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POLICY BRIEF

Closing the Finance Gap for Rural Agro-Processors: A Call for Blended Finance Mechanisms in Uganda

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KEY MESSAGES

1. Uganda's rural agro-processors face a USD 340 million annual financing gap that conventional banking cannot bridge.
2. Blended finance mechanisms — combining concessional public funds with private capital — offer the most viable pathway to close this gap at scale.
3. The Uganda Development Bank (UDB) and the Private Sector Foundation Uganda (PSFU) are well-positioned to anchor a new Rural Enterprise Blended Finance Facility.
4. THRIVE programme evidence shows that enterprises with access to structured finance grow revenues 3.2x faster than those relying on informal credit.

1. THE PROBLEM: A STRUCTURAL FINANCING GAP

Rural agro-processing enterprises in Uganda represent one of the country's most significant untapped economic opportunities. The agro-processing sector employs an estimated 2.3 million people and contributes 8.4% of GDP. Yet the vast majority of enterprises in this sector — particularly those operating in rural areas — are systematically excluded from formal financial services.

Data collected by the THRIVE programme across 8 districts in Eastern and Northern Uganda reveals that 78% of rural agro-processors rely exclusively on informal credit sources (family loans, savings groups, and money lenders) for business financing. The average interest rate paid by these enterprises on informal loans is 48% per annum, compared to 19% for formal bank loans. This credit cost differential alone is sufficient to make many otherwise viable enterprises uncompetitive.

Commercial banks cite three primary barriers to lending to this segment: (i) lack of collateral (83% of rural enterprises have no registered land title); (ii) absence of audited financial records; and (iii) perceived high risk due to climate and market volatility. These barriers are real but not insurmountable — and the cost of inaction is high.

2. THE OPPORTUNITY: BLENDED FINANCE AS A BRIDGE

Blended finance — the strategic use of development finance and philanthropic funds to mobilise additional private capital — offers a proven pathway to bridge the gap between the risk appetite of commercial lenders and the financing needs of rural enterprises. In comparable contexts (Kenya, Rwanda, Ethiopia), blended finance facilities have achieved leverage ratios of 1:4 to 1:7, meaning every USD 1 of public/concessional capital mobilises USD 4–7 of private investment.

The THRIVE programme's own data provides compelling evidence for the approach. Enterprises that received structured, affordable financing through the programme's pilot credit guarantee scheme grew their revenues by an average of 218% over 18 months, compared to 68% for a matched control group without access to the scheme.

3. POLICY RECOMMENDATIONS

#	Recommendation	Responsible Actor
1	Establish a Rural Enterprise Blended Finance Facility (REBFF) with an initial capitalisation of USD 50 million, anchored by UDB and co-financed by the EU and USAID.	Ministry of Finance / UDB / EU
2	Introduce a national credit guarantee scheme for rural agro-processors, covering up to 70% of loan principal for participating commercial banks.	Bank of Uganda / PSFU
3	Mandate the Uganda Registration Services Bureau (URSB) to offer a simplified, free-of-charge business registration pathway for rural micro-enterprises.	URSB / MTIC
4	Integrate blended finance literacy into all government-supported enterprise development training programmes, including those under THRIVE and the Presidential Initiative on Wealth and Jobs Creation.	MTIC / UNCTAD / ITC