreover, 68% of beneficiaries participated in tree planting initiatives linked to their partnership with UDC-funded businesses, with most reporting that they had planted at least 30 trees each. These efforts contribute to carbon sequestration, soil restoration, and broader climate resilience at the community level.

615. These result highlight opportunities of institutionalising environmental performance indicators across funded projects and their value chains, especially related to clean energy adoption, tree planting, and climate-smart agriculture. In addition, environmental and social co-benefits should be integrated into project appraisal frameworks, positioning UDC not just as an economic catalyst, but as an environmental and mindset transformation agent. UDC can also deepen its development footprint by formalising community-level sustainability partnerships, for example, through reforestation campaigns, joint waste management projects, and knowledge hubs for green farming practices.

Figure 50: Changes in Energy Source Use Post the UDC Indirect Beneficiaries



5.5.5.9.6 UDC's Indirect Impact on Mindset Change and Government Programs Perception

616. UDC's funding is indirectly contributing to a significant shift in mindset along the value chain, building trust in government programs, and motivating participation in Uganda's development agenda. This emerging mindset transformation is a powerful indicator of inclusive development, as it signals indirect beneficiaries along the value chains of UDC's funded projects are not only accessing finance but also internalizing a sense of ownership in the country's progress (Figure 51).

Figure 51: Impact on Mindset Change of Indirect UDC Beneficiaries



617. To assess this impact, the evaluation included three questions aimed at capturing changes in

perception and personal empowerment following partnerships with the UDC funded projects. These questions explored confidence in engaging in economic activity, their perception of government support, and their willingness to contribute to community and national development which are crucial social indicators that go beyond traditional financial outcomes.

- 618. The results point to a strong and widespread shift in mindset among the indirect UDC beneficiaries.** 98% of respondents reported feeling more confident and motivated to grow their businesses or participate in national development programs after their partnerships with the UDC investments, 95% affirmed a changed perception of the government's role recognizing its efforts to support citizens in moving beyond subsistence to become part of the money economy. Another 98% stated they feel more empowered to contribute to their community's development, reflecting increased civic engagement and social inclusion.
- 619. These results demonstrate that the UDC funding is not only catalysing economic change but also enabling a psychological shift from passivity to productivity.** This mindset change is foundational to Uganda's long-term development goals, particularly under the NDP IV, which emphasizes mobilizing citizens into the money economy. Empowered individuals are more likely to engage with government programs, take informed economic risks, adopt innovation, and influence others, making mindset transformation a multiplier of development impact. By fostering mindset change alongside economic benefits, UDC is indirectly helping to build a development-ready Ugandans, capable, confident, and committed to transforming their households, communities, and the country at large.
- 620. Given the relevance, UDC should integrate mindset change as a tracked outcome within its monitoring and evaluation framework,** ensuring that this non-financial transformation is recognized and documented. Furthermore, UDC should strengthen this narrative in stakeholder engagement by using these findings to strengthen partnerships with the government, donors, and community-based organizations as a proof of concept of MSC's role in driving inclusive development.

5.6 SUSTAINABILITY

- 621.** The evaluation of UDC's sustainability focused on its capacity to fund operations independently using revenue internally generated, and through investment perceptions on their ability to continue operating after paying UDC' investment as a measure of their long-term sustainability.

5.6.1 Ability to Finance Its Investment Activities and Operations

- 622. UDC's internal revenue generation remains limited, with most investments not yet paying dividends or repaying shareholder loans.** During the evaluation period, the majority of UDC-funded projects were either still in their grace periods or underperforming

financially. Several had undergone loan restructurings, while others were struggling to meet repayment obligations. Consequently, UDC's portfolio yielded minimal returns, undermining the Corporation's ability to cover its own operational costs let alone finance future investments or expand its development footprint.

- 623. This constrained revenue performance underscores a critical vulnerability in UDC's financial model which is the absence of a self-replenishing capital base.** UDC's reliance on external government injections is further exacerbated by weak dividend flows from existing investments. Without consistent and predictable internal cash flows, UDC remains locked in a cycle of capital dependency, limiting its capacity to scale, reinvest, or respond swiftly to new opportunities. Moreover, continued underperformance of portfolio companies risks eroding confidence among potential co-investors and development partners.
- 624. Strategic action is required to transition UDC toward greater financial autonomy.** First, UDC must implement a targeted post-investment support programme to strengthen the performance of underperforming portfolio companies. This could include tailored technical assistance, governance restructuring, performance improvement plans, and operational audits to identify and resolve bottlenecks preventing profitability. Second, UDC should introduce differentiated repayment structures especially for grace-period investments to ensure they graduate into repayment phases with the necessary operational and financial readiness. Early warning systems, cashflow forecasting, and milestone-based disbursement models can help monitor and mitigate repayment risk.
- 625. Strengthening UDC's post-investment monitoring and dividend recovery mechanisms is essential for long-term institutional sustainability.** By proactively supporting its investments to become profitable and honour their financial obligations, UDC can build a revolving capital base and reduce overreliance on fiscal budget allocations. This will not only enable the Corporation to meet its operating expenses internally but also enhance its credibility as a commercially minded development finance institution with the discipline and structures necessary to manage large-scale public investments.

5.6.2 Reliance on Government Funding

- 626. UDC's overreliance on government funding poses structural risks to its sustainability and limits its development reach.** Currently, 100% of UDC's capital is sourced directly from the Government of Uganda, making the institution wholly dependent on fiscal budget allocations to execute its investment mandate. This financing model, while consistent with UDC's public ownership, exposes the Corporation to the unpredictability of public budgeting cycles, reprogramming of national priorities, and delayed disbursements all of which constrain its ability to plan, respond quickly to investment opportunities, and scale its development impact.

- 627. During the evaluation period, UDC had 24 fully appraised and ready-to-implement projects in its pipeline awaiting government capitalisation.** These projects, many of which are aligned with NDP IV, Vision 2040, and the NRM Manifesto, were deemed bankable and developmentally strategic. However, in the absence of sufficient and timely government funding, they remained unfunded priorities. This backlog highlights not only the limitations of the current model but also the lost opportunity cost in terms of delayed job creation, industrial output, rural integration, and foreign exchange earnings that could have accrued from their implementation.
- 628. This dependence weakens UDC's institutional agility and hampers its ability to attract co-financing or private sector partnerships.** Capital-intensive projects in manufacturing, agro-industry, and infrastructure UDC's core mandate areas require long-term, patient capital with flexible deployment structures. Without diversified funding mechanisms, UDC's ability to structure blended finance models, offer tailored financing products, or crowd in development partners remains severely constrained. Furthermore, overdependence on the Treasury makes UDC vulnerable to political and fiscal shocks, impeding its ability to build a credible, forward-looking investment pipeline.
- 629. UDC must urgently evolve towards a hybrid financing model to strengthen resilience and scale.** To reduce this structural risk, UDC should operationalise a capital mobilisation strategy aimed at diversifying its funding sources. This may include:
- **Establishing a dedicated Resource Mobilisation Unit** to lead engagement with development partners, philanthropic capital, and multilateral DFIs.
 - **Issuing infrastructure or industrial bonds** backed by government guarantees to raise long-term capital from domestic institutional investors such as pension funds and insurance companies.
 - **Pursuing equity partnerships and co-investments** with private sector players in strategic projects, and
 - **Formalising its investment readiness** through improved financial reporting, audited returns on existing projects, and an institutional rating process to boost market confidence.
- 630. Strengthening UDC's financial autonomy is not just a matter of institutional resilience it is central to achieving Uganda's industrial transformation goals.** A diversified, stable funding base would empower UDC to deliver on its full mandate, accelerate project implementation, and build a stronger case for its continued relevance as Uganda's national industrialisation arm.

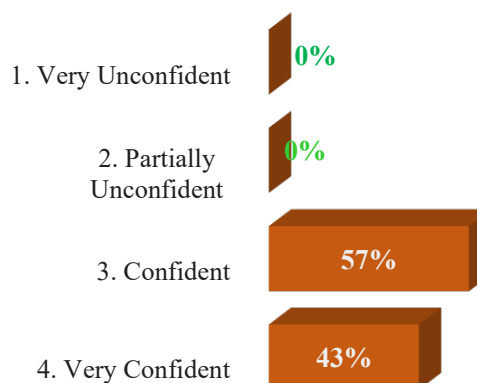
5.6.3 Customer Perspectives on UDC's Sustainability

631. To assess DC's institutional sustainability and the long-term impact of its interventions on funded projects, a set of client-facing indicators was used. These included future borrowing intentions, and perceptions of business resilience, each offering valuable insights into UDC's credibility, effectiveness, and developmental influence over time.

632. Sampled UDC investments were asked whether they would recommend UDC to others, whether they intended to reapply for financing, and whether they believed their businesses would remain viable after loan repayment. In addition to gauging satisfaction and anticipated future demand, clients were asked to rate their confidence in the continuity of their businesses after fully repaying their UDC financial obligations. This provided critical insight into how clients perceive the long-term value of UDC's support and the institution's role in strengthening enterprise sustainability beyond the investment cycle.

