



UNLOCKING PRIVATE SECTOR GROWTH IN UGANDA: ADDRESSING FISCAL AND EXTERNAL SECTOR CHALLENGES

INTRODUCTION

Uganda's private sector is the engine of its economy, responsible for over 80% of employment and a pivotal driver of investment, innovation, and economic diversification. Despite its significance, the sector faces mounting challenges stemming from fiscal pressures, external vulnerabilities, and structural constraints that hinder its development and competitiveness.

The Fiscal Strain and Rising Debt

Uganda's public debt has escalated dramatically, reaching **UGX 106 trillion (roughly USD 29 billion)** by December 2024 a staggering **303% increase since 2015**. This rising debt is largely driven by the government's reliance on borrowing to bridge revenue gaps, with domestic debt accounting for half of the total. High levels of public debt exert considerable pressure on the economy: they elevate interest rates, crowd out private sector credit, and limit the availability of affordable finance for entrepreneurs and SMEs a crucial component of economic growth and job creation.

Efforts to fund public spending through domestic borrowing often translate into higher borrowing costs. Commercial banks in Uganda tend to prioritize government securities, including treasury bills and bonds, which are considered low-risk. As a result, the private sector faces limited access to credit, elevated interest rates averaging nearly 18% and restricted capacity to expand operations or invest in innovation.

Taxation and Revenue Challenges

Compounding these fiscal challenges is Uganda's low tax-to-GDP ratio of just **13.8%**, well below the regional target of **20%**. The narrow tax base is a result of widespread tax evasion and a large informal economy where many businesses and individuals operate outside the formal tax system. Public perceptions of unfairness, inefficiency, and corruption further discourage compliance.

This limited revenue hampers the government's ability to invest in infrastructure, social programs, and policies that foster private sector growth. It also constrains its capacity to support targeted interventions such as SME financing, industrial development, and trade facilitation.

Impacts on Private Sector Development

High borrowing costs and limited fiscal capacity translate into a challenging environment for private enterprises. Small and medium-sized businesses, which are vital for job creation and innovation, often struggle to secure affordable credit. This restricts their ability to scale operations, adopt new technology, and diversify exports a critical need for Uganda to reduce its persistent trade deficits.

Uganda's trade imbalance is driven by reliance on exporting raw commodities like coffee and mineral products while importing manufactured goods, fuel, and machinery. Structural constraints such as fragmented supply chains, poor product standards, weak trade infrastructure, and limited access to finance hamper the country's ability to move up the value chain and tap into regional and global markets.

Pathways to Sustainable Growth

Addressing Uganda's private sector hurdles requires strategic reforms and coordinated policy actions:

Revenue Mobilization

Expanding tax base and improving compliance to boost government revenues.

Private Sector Financing

Innovative financial instruments for SMEs and banking support.

Regulatory Reform

Simplifying tax administration and creating a business-friendly environment.



Debt Management

Prudent borrowing strategies and diversified financing sources.

Infrastructure Investment

Upgrading infrastructure to reduce trade costs and enhance competitiveness.

Conclusion

Uganda's private sector holds great potential to propel inclusive, resilient economic growth. Overcoming fiscal constraints and external vulnerabilities through well-designed reforms and strategic investments is essential. Strengthening revenue collection, managing debt prudently, and enhancing access to finance will create a conducive environment where private enterprises can thrive, diversify exports, and contribute to sustainable development. Unlocking this potential will require strong political commitment, targeted policy interventions, and active engagement of all stakeholders including government, financial institutions, and entrepreneurs.

By implementing these measures, Uganda can build a resilient private sector capable of driving long-term prosperity and improving living standards for its citizens.