

Shilling rallies on export inflows:

Financial markets analysts and Alpha Capital managing partners at the weekend said the shilling's rally strengthened on export inflows and investor appetite for bonds, with tight liquidity curbing dollar demand as Bank of Uganda held rates steady. However, he warned of looming inflation, fuelled by Middle East tensions.



Tax incentives. |

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A report by the Ministry of Finance's Tax Policy Department reveals that while Uganda's generous tax holidays are helping some foreign investors expand rapidly, many beneficiary firms still rely heavily on imported machinery and intermediate goods rather than buying from Ugandan suppliers.

This, the report says, weakens the domestic industrial transformation that the incentives are intended to create.

The Cost-benefit analysis of Uganda's 10-year tax holidays for strategic sectors and exporters' report reveals that firms benefiting from tax incentives remain below government's 70 percent local-input benchmark and, in some cases, reduced local sourcing after receiving tax breaks.

Thus, the report notes, the tax holiday policy "does not appear to increase local sourcing and is associated with reduced local input use," revealing that many qualifying firms are scaling production using imported intermediate goods rather than strengthening domestic supply chains.

The findings are part of government's comprehensive evaluations of corporate tax incentives, examining whether the 10-year corporate income tax holidays generate enough economic returns to justify the billions of shillings in forgone revenue.

The study shows that tax incentives are producing mixed results across sectors. Overall, strategic investors generate about Shs2.49 in economic benefits for every Shs1 in tax revenue forgone, while exporters generate Shs1.85 for every Shs1 lost.

But the report says those gains are heavily concentrated in a few sectors, especially manufacturing and export agriculture, while other sectors produce little economic value despite receiving substantial tax relief.

Manufacturing emerged as the strongest-performing sector under the incentive regime, recording a benefit-cost ratio of 5.49 and employing about 5,880 workers under the strategic investor scheme. Export-oriented agriculture

Foreign investors importing inputs instead of local sourcing - govt report



Despite generous tax holidays, many foreign investors continue relying on imports instead of strengthening Uganda's domestic supply chains and exports. PHOTO / FILE

also performed strongly, with exporter agricultural firms posting a benefit-cost ratio of 4.78 and employing about 2,357 workers.

Yet even in these high-performing sectors, the report found that growth is being driven largely by imported capital and imported production inputs.

Between June 2022 and June 2025, firms under the strategic investor scheme generated approximately Shs219.9b in import VAT, compared to Shs59.4b in domestic VAT, reflecting the scale of imported equipment and intermediate goods entering the country through incentivized firms.

Investment in imported plant and machinery by beneficiary firms was estimated at more than Shs1 trillion over the same period.

This pattern, the report warns, undermines one of the central objectives of the industrial policy, which seeks to build domestic production networks and stronger local supply chains.

"Qualifying firms rely more on imported intermediate inputs and scale production faster than local supply chains can support," the report states.

Researchers found that firms in qualifying sectors actually showed a decline in locally sourced inputs after the policy was introduced, while non-beneficiary firms gradually increased local sourcing over the same period.

The report says this means Uganda may be increasing industrial output without proportionately strengthening local production linkages, weakening the multiplier effects that tax incentives are supposed to generate across the wider economy.

The findings also raise concerns about the fiscal trade-offs associated with the incentives.

Although beneficiary firms recorded strong sales growth after receiving tax holidays, increases in government revenue were modest and short-lived.

The report found that taxes paid by strategic-sector firms rose briefly before plateauing, even as sales continued to grow strongly.

The Ministry of Finance warned that Uganda may effectively be "subsidizing scale without securing a durable fiscal payoff."

The report also questions whether some of the employment gains associated with the incentives were truly caused by the policy itself.

While firms under the strategic investor scheme employed more than

Key numbers

70%

Firms benefiting from tax incentives remain below government's 70 percent local-input benchmark and, in some cases, reduced local sourcing after receiving tax breaks.

Shs2.49

Overall, strategic investors generate about Shs2.49 in economic benefits for every Shs1 in tax revenue forgone, while exporters generate Shs1.85 for every Shs1 lost.

12,600 workers and exporters employed another 4,700, researchers found evidence that many beneficiary firms were already larger and faster-growing before receiving incentives.

For qualifying sectors, employment growth among beneficiary firms had already begun before the tax holiday policy was introduced in the 2018/19 financial year, suggesting that the incentives may have rewarded firms already positioned for expansion rather than creating entirely new economic activity.

The sharpest criticism in the report is directed at sectors that received tax relief despite producing minimal economic returns.

Construction firms recorded a benefit-cost ratio of just 0.02 while generating only 23 jobs, while transportation and storage posted a benefit-cost ratio of 0.00 and created just eight jobs.

The report describes these sectors as examples of "deadweight loss" and "fiscal leakage," suggesting the investments likely would have occurred even without tax incentives.

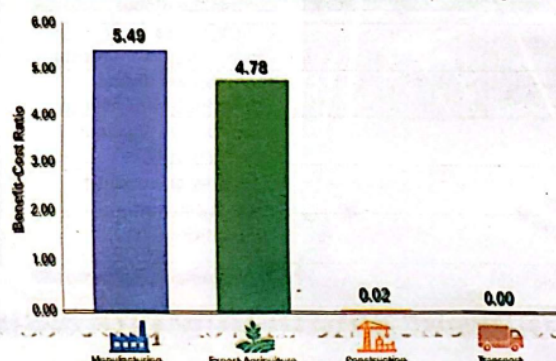
In response to the findings, the Ministry of Finance is recommending an overhaul of the tax incentive regime.

The report calls for a shift away from broad tax holidays toward more selective, performance-based incentives tied to measurable outcomes such as export growth, local sourcing, value addition, and the creation of skilled, durable jobs.

It also recommends removing incentives from low-performing sectors such as construction and transport while strengthening support for manufacturing and agro-processing, where spillover effects appear strongest.

Ultimately, the report argues that while tax incentives can help firms grow, Uganda risks undermining its long-term industrialization goals if foreign investors continue importing most of what they need instead of building strong domestic supplier networks.

Benefit-cost ratio by sector, (benefit for every Shs1 of tax revenue forgone)



Key highlights

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- The Ministry of Finance study shows that tax incentives are producing mixed results across sectors. Overall, strategic investors generate about Shs2.49 in economic benefits for every Shs1 in tax revenue forgone, while exporters generate Shs1.85 for every Shs1 lost.

- Manufacturing emerged as the strongest-performing sector under the incentive regime, recording a benefit-cost ratio of 5.49 and employing about 5,880 workers under the strategic investor scheme.