633. UDC's customer satisfaction and business continuity outcomes reflect high institutional credibility and perceived value. All sampled UDC-funded investments (100%) stated they would recommend UDC to other enterprises, underscoring strong levels of satisfaction and trust in the Corporation's model. Furthermore, 86% (6 out of 7) indicated they would consider reapplying for UDC support in the future an important indicator of customer loyalty and perceived relevance. Only one respondent expressed reservations about reapplying, signaling an isolated concern that warrants follow up.

Figure 52: Rating of Business Continuity Confidence by Sampled UDC Investments



Weighted Rating = 3.4

634. Importantly, all sampled investees expressed confidence in their ability to remain operational after meeting their UDC repayment obligations. Of these, 43% reported being "very confident," while 57% reported being "confident." This level of business continuity assurance points to UDC's positive contribution to enterprise stability, especially considering that many of the supported investments operate in high-risk, capital-intensive sectors often underserved by traditional financiers.

635. These results indicate that UDC's funding is not only closing financing gaps but also enabling long-term viability and resilience of strategic enterprises. Furthermore, the strong endorsement of UDC by its clients presents a unique opportunity to institutionalise feedback loops for continuous improvement. UDC should consider leveraging this goodwill by setting up formal client advisory groups, periodic satisfaction surveys, and re-engagement platforms to better capture evolving needs and refine its service offerings.

- 636. Going forward, UDC should build on this positive perception to enhance client retention, improve product design, and strengthen its development impact.** As part of its strategic positioning, UDC may also use these high satisfaction metrics to attract co-investment, secure blended finance partnerships, and advocate for increased government capitalisation anchored in the proven effectiveness of its interventions.

5.7 COHERENCE

- 637.** The evaluation of UDC's institutional coherence assessed both internal and external dimensions. Internal coherence examined the extent to which UDC leverages client linkages for peer mentorship, knowledge sharing, and cross-selling of financial products. External coherence focused on the institution's collaboration with government entities, the private sector, and development partners, as well as its interaction DFMs included in this evaluation namely UDB, UDC, ACF and UAIS.

5.7.1 Coherence Among Development Partners, Government & Private Sector

- 638. As Uganda's premier state-owned investment vehicle, UDC plays a catalytic role in accelerating national industrialisation through strategic Public–Private Partnerships (PPPs).** The Corporation actively collaborates with commercial enterprises and public actors to drive growth in agro-processing, infrastructure, energy, and manufacturing sectors critical for transforming Uganda's production base. UDC's model blends government capital with private-sector execution capacity, creating a powerful mechanism for delivering high-impact, capital-intensive projects that are often unattractive to purely commercial financiers due to their risk profile or long gestation periods.
- 639.** Examples of UDC's PPP leadership include its investment in Kalangala Infrastructure Services, a flagship infrastructure PPP combining government and private sector resources (InfraCo Africa, EleQtra, and UDC) to deliver integrated transport and energy solutions to island communities. Similarly, the NileZilla investment a tripartite partnership between FONUS, UDC, and the Aringa Fruit Farmers' Cooperative demonstrates UDC's ability to mobilise inclusive value chain actors in agro-industry. These cases reflect UDC's effectiveness in structuring collaborative investment models that unlock productivity, build local ownership, and stimulate rural economic growth.
- 640. However, despite this strong PPP foundation, a key gap remains in UDC's collaboration with development finance institutions (DFIs) and donor partners.** At present, the Government of Uganda remains the sole financier of UDC's investment portfolio. This narrow funding base limits UDC's flexibility, delays project execution when government releases are late, and constrains the Corporation's ability to absorb a growing pipeline of strategic investment opportunities. Strengthening partnerships with DFIs, climate finance facilities, and international donors would enable UDC to leverage blended finance

approaches, diversify its capital sources, and crowd in concessional or impact-driven financing aligned with its development mandate.

- 641. To enhance external coherence, UDC should prioritise three actions.** First, establish a dedicated resource mobilisation and partnership development unit to pursue co-financing opportunities with DFIs, donor agencies, and philanthropic funds. Second, institutionalise joint project preparation frameworks that allow co-investment from public, private, and development actors from the onset. Third, deepen coordination with government MDAs and investment agencies to align project pipelines and financing plans with sectoral policies under NDP IV and Vision 2040. By anchoring its PPPs in a broader ecosystem of national and international partners, UDC can unlock greater financing, accelerate project delivery, and amplify its development footprint across Uganda.

5.7.2 Coherence Among other DFMs

- 642. Limited collaboration with peer DFMs is weakening coherence across Uganda's public finance ecosystem.** Despite serving overlapping mandates, UDC, UDB, MSC, ACF, and UAIS continue to operate largely in silos, missing vital opportunities for joint programming, cost-efficiency, and unified national impact. The evaluation found minimal structured engagement between these development finance institutions, with interactions where they exist being ad hoc and unanchored in formal strategic frameworks. This lack of institutional synergy undermines government efforts to build an integrated and efficient development financing architecture, particularly in light of Uganda's Vision 2040 and NDP IV goals for coordinated delivery of public services and economic transformation.
- 643. Public awareness and joint visibility across DFMs remain critically low.** Only 29% of sampled UDB and MSC SACCO clients reported being aware of UDC, highlighting a major gap in integrated outreach, branding, and beneficiary navigation. This disconnect severely limits the ability of potential beneficiaries to understand and access the full spectrum of development financing instruments available to them. Without a unified front across DFMs, beneficiaries risk missing out on bundled or complementary financing products that could accelerate their growth and deepen impact particularly in sectors requiring multi-tiered financing such as agro-industrial value chains, export manufacturing, and rural infrastructure.
- 644. UDC can play a catalytic role in strengthening cross-DFM coherence.** As a government-owned investment arm, UDC is well-positioned to initiate strategic partnerships with its peers to unlock collective efficiency, deepen service reach, and enhance development impact. For instance, UDC could partner with UAIS to integrate agricultural insurance into outgrower schemes for its agro-investments, or jointly structure blended finance deals with UDB and MSC to co-finance production-linked inputs. Establishing MoUs with DFMs can institutionalise knowledge-sharing, align monitoring systems, and reduce duplication.

Additionally, DFMs should explore co-hosting outreach campaigns, launch joint referral systems, and pool digital infrastructure such as onboarding platforms, call centers, and client service portals particularly in overlapping sectors and geographies.

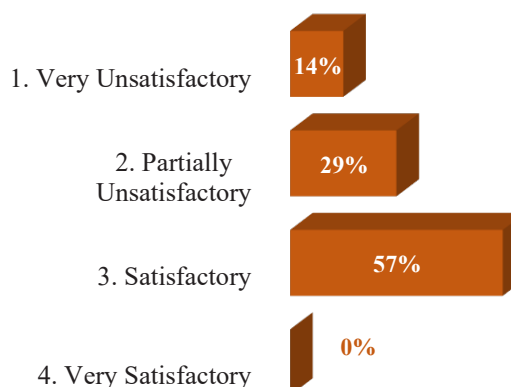
- 645. As a policy recommendation, the Government should mandate the development of a formal inter-DFM coordination framework under the Ministry of Finance, anchored in quarterly knowledge-sharing, joint product development, and aligned M&E indicators.** UDC and peer DFMs should be supported to co-design integrated service offerings bundling equity, credit, insurance, and technical assistance to better meet the layered needs of enterprises and cooperatives. Doing so will not only strengthen institutional performance and reduce public resource waste but also position DFMs as a cohesive pillar of Uganda's inclusive development agenda.

5.7.3 Coherence Between UDC's Funded Investments

- 646. Internal collaboration among UDC-funded investments remains limited, reducing opportunities for peer learning and market linkages.** To assess UDC's internal coherence, the evaluation examined the extent to which the Corporation facilitates interaction among its funded investments whether through peer mentorship, knowledge sharing, or cross-selling of outputs and services. Only 57% (4 out of 7) of the sampled investments confirmed that they had been linked with other UDC-funded entities or introduced to relevant market opportunities. The remaining 43% reported no engagement or connection with any other investment within UDC's portfolio, suggesting that nearly half of UDC's investees operate in isolation, without the benefit of a coordinated enterprise network (**Figure 53**).

- 647. Perceptions on the effectiveness of UDC's internal linkages were mixed.** Of those who had been connected to other entities, 57% expressed satisfaction with the level of engagement, while the rest were dissatisfied with the lack of systematic collaboration. Examples of successful linkages included being introduced to climate financing channels, participating in trade expos alongside other UDC investees, and attending high-level events such as the Presidential CEO Forum. These activities point to the value of peer interaction not only for market exposure but also for reinforcing shared standards, corporate governance practices, and innovation diffusion across sectors.

