WHO WILL FUND UGANDA'S MANUFACTURERS?

The missing link in Uganda's industrialisation story

By **Patrick Kumakech**, Economist

Why do manufacturers struggle to access affordable long-term finance?

Are commercial banks meeting the industrial needs?

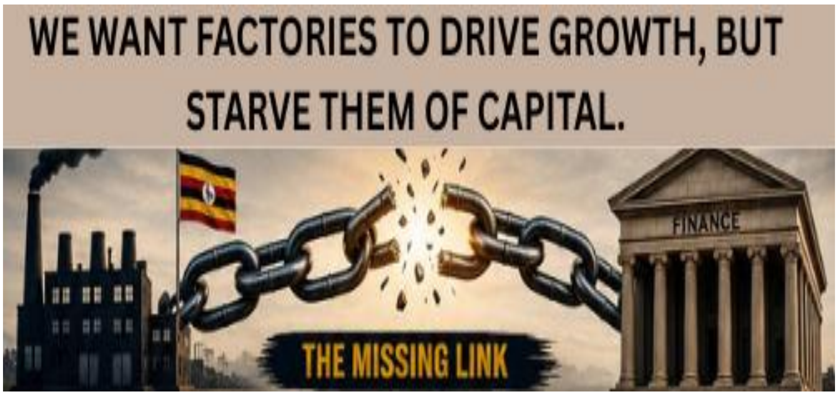
Is Uganda's financial sector structured to support industrial transformation?

What lessons does Uganda learn from successful industrial economies?

16.5%	2M+	$2.2
Manufacturing share of GDP (target: 25% by 2040)	People directly employed by manufacturing	Return for every $1 spent in manufacturing

INTRODUCTIONS

Uganda is currently aiming to achieve a USD 500 billion economy by focusing on industrialization as outlined in the National Development Plan III, IV and Vision 2040. The ATMS (Agro-industrialisation, Tourism development, Mineral development, Science, Technology and Innovation), serves as a framework for this ambition. However, a significant gap exists between policy discourse and actual capital investment, hindering progress in private-sector participation. Currently, the manufacturing sector, as the engine for economic growth, struggles due to limited access to financing and inadequate infrastructure. With over 78% of the population under the age of 30, unlocking the potential of this youthful demographic is crucial for sustainable development. Addressing these challenges and securing the necessary investment is vital for realising the objectives of NDP IV and ensuring long-term sustainability and prosperity for all Ugandans.



Uganda's manufacturing sector currently contributes 16.5% of GDP despite policy targets of 25% by 2040, contributing about 30.3% to tax, sustainably employing over 2 million people directly and 4.5 million indirectly, over USD 12.7 billion in exports, consuming over 60% of electricity and is the largest contributor to the National Social Security Fund (NSSF). The issue isn't a lack of entrepreneurs because Uganda has been ranked the most enterprising economy in the world, which points to the most pressing issue of a lack of affordable, patient capital for entrepreneurs to invest into productive use.

> ***"The most pressing issue is a lack of affordable, patient capital for entrepreneurs to invest into productive use."***

NUMBERS TELL THE STORY.

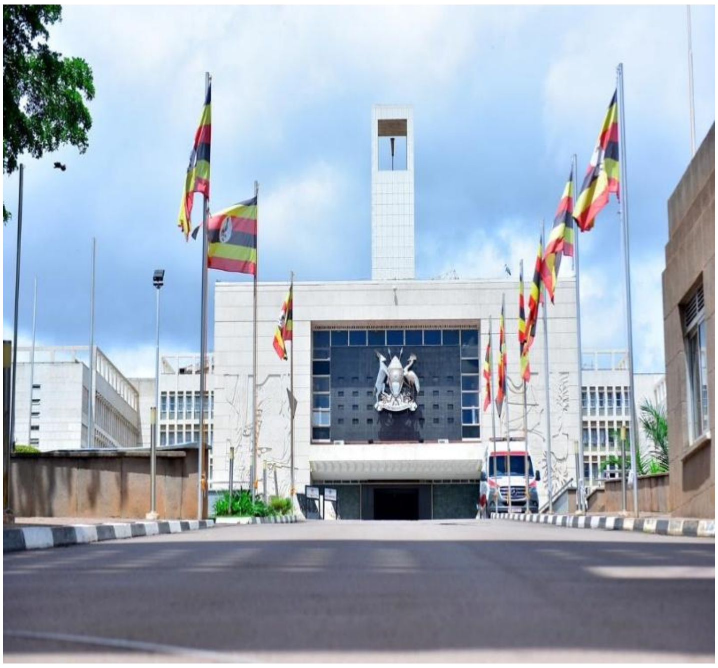
Commercial lending rates in Uganda range between 18-20%, hindering manufacturers from investing in machinery that requires a 7-15 year payback period. In contrast, Government borrowing through treasury bills and bonds offers a risk-free return of 15-17%, prompting banks to favour Government loans over manufacturing.

