THE LIMITED LIABILITY PARTNERSHIP "MISNOMER" IN UGANDA: IMPLICATIONS FOR PRIVATE CAPITAL FUND STRUCTURES

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Introduction

In many jurisdictions, limited partnerships are the preferred legal vehicle for structuring private equity, venture capital and other private capital funds. Investors typically commit capital as limited partners to a fund managed by a general partner, who is responsible for raising capital from the limited partners and managing the business of the partnership. The popularity of limited partnerships stems from advantages such as limited liability for the investors, contractual flexibility and tax transparency.

Limited Liability Partnerships in Uganda

Uganda's Partnerships Act, Cap. 110, which commenced in 2010, introduced the concept of limited liability partnerships in Uganda. Before its enactment, Uganda's partnership framework was limited to general partnerships. In its 2004 Study Report on the Reform of Partnership Law in Uganda, the Uganda Law Reform Commission (Commission) recommended the introduction of limited partnerships. It stated that "the introduction of limited partnerships would not only encourage increased investment but also protect sleeping partners from liability accruing from actions and omissions of managers". In comparison, the Commission also considered limited liability partnerships and advised that these were a more specialised vehicle commonly used by professionals looking to protect themselves from professional negligence claims arising from the actions of their co-partners. The Commission suggested that since the majority of Ugandan businesses were still "unsophisticated", a law on limited liability partnerships was not a pressing issue and could be considered at a later stage.

Though the Partnerships Act and the Partnerships Regulations 2025 (Regulations) provide for the formation and registration of limited liability partnerships, these are, in fact, defined to mirror the meaning of limited partnerships instead. A limited liability partnership under the Partnerships Act consists of a maximum of twenty people and is required to have at least one general partner and one limited liability partner. The general partner is liable for all debts and obligations of the firm, while the limited liability partner contributes a stated amount of capital to the firm and is not liable beyond that contribution. A limited liability partnership is also required to add the letters "LLP" at the end of its name. Importantly, a limited liability partner is restricted from taking part in the management of the partnership business; otherwise they will lose their limited liability status.

Uganda has also taken steps to attract foreign private capital funds to register and operate in Uganda. The Partnership Regulations, 2025, provide for the registration of foreign limited liability partnerships in Uganda. A foreign limited liability partnership that intends to carry on business in Uganda, establish a place of business in Uganda or act as a partner in a Ugandan limited liability partnership is required to register with the Registrar of Companies before commencing the business. The Regulations define a foreign limited liability partnership as a firm registered or established as a limited liability partnership, or as an entity of a similar nature outside Uganda, in accordance with the laws of the country where the registration or establishment was effected.

Departure from Internationally Accepted Nomenclature

The meaning of a "limited liability partnership" under the Partnerships Act differs significantly from the meaning commonly given to this term in other jurisdictions. Generally, a limited liability partnership is defined as a body corporate with perpetual succession and separate legal personality from its partners. In jurisdictions such as Kenya and the United Kingdom, a limited liability partnership combines the attributes of a separate legal personality of a company with the organisational flexibility of a traditional partnership, making it a kind of hybrid.

On the other hand, a limited partnership is commonly understood as a partnership having two distinct categories of partners. These are general partners who manage the business and bear unlimited liability for the partnership's debts and obligations, and the limited partners who contribute capital, benefit from limited liability up to the amount of their capital contribution, but do not take an active role in the management of the business. This definition is adopted in jurisdictions

such as the United Kingdom, Kenya and Mauritius, which is a popular domicile for private capital funds.

Uganda's Partnerships Act assigns the characteristics of a limited partnership to a limited liability partnership. This results in a mismatch between the name and the substance of the limited liability partnership vehicle in Uganda, amounting to a misnomer.

The rationale for departing from internationally accepted nomenclature by the drafters of the Partnerships Act is not entirely clear. In its 2004 Report, the Uganda Law Reform Commission simply noted that during consultations, stakeholders advised that limited partnerships be referred to as limited liability partnerships instead.

Practical Implications for Private Capital Funds

A preliminary review of Uganda's Partnerships Act and Regulations could suggest that limited partnerships, as commonly understood in many jurisdictions, are not expressly recognised in Uganda. The definition of a foreign limited liability partnership partly addresses the recognition of limited partnerships in Uganda by referring to "an entity of a similar nature outside Uganda". In practice, however, foreign private capital funds and their advisors may still require additional advisory services to understand how Uganda's limited liability partnership operates, in substance, like a limited partnership. This increases transaction costs and structuring timelines.

The misnomer in the Partnerships Act also affects the country's competitiveness as a top choice of domicile for foreign private capital funds. In seeking to attract private capital, countries offer legal vehicles that are not only operational but also easily understood by global investors, as laws that are internationally aligned reduce perceived risk and improve investor confidence. Foreign investors, regulators and advisors rely on familiar legal terminology when assessing risk, tax treatment and legal rights, among other factors. Aligning terminology with substance would strengthen Uganda's value proposition as an ideal domicile for foreign private capital funds.

Limitations in access to finance from traditional funding sources in Uganda make private equity, venture capital, and other private funds attractive alternatives for flexible, long-term financing. Harmonising Uganda's partnership terminology with global standards will enhance legal certainty and signal the country's legal and commercial sophistication, consequently encouraging the registration of more private capital funds in Uganda. Achieving this would require renaming the existing limited liability partnership vehicle so that the statutory label accurately reflects its substantive characteristics as a limited partnership.

The misnomer in the Partnerships Act also affects the country's competitiveness as a top choice of domicile for foreign private capital funds.

Conclusion

As Uganda seeks to position itself as an attractive market for private capital, legal terminology must match legal substance. The current legal framework provides a suitable vehicle for private capital funds; however, the use of the label "limited liability partnership" for what is, in substance, a limited partnership creates avoidable confusion. Until the terminology is clarified, foreign private capital funds will need additional legal support to understand the Ugandan partnership structure. Harmonising this terminology with international standards will create the investor confidence required to grow the sector in Uganda.

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