Figure 53: Rating of UDC's Internal Coherence



- 648. Strengthening UDC’s internal investment ecosystem would amplify development returns.** Facilitating more deliberate collaboration among UDC-funded entities can accelerate knowledge transfer, reduce common learning curves, and open cross-selling and value-chain partnership opportunities especially in sectors like agro-processing, where integration can unlock economies of scale. Moreover, a connected ecosystem of UDC investees would enable collective problem-solving, support mentorship of newer projects by more mature investments, and encourage a culture of institutional peer accountability.
- 649. Going forward, UDC should formalise a structured platform for investee collaboration, such as a quarterly Investment Network Forum or digital portal for information exchange and business matching.** These platforms could be supplemented with technical masterclasses, thematic working groups, and curated market linkage opportunities. Institutionalising internal coherence across UDC’s portfolio will not only strengthen individual enterprise performance but also position the Corporation as a development enabler capable of cultivating interconnected and resilient local industries.

5.8 CHALLENGES FACED BY UDC AND ITS INVESTEES

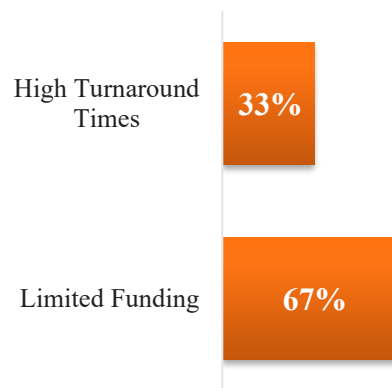
5.8.1 Challenges Faced by UDC Investee Companies – Survey Findings

- 650. From the perspective of investees, UDC’s two most binding constraints are limited access to adequate funding and long turnaround times.** Across the sampled enterprises, the most frequently cited challenge was inadequate financing, with many investees reporting that the funding received was insufficient to meet their full project needs. Others highlighted that funds were disbursed in fragmented instalments, which disrupted implementation timelines, escalated costs, and reduced the speed at which development outcomes could be achieved. The second most common constraint was slow turnaround times, with prolonged internal approval processes delaying project kick-off a particularly critical issue in capital-intensive sectors such as agro-processing, where timing determines success.
- 651. These gaps undermine UDC’s effectiveness as a national development financier and weaken its ability to accelerate structural transformation.** To address the funding gap, UDC should urgently diversify its capital sources beyond government allocations by pursuing blended financing, concessional loans, and strategic co-investment partnerships with the private sector and development partners. This would enable the Corporation to fund more projects at scale and meet the actual capital needs of viable investments, especially in manufacturing and agro-industry (**Figure 54**).
- 652. In addition, reducing turnaround times requires strengthening internal capacity and modernising investment processes.** UDC should recruit additional technical staff to reduce workload bottlenecks and digitise its investment appraisal, approval, and disbursement systems to accelerate delivery.

653. Establishing clear service-level agreements (SLAs) and introducing real-time digital project tracking will also enhance transparency, increase responsiveness, and build investee confidence in UDC's delivery mechanisms.

654. Together, these actions will enable UDC to respond faster to Uganda's industrialisation agenda, scale up high-impact investments, and deliver timely, inclusive, and sustainable development results.

Figure 54: Challenges Faced by the UDC Investees



5.8.2 Challenges Faced by UDC Investee Companies – UDC Managements' Feedback

655. From UDC management's perspective, a range of systemic and operational challenges are constraining the performance, profitability, and development impact of UDC's investee companies. These challenges confirmed by UDC's management cut across markets, input supply, machinery, government delays, and financial sustainability. Many of these issues had already been flagged in UDC's 2020–2030 Strategic Plan and are consistent with the independent evaluation's findings, underscoring the need for urgent institutional reforms and enhanced government coordination.

656. Volatile regional and global markets are weakening revenue performance. The depressed market for Ugandan tea at the Mombasa auction has significantly eroded export earnings. Prices for made tea dropped from \$1.33 per kilogram in December 2022 to just \$0.73 by December 2023, with further uncertainty driven by political and economic instability in key consuming countries. This volatility has directly undermined the viability of several UDC-backed tea companies.

657. UDC investees also struggle to access reliable and sustainable markets for their products. For instance, Softe is facing challenges in securing buyers for its orange concentrate, while Wire Products Uganda Ltd no longer exports denatured ethanol to Kenya due to competition from cheaper US imports. These market access issues limit economies of scale, reduce utilisation rates, and weaken long-term business viability.

658. Delayed payments by government are limiting liquidity and disrupting operations. Entities such as Abubaker Technical Services and Kalangala Infrastructure Services (KIS) continue to face significant cashflow constraints due to late government payments for completed construction works and ferry services. Nile Hotel also faces similar delays for services rendered to government clients. These delays inhibit reinvestment, compromise contractual performance, and increase the risk of project failure.

- 659. Weak agricultural supply chains are undermining input availability and production efficiency.** UDC investees reported difficulties accessing sufficient volumes of high-quality agricultural raw materials. Low productivity, poor quality due to limited fertiliser use, and post-harvest losses continue to reduce factory throughput and compromise product quality, particularly for agro-industrial investments.
- 660. The imminent expiry of critical public-private partnerships may disrupt service continuity.** The 13-year ferry concession for KIS is set to expire in July 2025, raising concerns about future affordability, cost recovery, and the continuity of road and ferry services to the Kalangala community. Without a viable extension or transition plan, this could reverse key gains in regional connectivity and inclusive development.
- 661. Working capital shortages and financial fragility continue to hinder operational performance.** Many investee companies face chronic undercapitalisation, high administrative costs, and significant debt obligations at high interest rates. These financial burdens reduce profitability and impair their ability to meet supply agreements and contractual milestones. Mutuma Commercial Agencies, for example, is struggling to supply cotton wool to VAOAL, while Abubaker is facing delays on road construction contracts.
- 662. Outdated equipment and low installed capacity are further limiting competitiveness.** Several factories, such as Softe, operate below optimal capacity due to limited processing infrastructure. In addition, obsolete machinery frequently breaks down, increases maintenance costs, and reduces operating margins ultimately undermining the efficiency and sustainability of the investments.
- 663. Environmental compliance remains a growing risk.** The evaluation identified limited or non-functional effluent treatment plants (ETPs) in several facilities, including Bukona Agro Processors and Softe. These gaps expose the Corporation to regulatory penalties, reputational risks, and environmental degradation, and must be urgently addressed to safeguard sustainability.
- 664.** To overcome these constraints and maximise impact, UDC should prioritise the following actions:
- i. Establish market linkage units** within investee companies to secure off-take agreements and pursue regional export opportunities, especially under the African Continental Free Trade Area (AfCFTA).
 - ii. Engage MoFPED to fast-track government payments** owed to UDC investees and embed payment performance targets in service-level agreements.

- iii. **Scale up raw material aggregation models** by partnering with cooperatives and farmer organisations to secure quality inputs for agro-industrial facilities.
- iv. **Negotiate a concession renewal strategy** for the KIS ferry service that ensures affordable, continued access for local populations while preserving financial viability.
- v. **Refinance high-interest debts** through concessional lines of credit or blended financing structures to reduce cost burdens on investee companies.
- vi. **Modernise plant and machinery** through targeted retooling investments in high-impact factories and expand installed capacity to absorb more produce.
- vii. **Enhance environmental compliance** by investing in the upgrading or installation of fully functional ETPs, with dedicated budget lines and regulatory monitoring.

5.8.3 Challenges Faced by UDC

- 665. UDC’s internal constraints are limiting its institutional agility and development effectiveness.** Challenges highlighted by UDC management¹⁰ echo findings from this independent evaluation and are consistent with areas already recognised in the Corporation’s 2020–2030 Strategic Plan. These issues, if not urgently addressed, risk slowing UDC’s execution capacity, weakening its ability to crowd in private capital, and constraining its role as Uganda’s key industrialisation vehicle.
- 666. Inadequate and inflexible funding remains a structural constraint.** UDC’s current financing from government is not only insufficient to meet its growing investment pipeline but is also fragmented and heavily earmarked for specific projects. Releases are made quarterly, limiting UDC’s capacity to make timely and strategic investment decisions. This lack of liquidity reduces its responsiveness to market shifts and undermines its ability to scale up high-impact projects.
- 667. UDC is unable to finance a fully appraised pipeline of strategic projects.** Despite having a robust pipeline of investment-ready projects aligned with NDPIII and the NRM Manifesto, UDC lacks the capital to execute them. As of the evaluation, the Corporation requires UGX 1.1 trillion to fully implement these projects. Without additional and timely resource mobilisation, these national priority investments risk indefinite delay. **This underscores the need for UDC to actively diversify its financing sources beyond government allocations, including syndicated investment partnerships, blended finance, and private capital mobilisation.**

¹⁰ Information is taken from the report titled “Progress Made by Uganda Development Corporation since its Revival in June 2016” – Presented on May 27th, 2024.