> *“For every $1 spent in manufacturing, the return is approximately $2.2 compared to $0.4 from Government spending a 5.5x multiplier on the economy. Yet banks continue to choose T-Bills over transformers.”*

Over 70% of Ugandan manufacturers are SMEs, yet banks' stringent loan sizes and collateral requirements effectively exclude them. While the central bank has set up the Agriculture Credit Facility (ACF) and Small Business Fund (SBF), these funds have underperformed due to conflicts between bank and Government loans, lack of awareness, and insufficient incentives for banks to promote them.

THREE PLAYERS, THREE LIMITATIONS.

Commercial banks are profitable but short-term. Banks are pro-risk managers. in manufacturing and long payback periods, a 5-year loan at 20% is safer than a 10-year loan at 16%. Not until Government borrowing costs fall will banks choose factories over T-Bills. The Government plans to borrow UGX 11.97 trillion domestically to finance a budget of UGX 84.3 trillion, crowding out private sector lending.



Government is the biggest borrower yet the smallest direct lender. The Government tries to fill financing gaps via Uganda Development Bank (UDB), Emyooga, and the Parish Development Model (PDM). But UDB is capitalised at only UGX 1 trillion against a manufacturing financing gap of UGX 3-4 trillion annually. Budget financing to manufacturing is just 1.2% of total Government spending. Every UGX 1 trillion borrowed domestically is UGX 1 trillion not available for factories.

Development finance institutions are patient but limited. UDB, AfDB, and DFI funding offer loans of 10-15 years at 10-14%, more aligned with manufacturer needs. However, approval processes are slow and local bank on-lending margins add 3-4%. DFI funds do not reach SME factory owners in Namanve quickly enough, leaving over 70% of the economy underserved.

> *As the country pursues economic transformation, the financing gap facing manufacturing may be the biggest obstacle standing between policy aspirations and industrial reality*
>
> ***“INDUSTRIALIZATION WITHOUT INDUSTRIAL FINANCE IS MERELY AN AMBITION”***

FIVE SOLUTIONS TO UNLOCK MANUFACTURING FINANCE.

Reduce Governments domestic borrowing. Reducing domestic borrowing cuts public spending and money creation to lower inflation. This eliminates crowding out, dropping interest rates so manufacturers can access affordable credit without driving up production costs.

De-risk manufacturing for banks through Credit guarantee schemes. The government and donors' backstop 50% of manufacturing loans. Uganda's partial credit guarantee scheme is underutilised, therefore necessitating expansion it and simplifying claims.

Scale UDB to meet the manufacturing gap financing threshold of UGX 3-4 trillion. A new mandate should channel funds to manufacturing via commercial banks.

Build and strengthen local capital markets for manufacturers. Allow manufacturers to raise between UGX 5-20 billion through corporate bonds on the Uganda Securities Exchange (USE), paired with tax incentives for bond investors.

Optimizing domestic tax administration. This can be done through digital integration and cutting back on inefficient tax exemptions, governments can unlock the sustainable revenue needed to stop aggressive local borrowing, thereby forcing commercial banks to offer affordable, patient capital to manufacturers.

THE HARD TRUTH

NO ONE WILL FUND UGANDA'S MANUFACTURERS OUT OF GOODWILL Capital flows where risk-adjusted returns are high. Today it is Government securities, tomorrow it must be factories. The shift requires lowering fiscal deficits, shared risk, and patient capital instruments.

If we are to fund Uganda's manufacturers, we must change the incentives. The capital is available; it is just sitting in T-Bills. It has to be moved to factories.