- 668. UDC's portfolio is heavily skewed towards distressed and post-crisis investments.** Many of UDC's current investee companies were absorbed during or immediately after the COVID-19 pandemic and entered the portfolio in a distressed or loss-making condition. These include projects taken over from failed private sector actors or handed to UDC as part of strategic recovery efforts. Given their young age (most under four years) and high rehabilitation needs, the expected payback period is long and uncertain. As a result, these projects have not begun returning dividends to UDC, which limits internal fund reflows and raises sustainability concerns. **This calls for differentiated financing instruments tailored to distressed assets, and clear investment recovery strategies built into the portfolio model.**
- 669. Supplementary budget allocations are disrupting strategic planning.** Between FY2021/22 and FY2023/24, UDC received UGX 648.5 billion in development funding, of which 83.6% came through supplementary appropriations. While these funds were effectively utilised, they were often tied to urgent, politically directed "pressure projects" that were not part of UDC's annual plans. This has undermined implementation of pre-approved priorities, distorted staffing and resource allocations, and constrained UDC's ability to operate as a long-term, strategy-driven investor. To reduce this distortion, UDC's development funding should be predictably allocated, with minimal reliance on supplementary budgets.
- 670. UDC's current organisational structure lacks key operational and investment support functions.** The Corporation's structure provides for only 70 positions and lacks critical technical units necessary to manage a growing and complex investment portfolio. These include a Treasury Unit, a dedicated Resource Mobilisation Unit, and a Post-Investment Management Unit which functions essential for financial sustainability, long-term investor engagement, and performance monitoring. UDC is in the process of restructuring to address these gaps. However, implementation of this restructuring must be expedited and adequately resourced to match the Corporation's growing mandate.
- 671. Government bureaucracy continues to undermine UDC's business agility.** While Section 4 of the UDC Act envisions a commercially agile and investment-focused entity, the Corporation remains bound by restrictive provisions of the PPDA Act and the Public Finance Management Act (PFMA). These bureaucratic layers inhibit timely procurement, delay project execution, and diminish UDC's ability to operate on par with private sector or regional peers. Legal reforms are urgently needed to streamline UDC's operational autonomy and align its governance framework with development finance best practice.

SECTION 6: SUMMARY OF FINDINGS AND RECOMMENDATIONS

6.1 Lessons Learned and Areas of Improvement

672. UDC plays a critical and irreplaceable role in Uganda's economic transformation.

Despite limited resources, UDC continues to deliver on its mandate by supporting sectors neglected by the private sector and financing projects of national importance that would otherwise not receive funding. Its role as a development financier has filled a strategic gap in Uganda's investment ecosystem especially for high-risk, high-impact ventures that require patient capital and sustained government backing.

673. UDC remains Uganda's only Development Financing Mechanism (DFM) dedicated to investing in high-risk projects with high development impact.

Unlike commercial banks or other DFMs such as UDB and ACF which predominantly fund projects that are already profitable UDC targets unbankable or distressed investments that may be loss-making at inception but are critical for inclusive development. These include strategic industries, agro-industrial parks, and revival of stalled factories. Without UDC's timely intervention, many of these investments would have faced closure, resulting in significant job losses and disruption of livelihoods for thousands of Ugandans.

674. UDC's interventionist role has proven essential in rescuing distressed but nationally strategic enterprises.

Several of UDC's investments have been taken on as part of turnaround efforts, often to prevent foreclosure by commercial lenders or collapse due to market failure. These investments are inherently high-risk and would not qualify for commercial finance under current risk models. UDC's ability to absorb and rehabilitate such projects reinforces its complementary role to the private sector and underlines its additionality within Uganda's financing architecture.

675. The Corporation's investment portfolio is strongly aligned with Uganda's national priorities.

UDC's sectoral focus especially its strategic emphasis on agriculture, manufacturing, and agro-processing is consistent with Vision 2040 and the National Development Plan III (NDP III), which prioritise agro-industrialisation and value addition as engines of inclusive growth. UDC's investment distribution reflects this policy alignment, anchoring it as a key instrument for structural transformation.

676. UDC's human capital capacity is well-tailored to its development finance role.

Unlike DFMs dominated by commercial bankers, UDC's staff composition includes professionals with deep expertise in agriculture, engineering, architecture, risk analysis, and project finance skills critical for making technically sound and impact-oriented investment decisions. This technical orientation enhances UDC's capacity to assess complex projects, design long-term recovery strategies, and make evidence-based capital allocation decisions.

677. The Corporation's institutional structure reflects its sectoral priorities. UDC has embedded sector-based expertise into its internal organisation, including a dedicated agriculture department staffed by specialists with strong technical and managerial backgrounds in agribusiness. This tailored structuring enhances UDC's ability to manage sector-specific risks, support investee performance, and maintain alignment with national policy outcomes.

678. UDC is already contributing significantly to Uganda's export earnings through its investments. In 2022 alone, four UDC-supported tea factories contributed approximately \$11.58 million in foreign exchange representing 33% of Uganda's total annual tea export earnings (\$35.5 million). This confirms that UDC-backed investments are not only socially and economically relevant, but also contribute measurably to national development outcomes including foreign exchange generation and sector competitiveness.

679. While UDC's role is vital, key operational and financial gaps must be addressed to maximise its impact. This evaluation has identified strategic areas for improving UDC's institutional efficiency, investment effectiveness, and financial sustainability. The findings below summarise targeted recommendations aimed at strengthening the Corporation's ability to deliver inclusive, large-scale development outcomes.

680. Portfolio Diversification

681. UDC's portfolio is heavily skewed toward long-term investments, exposing the Corporation to delayed returns and geographic concentration risks. A large share of UDC's current investments are still within grace periods, underperforming, or unable to generate dividends or service their debt obligations. This prolonged revenue lag weakens internal cash flows and limits the Corporation's ability to self-finance new projects. Additionally, regional concentration such as the Corporation's tea investments all located in the western region raises climate-related risk exposure, given similar agro-ecological conditions and crop cycles. This lack of diversification undermines resilience and amplifies systemic portfolio risk.

682. To enhance financial sustainability and mitigate sectoral and geographic exposure, UDC should adopt a balanced investment strategy combining short-, medium-, and long-term projects. A diversified portfolio would help de-risk operations, stabilise cash flow, and accelerate revenue recovery. Specifically, UDC should:

i. Diversify by crop type to balance returns across time horizons:

- **Short-term crops:** Invest in fast-yielding ventures such as vegetables, cereals, legumes, and mushrooms. These can generate quicker returns, enhance liquidity, and support operational sustainability in the short run.

- **Medium-term crops:** Target crops with moderate gestation periods such as bananas, pineapples, or mangoes, which offer balanced return profiles and bridge the income gap between short- and long-term investments.

ii. Pursue geographical diversification to mitigate climate and regional concentration risks: UDC should expand its investments to agro-industrial projects in different climatic zones across Uganda. Spreading investments by region would reduce the risk of simultaneous crop failures, stagger harvesting periods, and stimulate inclusive regional development.

683. By embedding diversification into its investment strategy, UDC will improve its cash flow stability, minimise exposure to shocks, and strengthen its role as a resilient, inclusive development financier.

684. Organisational restructure

The following have been recommended as opportunities for strengthening UDC's organisational structure.

- i. Prioritise operational staffing to strengthen delivery and impact oversight.** UDC should rebalance its staffing structure to ensure a greater share of personnel are dedicated to core operational functions such as investment appraisal, project management, monitoring, and impact assessment. A commonly applied benchmark in development finance institutions is a 70:30 or 80:20 ratio between operational and non-operational staff. Achieving this ratio will enhance UDC's capacity to manage its growing portfolio effectively and improve implementation efficiency.
- ii. Build specialised internal capabilities to support UDC's high-risk, high-impact investment profile.** Given the complexity of UDC's mandate, the Corporation should establish dedicated teams with expertise in customer service, business advisory, financial literacy training, and investee support. Additional strategic units should focus on resource mobilisation, risk management, green financing, ESG compliance, technology and innovation, as well as corporate strategy and performance management. These functions are critical to de-risking investments, strengthening sustainability, and aligning UDC's operations with global development finance best practices.
- iii. Introduce an Investee Governance Management Unit to improve project-level accountability.** To ensure that UDC-funded ventures are equipped with sound corporate governance from the outset, a specialised team should be established to support investees in setting up effective boards, governance frameworks, and internal controls. Embedding governance support prior to disbursement will strengthen

transparency, reduce operational risks, and reinforce institutional accountability across the investment portfolio.

685. Staffing optimisation.

686. Investing in UDC's capacity will accelerate delivery, improve governance, and maximise the developmental returns on public investment.

- i. **UDC's current institutional capacity is inadequate to deliver on its strategic mandate and expanding portfolio.** The evaluation found that the Corporation lacks the staffing strength and digital systems necessary for effective execution, portfolio monitoring, and results tracking. To address this, UDC requires an estimated UGX 3.5 billion in additional funding for staffing expansion and system digitalisation.
- ii. **Critical staffing gaps exist across core operational functions.** The Monitoring and Evaluation (M&E) team requires at least 10 additional staff to ensure robust tracking of development outcomes, while the Investment team needs 19 more professionals to manage due diligence, disbursement, and post-investment supervision. Beyond these, 39 additional positions are recommended to strengthen key functions such as strategy, risk, ESG compliance, and investee support ensuring UDC can effectively deliver high-impact services and manage its growing pipeline.

687. Conduct investee performance review

- i. UDC should conduct an immediate performance review of all UDC investments to determine the best course of action. Given that most UDC investments are not paying dividends or their shareholder debt obligations, there is a need for an immediate operational review of each investment to identify challenges and implement appropriate correction measures.
- ii. This will enable the development of recovery plans for struggling investments as well as KPIs that will form the baseline for following up on performance.

688. Enhance regional distribution to boost financial inclusion

- i. UDC investment per capita and investment per household metrics demonstrated disparate share of UDC funding at the community levels.
- ii. The recommendation is to consider the population distribution and poverty rates, in addition to geographical dispersion, when selecting projects to invest in. This will enhance UDC's impact on financial inclusion by ensuring that resources reach those who need them the most.

689. Proactive credit risk management for shareholder loans.

- iii. UDC mitigates credit risk by converting shareholder loans to equity in the event the companies are unable to repay them. Converting a shareholder loan to equity should only be considered a last resort since it's potentially probable that UDC is accepting a complete loss, as such struggling investees are unlikely to pay dividends.
 - The proposal is to establish proactive debt collection strategies that can detect financial vulnerabilities in advance, to find appropriate solutions.
 - Examples include sending reminders or visiting investees as the loan approaches the end of its grace period. E.g., 6 months before the end of the grace period to ensure that investee plan and prioritise debt repayments.
 - Financial literacy training during the regular monitoring and evaluation, which, if conducted more regularly, also improves changes of debt repayment.
 - Other options can include restructuring the amount due to enable investments to pay according to their cashflow expectations.

690. Strengthen investee oversight monitoring and evaluation.

- ✚ UDC provides oversight of its investments by having UDC staff or other nominees on the investments Board to represent UDC's interest. The board sits on a quarterly basis. UDC is not directly involved in oversight of the investee's operations. UDC should monitor each project regularly. This will enable proactive identification and mitigation of challenges. Specific recommendations include:
 - **Monthly meetings with investees.** Introduce monthly meetings for a more proactive crisis management approach as opposed to quarterly updates. UDC could start monitoring investees regularly to have more oversight and strengthen the data collection, monitoring and evaluation. Given the capacity constraints, this can start off with virtual meetings and transition to onsite visits over time.
 - **Foster direct oversight of the investees beyond quarterly meetings.** It's UDC's mandate to appoint anyone to act on behalf of UDC as a director in the investment funded.
 - *Section 5 of the UDC Act provides for the functions of UDC which are: To appoint any person to act on behalf of UDC as director or in any other capacity in relation to any enterprise or undertaking in which UDC has an interest.*
 - **Develop standardized KPIs.** Introduce standardised KPI performance tracking of investees. Develop standardised frameworks for tracking and comparing financial and development impact across investees. These can be tailored to specific sectors to account for differences in development impact measures. Investees must be held responsible for good performance by developing and monitoring KPIs.

- **Develop standardised reporting across all investees.** This will enable performance rating and comparisons among investees to identify best practices.

691. Coherence with other DFMs

UDC should explore opportunities for synergies and collaboration with other DFMs to mitigate investee risks. The evaluation recognizes that the DFMs included in the scope of this study are working silos. As organisations owned by the same entity, the government, opportunities of collective cost sharing and knowledge sharing should be explored. For UDC, these could include the following.

- i. Collaboration with UAIS - Consider partnering with UAIS to offer agricultural insurance to mitigate agricultural risks for the investees and their out-growers
- ii. Collaboration with MSC. - Partner with MSC should be explored to extend loans to the UDC out-growers to buy fertilizers and other raw materials needed to produce high-quality inputs for the UDC funded projects.
- iii. Collaboration with ACF and UDB - Explore opportunities for syndications with UDB and ACF to cofinance investments.
- iv. Knowledge and cost-sharing with all other DFMs through knowledge-sharing meetings to learn from each other, benchmarking performance among each other, Employee shadowing, and Cost-sharing opportunities such as conducting collective workshops and sharing customer service call centre services.

692. Funding Mobilization

UDC faces funding challenges stemming from the fact that the government is the corporation's only source of development funds, which are insufficient, fluctuate significantly from year to year, and are received in inconsistent tranches by the end of each quarter. This limits its effectiveness and efficiency by impacting its ability to plan, fund, and execute investment projects consistently. Proposed improvements include.

- i. Prioritising funds mobilization by dedicating a specialised unit within UDC to handle this responsibility.
- ii. Exploring opportunities for syndications with other DFMs such as UDB and ACF, the private sector, donors, and others.
- iii. Leveraging government guarantees. Government should guarantee UDC's borrowing to mitigate the risks associated with lending to the corporation. UDC is hindered by its inability to consistently demonstrate the financial profitability of its investments, a requirement for most development partners.
- iv. Ringfence a portion of the government funding for Blue Letter projects. UDC should seek approval to ringfence a portion of the government funding for Blue Letter projects

and the remaining portion can be used by UDC to fund their approved pipeline investments.

693. **Strengthen UDC's investment appraisal framework and governance.**

Majority of its investments unable to pay dividends or meet their debt obligations, highlighting prospects of strengthening UDC governance and decision-making framework. Proposed enhancements include the following.

- i. UDC's decision making should be strengthened by adding more quantitative merit-based indices such as Development impact scores, and economic impact scores in UDC's appraisal procedures to minimise impact of subjectivity on decision making.
- ii. UDC should include robust and consistent methodologies to guide its shareholding decisions in the company's investment manuals. This includes developing clear, standardized guidelines that align investment levels with the shareholding acquired, and critical factors such as risk, sector priorities, and impact.
- iii. UDC should include a clear exit strategy in its investment manual stating the timing and approach for withdrawing from UDC-funded investments. Recommended exit strategies are discussed in section 5.3.5.4 which is on page 99 of this report.
- iv. UDC should consider tailoring its investment processes to the project's origination channel to design policies aligned with risks associated with how the project originated.
- v. UDC should enhance adherence and enforcement to its investment guidelines to mitigate investments that contravene the thresholds therein, causing financial stress to government. For example, the investment in Atiak violated UDC's 25% sectoral investment risk exposure as indicated in their investment manual.
- vi. UDC should consider establishing a dedicated center for investee corporate governance and advisory to guide investees with setting up their board of directors and other governance structures. This will ensure investments have clear and transparent governance structures before receiving funds.

694. **Enhance investment agreements.**

Investee data sharing is one of UDC's challenges and this can be enhanced by enforcing mandatory data sharing by all UDC-funded projects. Proposed enhancements include.

- i. **Make data sharing a contractual legal obligation.** UDC should consider enforcing data sharing by making the provision of development impact data a legally binding obligation in the investment agreement. The agreement could clearly state the specific data requirements such as number of direct jobs, or indirect jobs, the frequency of reporting (e.g., monthly quarterly, annually), and the format for submission.
- ii. **Align data sharing with funds disbursements.** Investments could be structured so that some of the disbursements are conditional upon sharing impact data at agreed milestones.

- iii. **Pay service providers directly.** Where applicable, UDC could enforce fit for purpose funds use by paying large scale service providers directly to enhance effective use of funds by investees. UDB follows such approaches to reduce the risk of funds misuse.
- iv. **Enforce sharing of financial statements by all investments.** Nile Hotel and Soroti are the only investments sharing financial statements. Associates are not expected to provide such information. These investments are, however, consuming public goods and should be held accountable for disclosing how public funds are being used.
- v. In addition to having board representation, **UDC should negotiate to have certain governance rights such as veto power over critical decisions.** This will enable UDC to have influence in the strategic direction of their investments.

695. Strengthen the data collection

Lack of readily available data was a significant constraint for the evaluation process. Furthermore, most of UDC's data reporting and collection processes are manual, leading to high turnaround times and risking data accuracy. Recommendations include.

- i. **Automation for improved efficiency.** Invest in-house infrastructure by using experienced software developers to create internal tools for automating processes that will not be provided by their external IT service providers. These could include in-house digital tools to streamline the data collection and reporting to improve the accuracy and speed of data provision.
- ii. **Onsite visits data collection.** With the right staffing levels, UDC should enhance data collection through onsite visits and monitoring to enable data verification. Other DFMs such as UDB indicated that it's much easier to collect data from customers through site visits.
- iii. **Capacity building.** In case this isn't being done, training investees on data collection, monitoring, and reporting processes will improve the effectiveness of these data collection processes. Many Investees may lack the capacity to systematically track and report development impact, so capacity building can help improve compliance.
- iv. **Strengthen investee data collection governance.** UDC's investees should be encouraged to adopt stronger governance practices such as assigning responsibility for data reporting to UDC at the board or management level.
- v. **Positive reinforcement and incentives.** This positive reinforcement can serve as motivation for other investees to comply. Examples include.
 - a. Offering technical support if investees meet or exceed their development impact reporting requirements.
 - b. Publicly recognizing or rewarding investees that consistently meet or exceed their performance and data reporting requirements.
 - c. Making compliance a factor in deciding whether investees will be considered for future investments or expansions.

- vi. **Leverage stakeholder engagement to encourage data collection.** Stakeholder engagement could be leveraged as a forum for encouraging investees to share data by publicly publishing development impact performance on the UDC web site and in the annual reports. This public disclosure could incentivize investees to share correct data to avoid reputational damage.

696. **Boost UDC's development impact and processes**

- i. **UDC should develop a formal theory of change framework.** This will enable a clear and structured approach of achieving its development impact. The existence of such frameworks was not confirmed during the evaluation period. The recommendation is to develop corporate, sector, and investee level Theory of Change Frameworks.
- ii. **Strengthen development impact analytics.** There is need for enhancing UDC's development impact analytics to explicitly account for the economic, social and environmental impact of its investments by adding more development impact measures. Specifics are discussed in section 5.5.3.3.3 on page 136.
- iii. **UDC should establish KPIs for its Investments** which are monitored regularly to boost prioritisation of UDC's development agenda, strengthen accountability to stakeholders, and evaluate effectiveness by assessing whether UDC investments are achieving intended outcomes.
 - o To enforce adherence UDC could further set milestones and incentives to prioritise development impact by investments such as creating 100 jobs by the first year, 200 jobs by year 2, after which at least maintained these many jobs etc.
- iv. **The government should establish for all DFMs.** Before approval for investment, government should establish development impact performance targets as part of the capitalisation framework. The government should outline the expected social economic, and environmental impact outcomes for any given amount of funding disbursed for development financing. Specifics are discussed in section 5.5.3.3.5 on page 137.
- v. **UDC should include conducting household surveys** as part of this development impact assessment procedures to assess the trickledown effect of UDC's investments to ascertain the wider impact of its interventions on the quality of life of Ugandans which is the goal of the NDP III.
 - o To reduce the cost of conducting household surveys UDC could consider integrating its household survey tools with surveys conducted by the Uganda Bureau of Statistics (UBOS) such as the Service Delivery and the Uganda National Panel Surveys etc.

697. **Stakeholder engagement**

UDC investments are long-term in nature and take years to become profitable. This usually delays realization of returns on these equity investments, leading to pressures from investors

or stakeholders for quicker returns. Mitigating this risk requires a boost stakeholder engagement strategy. Recommendations include the following.

- i. **Public investee performance disclosure** with a breakdown of how each UDC investment is performing, how funds are being utilized and their development impact. This will enable independent performance comparisons and feedback by all stakeholders. These investments are using public funds and should be willing as part of their agreement to support UDC with accounting for the public funds.
- ii. **Increase meetings cadence.** Regular meetings and feedback forums will allow stakeholders to gain better understanding of UDC's development impact and performance goals.
- iii. **Messaging should prioritise development impact.** UDC should prioritise showcasing its development impact over financial performance in all UDC's communication channels will showcase UDC's true impact.
 - o Examples include showcasing investee success stories using timeseries data to demonstrate the journey from being financially unviable with negative profitability to becoming profitable and financially viable over time.

6.2 Overall OECD Ratings

698. The OECD evaluation Criteria summarised the study's core findings on UDC's institutional strengths and gaps. Based on the OECD-DAC criteria, UDC's performance reflects a mixed picture clear developmental potential constrained by operational inefficiencies and institutional misalignments.

699. The National Planning Authority (NPA) rated UDC as satisfactory on **relevance**, recognising the alignment of its investments with national development goals and its role in high-risk, underserved sectors. However, NPA rated UDC partially unsatisfactory on **coherence**,

Criteria	NPA Evaluation	UDC Investees	Overall Ratings
1. Relevance			
2. Coherence			
3. Effectiveness			
4. Efficiency			
5. Impact			
6. Sustainability			
Overall			

effectiveness, efficiency, impact, and sustainability, resulting in an overall partially unsatisfactory rating (Table 27).

700. In contrast, UDC's funded investments rated the corporation more positively scoring it satisfactory on relevance, effectiveness, impact, and sustainability, and only rating coherence and efficiency as partially unsatisfactory.

Table 28: Summary of the Investments' OECD Evaluation Ratings

Likert Scale Ratings								
OECD Criteria	Indicator	Measures	4	3	2	1	Weighted Rating	
			Very Satisfactory	Satisfactory	Partially Unsatisfactory	Very Unsatisfactory		
Coherence	Internal Coherence	Satisfaction with with MSC's fostering of Knowledge sharing and Mentorship among UDC Funded Investments	0%	57%	29%	14%	2.43	Partially Unsatisfactory
Relevance	Alignment with the Company's Longterm Goals	Satisfaction with the Extent to Which Products and Services Offered by MSC Meet Funded Investments Needs	14%	71%	14%	0%	3.00	Satisfactory
Effectiveness	Ease and Transparency of Application Processes	Rating of the Ease and Transparency of UDC's Processes and Procedures.	29%	71%	0%	0%	3.29	Satisfactory
	Customer Satisfaction	How Satisfied Funded Projects are with UDC's Products and Services.	29%	71%	0%	0%	3.29	Satisfactory
	Responsiveness of Customer Services	How Responsive UDC was When Contacted for Assistance	29%	57%	14%	0%	3.14	Satisfactory
Efficiency	Turnaround Times	Rating of UDC's Turnaround Times.	14%	43%	29%	14%	2.57	Partially Unsatisfactory
Development Impact	Funding Demand / Supply Ratings	Rating of the Impact of UDC's Funding on the Investments' Competitiveness	14%	71%	14%	0%	3.00	Satisfactory
Sustainability	Business Continuity	Confidence in Project's Ability to Continue Operating after the UDC Investment Ends	43%	57%	0%	0%	3.43	Very Satisfactory
Overall Rating							3.0	

701. **Efficiency and internal coherence stand out as the most consistent weaknesses.** Both the NPA and UDC's customers highlighted slow turnaround times and delayed fund disbursement as key bottlenecks. The long processing periods, fragmented release of funds, and lack of predictability in financing have negatively affected the implementation of capital-intensive investments. In several cases, projects faced disruptions or underperformance due

to partial funding, even where UDC had committed to full support. In parallel, the low level of peer connectivity across the UDC portfolio where only 57% of investments reported being linked to other UDC-funded entities points to weak internal coherence. The absence of mechanisms for peer learning, mentorship, market linkage, or joint programming undermines UDC's ability to maximise synergies, reduce transaction costs, or drive ecosystem-wide transformation.

- 702. The results reveal a critical distinction between project-level effectiveness and institutional-level coherence.** While UDC's impact is strongly felt by its direct investees through job creation, production scale-up, and export growth its broader institutional systems remain underdeveloped. This explains why the investees rated effectiveness and impact more favorably than the NPA. However, both groups aligned on inefficiency and weak coordination as systemic risks that constrain the full realisation of UDC's mandate. These insights suggest that UDC's development additionality is currently more visible at the project level than at the institutional level, a gap that must be closed if UDC is to mature into a fully-fledged development finance institution.
- 703.** To improve **efficiency**, UDC should digitise its loan appraisal and disbursement workflows, introduce enforceable service-level standards, and invest in internal performance management systems. For **coherence**, UDC should institutionalise cross-investee collaboration by convening learning platforms, creating sector-based peer networks, and enabling real-time knowledge exchange. At the governance level, UDC should embed these priorities into its strategic plan, supported by clear KPIs for turnaround time, client engagement, and ecosystem coordination.
- 704.** While all other measures also have areas for improvement, addressing the efficiency and coherence gaps is imperatives to UDC's long-term ability to deliver high-impact development financing.

SECTION 7: PROPOSED PHASED IMPLEMENTATION PLAN

705. To operationalise the recommendations of this evaluation and unlock UDC's full development potential, a phased implementation approach is proposed. Each phase is structured to progressively build institutional strength, enhance development impact, and embed financial sustainability while responding to the urgent and long-term needs identified during the review.

7.1 Immediate Actions (0–6 Months)

706. This phase focuses on creating the institutional readiness and fiscal space for transformation. Key actions will secure government capitalisation, strengthen staffing and governance structures, and establish the systems necessary for investment turnaround and accountability. By laying this foundation, UDC will enhance its operational functionality, protect public capital already deployed, and position itself to begin implementing priority reforms.

- i. **Solicit BoU's Feedback:** The first step is for UDC to formally review the evaluation findings and recommendations and provide feedback on the feasibility of each proposal. This will include validating or adjusting proposed recommendations and suggesting viable alternatives where needed. This internal assessment will form the foundation for an implementation roadmap aligned with UDC's strategic goals.
- ii. **Solicit UDC's Feedback on Evaluation Findings** UDC should formally review and validate all evaluation recommendations and propose alternative approaches where necessary to inform a sequenced implementation roadmap.
- iii. **Launch a Comprehensive Portfolio Review.** UDC should conduct a full diagnostic of its 18 investments to assess viability, develop recovery plans and develop performance KPIs for each investment and exit plans.
- iv. **Institutionalise Investment-Level KPIs.** UDC should develop and integrate profitability, liquidity, and development impact KPIs across its investment appraisal and monitoring systems.
- v. **Fill Critical Staffing Gaps and Rebalance Organisational Structure.** UDC should recruit the 29 required technical staff and restructure toward a 70:30 operational-to-administrative ratio to improve frontline investment support.
- vi. **Restore Full Board Composition.** The Ministry of Trade, Industry and Cooperatives (MITC) should appoint two additional board members to meet the UDC Act requirement of nine members.

- vii. **Develop Exit Strategy Guidelines.** UDC should draft and approve a mission-aligned exit strategy framework including phased exits, share buybacks, and mission-aligned investor transfers.
- viii. **Begin Process Digitisation.** UDC should initiate the digitisation of its application, appraisal, and disbursement processes to reduce turnaround times and align capital with sectoral cycles.
- ix. **Design a National Awareness Campaign.** UDC should develop a targeted communication campaign to increase visibility of its mandate, products, and success stories, especially in underserved regions.
- x. **Strengthen Investment Appraisal Processes.** UDC should immediately reform its investment appraisal framework by:
 - Integrating quantitative, merit-based indices such as development impact scores and economic contribution metrics to ensure objectivity and alignment with national priorities.
 - Institutionalising additionality checks using counterfactual assessments to confirm that UDC support is not crowding out the private sector.
 - Enhancing investment agreements to include governance rights (e.g., veto power over critical decisions) and enforceable data-sharing obligations to improve accountability and oversight.
- xi. **Capitalise UDC with UGX 1.104 trillion.** Government should urgently disburse UDC’s capitalisation in three annual tranches aligned with its UGX 1.104 trillion pipeline investment plan (2024/25–2026/27).
- xii. **Establish Performance-Based Capitalisation Frameworks:** Government (MoFPED) should tie future funding to time-bound KPIs and milestones such as jobs created, tax revenue, and export earnings. MoFPED should integrate these into capitalisation agreements.
- xiii. **Coordinate with Other DFMs.** Government (MoFPED and MITC) should convene quarterly DFM coordination platforms to harmonise outreach, share insights, and jointly design cross-cutting interventions.

7.2 Short Term Actions (6 – 12 Months)

- 707. This stage focuses on embedding reforms across UDC’s internal systems and governance structures. It institutionalises performance-based financing, establishes technical support and governance advisory units, and operationalises visibility and resource mobilisation

functions. These interventions will enable UDC to begin functioning as a full-spectrum development partner while reinforcing transparency, risk management, and public accountability.

- i. **Operationalise Advisory Services Unit.** UDC should establish and fully resource a technical assistance unit to deliver financial literacy, risk mitigation, and operational support across the investment lifecycle.
- ii. **Establish the Centre for Corporate Governance & Advisory.** UDC should launch a dedicated centre to strengthen governance practices within investee companies, support board formation, and build strategic oversight.
- iii. **Roll Out Executive and Staff Performance Contracts.** UDC should institutionalise performance-linked contracts at all leadership and departmental levels, aligned with investment and development outcomes.
- iv. **Finalise and Approve Exit Strategy Framework** UDC's Board should formally adopt and apply the exit framework across existing and new investments, using performance milestones to trigger divestment pathways.
- v. **Launch the Public Awareness Campaign.** UDC should implement the national visibility campaign through radio, television, social media, and DFM networks to boost awareness and stimulate pipeline demand.
- vi. **Activate the Strategic Resource Mobilisation Unit.** UDC should establish a specialised unit tasked with attracting concessional, blended, and private capital from development partners and local institutional investors.
- vii. **Adopt a Structured Shareholding Policy.** UDC should develop and enforce a policy that matches shareholding levels to the complexity, risk, and governance needs of each project, ensuring strategic control in high-risk investments.

7.3 Midterm Actions (1 – 3 Years)

708. This stage focuses on consolidating operational improvements and amplifying UDC's development footprint. Investment portfolio performance improves, inclusion is deepened, and data systems support rigorous monitoring. UDC begins delivering consistent, scalable impact aligned with Uganda's industrialisation and job creation targets.

- i. **Implement the Mixed Investment Model.** UDC should rebalance its portfolio to include short term, midterm, and long-term investments, enabling revenue from viable projects to subsidise patient capital initiatives.

- ii. **Strengthen Development Impact Measurement Systems.** UDC should institutionalise baseline data collection, automate monitoring dashboards, and align indicators with international DFI standards.
- iii. **Operationalise the Legal and Regulatory KPI Dashboard.** UDC should create a dashboard to track compliance with the Companies Act, ESG requirements, and governance standards across all operations and investments.
- iv. **Institutionalise Peer Learning Among Investees.** UDC should facilitate structured mentorships, peer exchanges, and communities of practice among investees to accelerate learning and improve project success rates.
- v. **Promote Inclusive Governance and Leadership.** UDC should enforce gender and youth inclusion policies by achieving 40% female board representation and recruiting youth/PWDs into leadership pipelines.

7.4 Longterm Actions (Above 3 Years)

709. This final phase institutionalises reforms and positions UDC as a mature DFI with the capability to sustainably scale national development investments. UDC and government will focus on legal reform, capital recycling, regulatory coherence, and regional industrial leadership.

- i. **Support the Enactment of a Dedicated DFM Legal Framework.** Parliament, in collaboration with MoFPED and MITC, should pass legislation to harmonise mandates, governance, and performance measurement across all DFMs.
- ii. **Institutionalise Independent Evaluations Every 3–5 Years.** Government (MoFPED and NPA) should formalise periodic evaluations of UDC and other DFMs to ensure strategic alignment, accountability, and performance improvement.
- iii. **Fully Automate Investment Lifecycle Systems.** UDC should complete digitisation of the entire investment process, from application and appraisal to post-investment monitoring and exit tracking.
- iv. **Roll Out a National Development Impact Scorecard.** MoFPED should develop and enforce a standardised scorecard used across DFMs to report contribution to Vision 2040 and NDP IV targets.
- v.

- vi. **Expand UDC's Role in Regional Industrialisation Hubs.** UDC, in partnership with the Uganda Investment Authority and MITC, should anchor investments in regionally balanced industrial parks and agro-processing zones.
- vii. **Institutionalise Performance-Based Capital Reflows.** UDC should recycle returns from successful projects into a dedicated internal development fund, reducing long-term reliance on annual government capitalisation.

SECTION 8: APPENDIX ITEMS

8.1 OECD EVALUATIONS RATINGS

710. The OECD criteria were utilized to summarise key evaluation findings and assign ratings to UDC's performance in terms of relevance, coherence, effectiveness, efficiency, impact, and sustainability, based on a standardized Four-Point Likert scale framework. These ratings will provide a baseline for future government evaluations. Different performance aspects were considered for each OECD criterion.

8.1.1 Relevance Rating

Table 29: OECD Evaluation Rating of UDC's Relevancy

Measures	Rating	Reason for Rating
1.Alignment of UDC's mandate with the NDPIII and Vision 2040.		• UDC's mandate is aligned with the NDP III and Vision 2040 as described above. This relevancy can however be strengthened by aligning UDC's planning framework with the NDP five-year planning cycle. Rating is 3.
2.Alignment of UDC's interventions and investments with Uganda's development needs and priorities.		• UDC's prioritises agriculture and this is in alignment with Uganda's development priorities which also emphasise agriculture as key for improving the quality of lives of most Ugandans. The rating is 4.
3.Response to social, economic and political changes.		• By supporting investments during the pandemic and offering affordable rates, UDC has adapted to environmental, socio-economic and political changes to ensure the relevance of its strategies and programs. Rating is 4.
Overall Rating		• Total score for UDC's relevancy is 11 and average is 11/4 = 3.7

Four-Point Likert Rating Scale

 4. Very Satisfactory
  3. Satisfactory
  2. Partly Unsatisfactory
  1. Unsatisfactory

8.1.2 Coherence Rating

711. Evaluation of UDC's coherence included assessing its internal and external coherence. Internal coherence was measured by evaluating the extent of harnessing linkages between UDC's investees for mentorship, sharing best practices, and cross selling opportunities. External coherence was measured by the extent of synergies and collaboration with other DFMs included in the scope of this evaluation. These include UDB, ACF, MSC, and UAIS.

Table 30: OECD Evaluation Rating of UDC's Coherence

Measure	Rating	Reason for Rating
Internal Coherence		• There was no observed collaboration between any of the UDC investees. Each investment seemed to be operating in a silo. • UDC should encourage sharing best practices, and lessons learned especially at a sector level. An example will be conducting workshops for all UDC's Tea growers to learn and advise each other, or the fruit companies etc. Rating is 2.
External Coherence		• There are tremendous prospects of increasing UDC's effectiveness and efficiency through collaboration with other DFMs such as MSC to offer loans to outgrower farmers, UAIS to offer agricultural insurance, knowledge sharing, cost sharing etc. • Another measure of external coherence was the collaboration with the private sector and development agencies which is demonstrated through co-ownership of equity investments. • Rating is 2.
1. Overall Rating		• Total score for UDC is 4 and the average rating is $4/2 = 2$

Four-Point Likert Rating Scale**8.1.3 Effectiveness Rating**

712. This measured UDC's ability to achieve its objectives and desired outcomes and involved an evaluation of UDC's operations, systems, processes, and procedures. Aspects considered included UDC's portfolio, organisational structure, staffing, investment criteria, risk management, lending interest rates, funding, financial performance, monitoring and evaluation and branding, marketing and public awareness. Details about each of these measures are discussed in previous sections.

Table 31: OECD Evaluation Rating of UDC's Effectiveness

Measure	Rating	Reason for Rating
2. Portfolio / Investments.		• UDC investments are aligned with Uganda's development goals with agriculture being the priority sector and leveraging equity financing to offer affordable long-term patient capital. • There is however need for diversifying UDC's portfolio to include Mid-term and shorter-term investment to smoothen cashflow and mitigate portfolio risk. Rating is 3.

Measure	Rating	Reason for Rating
3. Organisational Structure		- There is need for realigning UDC's organisational structure with its development goals, including resource optimisation to increase technical staff, adding teams to enable dedicated direct oversight, and improved post investment service delivery. Note organisational restructure plans were already underway at UDC. Rating is 2.
4. Staffing		Opportunities of filling open positions, adding staffing and digitalisation are proposed to increase capacity as UDC was understaffed during the evaluation period. Rating is 1.
5. Investment Criteria		UDC's investment appraisal processes and procedure are robust and consider most aspects of development financing in the investment decision making. There is however need for enforcing adherence given past decision such as investing in Atiak Sugar Factory which violated its sectoral limit requirement marginalizing its governance and impacting UDC's sustainability. Rating is 2.
6. Lending Interest Rates		UDC's lending interest rates are among the lowest in the country ranging between 6% to 15% with over 82% paying below 10%. Rating is 4.
7. Risk Management		UDC did not have a dedicated risk management team, yet the corporation's is serving a portfolio of very high-risk high-impact investments which require prioritising risk management to support their recovery and growth. Rating is 2.
8. Funding		Government financing is the only source of funding for UDC. This usually insufficient, inconsistent. Lack of funding has been identified as a critical risk that is limiting UDC's ability to effectively operate. Rating is 1.
9. Financial Viability		Most of UDC's investments are unprofitable and unable to pay dividends, repay their shareholder loans debt. Positives signs were, however, observed through its growing revenues and improved operational efficiency. Rating is 2.
10. Monitoring and Evaluation		There is need for strengthening the monitoring and evaluation team through increased capacity to increase the level of oversight and monitoring of its high-risk investment. Rating is 2.
11. Brand Awareness		With nearly ½ of the public unaware of UDC, and all most of those sampled indicating lack of information as the major hindrance of their potential future demand, results indicate a need for enhancing UDC's communication and outreach to ensure Ugandans understand its role and contributions. Rating is 2.
12. Overall Rating		Total score for UDC is 18 and the average rating is 18/10 = 1.8 or ~ 2.

8.1.4 Efficiency Rating

713. UDC's efficiency was assessed based on the turnaround times, operational efficiency, the use of technology, digitalisation and innovation to improve its operational efficiency, and the corporation's data management framework.

Table 32: OECD Evaluation Rating of UDC's Effectiveness

Measure	Rating	Reason for Rating
Turnaround times.		Turnaround times were much higher when compared to regional DFMs such as Kenya Development Corporation or domestic banks such as Stanbic. Among others inadequate capacity and limited digitalisation impact UDC's turnaround times. Rating is 2.
Operational efficiency.		- UDC's cost-to-income ratio shows an improvement in its operational efficiency, indicating that the corporation has consistently achieved its development goals at lower costs. The cost of managing an investment has also reduced significantly from 2.2 billion to 1.4 billion. - There is, however, room for continued improvement to reach the ideal operational efficiency ratio of 50% compared to the 210% that it is. Rating is 2.
Use of technology and innovation to improve the operational efficiency.		At the time of conducting this evaluation most of UDC's processes were manual resulting in long turnaround times and information management risks. There were, however, ongoing initiatives to automate some of the corporation's processes. Rating is 2.
Data Management and Reporting		UDC's ability to showcase its true development impact is constrained due to scanty data availability and manual systems. Most data requested for to support the evaluation was not readily provided. Rating is 1.
Overall Rating		Total score for UDC is 7 and the average rating is $7/4 = 1.75$ or ~ 2.

Four-Point Likert Rating Scale



8.1.5 Development Impact Rating

714. Rating of UDC's impact was based on the development impact in terms of jobs created, government revenue, foreign exchange etc., and the processes and procedures used to

estimate development impact. UDC's counterfactual development impact was also assessed as a measure of additionality as well as its catalytic effect.

Table 33: OECD Evaluation Rating of UDC's Impact

Measure	Rating	Reason for Rating
Development impact in terms of jobs created, government revenue, foreign exchange etc.		- UDC has potential of more than doubling its development impact through enhanced oversight of its investments and increasing its operational capacity. - Comparisons to the development impact achieved by other regional DFMs in Kenya, Rwanda, and Tanzania, and comparing its development impact to national indices such as contribution to Uganda's employment, to Uganda's GDP, also showcase opportunities of improvement to ensure that UDC contributes significantly to Uganda's 10-fold growth goals Rating is 2.
Development impact and baseline processes and procedures.		UDC faces data constraints due to limited counterparty response from its investees, yet data availability is very important to support monitoring and stakeholder engagement. Baseline household studies were conducted for only 2 of the 18 investments. Time series development impact data could only be provided for 4 of the 18 investments. Rating is 1.
Additivity and counterfactual impact		Majority of investments funded by UDC have high expected development impact but are also high-risk projects that are unable to attract funding from the private market. Rating is 4.
Catalytic effects		- In terms of its catalytic effect, UDC has several funding syndication arrangements with the private market and other development partners. Examples include partnerships with FONUS to fund Nilezilla Fruit Factory, partnership with the Korea International Corporation Agency (KOICA) to fund Soroti Fruit Factory, and collaboration with Savanah Mines Ltd, Saboo Engineering PVT and Moroto Investment agency to set up Moroto Ateker Cement Factory. - UDC has additionally indicated more syndication opportunities that are currently under negotiation. - There are, however, opportunities of strengthening collaboration with private market and international development funds to reduce reliance on government funds. Rating is 2.
13. Overall Rating		Total score for UDC is 9 and the average rating is $9/4 = 2.25$ or ~ 2.

Four-Point Likert Rating Scale

 4. Very Satisfactory
  3. Satisfactory
  2. Partly Unsatisfactory
  1. Unsatisfactory

8.1.6 Sustainability Rating

715. Evaluation of UDC's sustainability included assessing its long-term viability, and that of its investments. Measures considered include UDC's ability to cover its operational costs without relying on government support, revenue diversification, profitability of UDC's investments, Environmental, Social, and Governance (ESG) Integration.

Table 34: OECD Evaluation Rating of UDC's Sustainability

Measure	Rating	Reason for Rating
Profitability		- Majority of UDC's investments are unprofitable. During the evaluation only one investment was paying dividends. - Given sufficient capacity UDC should prioritising handholding its investment to support their recovery and long-term sustainability. Rating is 1.
Reliance on government funding / Ability to cover operational costs		- Government is the primary source of funding and UDC continues to rely on government funding to cover its operational costs. - UDC has demonstrated positive signs of achieving sustainability in the future with three investments contributing to its revenue in the past three years. Rating is 2.
ESG integration.		- ESG integration into UDC's decision making processes provides an opportunity of enforcing UDC's development impact and demonstrating prioritisation of ESG practices. - This could support UDC's access to additional funding as DFMs that demonstrate ESG compliance stand better chances of accessing funding from global markets. - Rating is 2 pending.
14. Overall Rating		Total score for UDC is 5 and the average rating is $5/3 = 1.7$ or ~ 2.

Four-Point Likert Rating Scale





NPA
National Planning Authority



NATIONAL PLANNING AUTHORITY
Plot 17B Clement Hill Road
Planning House, Kampala