


Analysis of the Uganda National Budget Framework Paper FY 2025/26

February 2025

SEATINI

Strengthening Africa in World Trade

Contents

Introduction

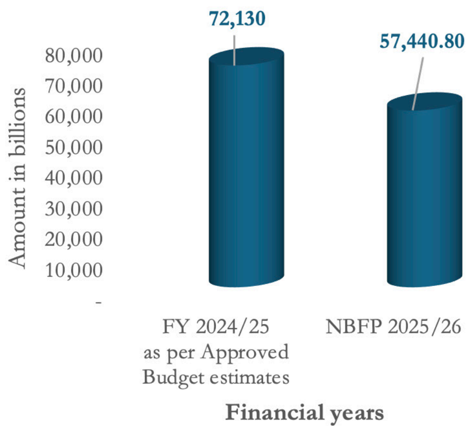
The National Budget Framework Paper (NBFP) presents the Government's overall strategy of the National Budget and provides the linkage between Government priorities and the national budget. The NBFP contains information on the country's economic growth strategy, the medium-term macroeconomic forecasts, the medium-term fiscal framework, compliance with the charter for fiscal responsibility, the resource envelope, policy measures, the medium-term expenditure framework and fiscal risks and mitigation measures. The NBFP further presents details of the proposed Programme plans, interventions and expenditures in line with the Budget Strategy and the National Development Plan (NDP) Programmee Implementation Action Plans (PIAPs).

In December 2024, the Minister for Finance, Planning and Economic Development tabled before Parliament the NBFP for the period 2025/26-2029/30 in line with Article 155(1) and (2) of the Constitution of Uganda and sections 8(3) and 8(5) of the Public Finance Management Act (2015).

The NBFP for FY 2025/26 will be implemented under the theme: *Full Monetization of the Ugandan Economy through Commercial Agriculture, Industrialization, Expanding and Broadening Services, Digital Transformation and Market Access*. The theme clearly expresses Government's commitment to deliver the NDPIV, Uganda vision 2040 and a precursor to the tenfold growth strategy which seeks to grow Uganda's GDP from USD 50Bn to USD 500Bn by 2040.

Financing for FY 2025/26

Figure 1: National budget



The proposed Budget for FY 2025/26 amounts to Ugx 57,440.80 billion reflecting a 20.4% decrease from Ugx. 72,130 billion approved Budget in FY 2024/25

Uganda's Economic Outlook

Uganda's economy is projected to grow by 6.4% at the end of FY 2024/25, at least 7% in FY 2025/26 and to double digits at the onset of commercial production of oil and gas. The key drivers of this growth are investments in the ten-fold economic growth areas and the underlisted areas that have been prioritized by the Government including inter alia; peace and security (of life and property) for all the people of Uganda; Maintenance of roads and bridges, rehabilitation of the Meter Gauge Railway and construction of the Standard Gauge Railway as well as water transport; electricity, with focus on enhancing transmission and distribution, particularly in growth-supporting areas, and Oil and gas activities which are expected to boost growth in other sectors and exports.

It is anticipated that as a result of implementing the above interventions, Uganda's GDP will expand to Shs 250.0 trillion (equivalent to USD 66.1 billion) in FY 2025/26 from Shs 222.7 trillion (equivalent to USD 59.3 billion) in FY 2024/25. This strong growth will result in an increase in income per capita to USD 1,338.7 in FY 2025/26 from USD 1,236.7 by end of FY 2024/25.

Furthermore, it is presumed that starting FY 2025/26 and over the span of the NDP IV period, our macroeconomic outlook will be driven by the following objectives:

- Reducing poverty from the current 20.3% to 14% by FY 2029/30.
- Attaining double-digit growth to double the current GDP by FY 2029/30.
- Achieving an average of 884,962 in stock of new jobs annually over the NDP IV period.

- Maintaining price stability marked by single-digit inflation within the target of 5%.
- Pursuing prudent fiscal policy with the aim of supporting macroeconomic stability which is consistent with regional and domestic fiscal policy rules, specifically ensuring that debt-to-GDP remains below 50% in present value terms and gradually reducing the fiscal deficit to 3% by FY 2029/30; and
- Aggressively implementing strategies to increase the revenue-to GDP ratio to the target of about 20% over the NDP IV period

Medium Term Macro-Economic Policy Framework
The macro-economic framework presented in the NBFP is a true representation of ongoing situations likely to impact budget execution. The projected economic growth rate at 7%, reduced inflation rates kept at single digit 2.9% below the annual target of 5%, stable foreign exchange rates, increased merchant export volumes and values growing by 36.2% in the 12 months to September 2024 when compared to the same period in FY 2023/24, remarkable reductions in Non-Performing Loans (NPLs) by Commercial banks, and increased private sector credit.

Key Observations
Uganda's overall trade balance positions deteriorated to negative in the 12 months to September 2024. Despite enjoying surpluses with other EAC member states, the deficits in Kenya and Tanzania offset the country's export performance registering a net negative trade balance of USD (275.3Mn). The

biggest deficit was registered in Tanzania at USD (1,743.8Mn) on account of existing Non-Tariff Barriers specifically close to 30% Free on Board (FOB) on Ugandan milk including a livestock levy of TZshs 1,000 per litre of milk. The country trade at a positive trade balance with the European union and Middle East, however such gains were offset by deficits with Asia and the Rest of Africa. Alongside export promotion initiatives, *Government should deliberately pursue diplomatic and mutual negotiation strategies with member states to address Non-Tariff Barriers affecting trade relations.*

Uganda's Trade Balance with EAC member states in 12 months to September 2024 (USD million)

Country	Exports	Imports	Trade Balance
Kenya	696.1	882.1	-186.0
DR Congo	756.6	36.7	719.9
Rwanda	309.6	12.0	297.6
Burundi	74.6	1.8	72.8
South Sudan	595.4	31.2	564.2
Tanzania	200.5	1,944.3	-1,743.8
Total	**2,632.8**	**2,908.1**	**-275.3**
SOURCE: Bank of Uganda			

From the monetary side, despite the reduction in commercial bank lending rates from 18.56% in FY 2023/24 to the current 17.89%, the rates remain high raising the cost of capital by investors. The recent legal amendments proposing capping of interest rates to 2.8% per month for money lenders and tire IV financial institutions might have a bearing on money circulation and access to capital for small and medium size enterprises.

III. Medium Term Fiscal Framework

Key Observations

- Despite Government's promise not to introduce new taxes, the Net Revenue collections from URA are projected to increase from UGX-31,982Bn to UGX33,682Bn. This implies, the need for significant improvements in revenue administration measures to improve compliance and close revenue leakages. *There is a risk of increased high handedness of the URA on taxpayers in the bid to meet the targets.* The revenue effort measured by the Tax to GDP ratio projected at 13.4% remains below the 20% target stipulated in the Domestic Revenue Mobilisation Strategy and below the African average of 15.6%[1].

- The resource envelope also predicts an improvement in domestic revenue to budget ratio from 52% in FY 2024/25 to 59% owing to the significant reduction in the total budget. *This is a bold step towards reduced reliance of the economy on costly and unsustainable external funding.*

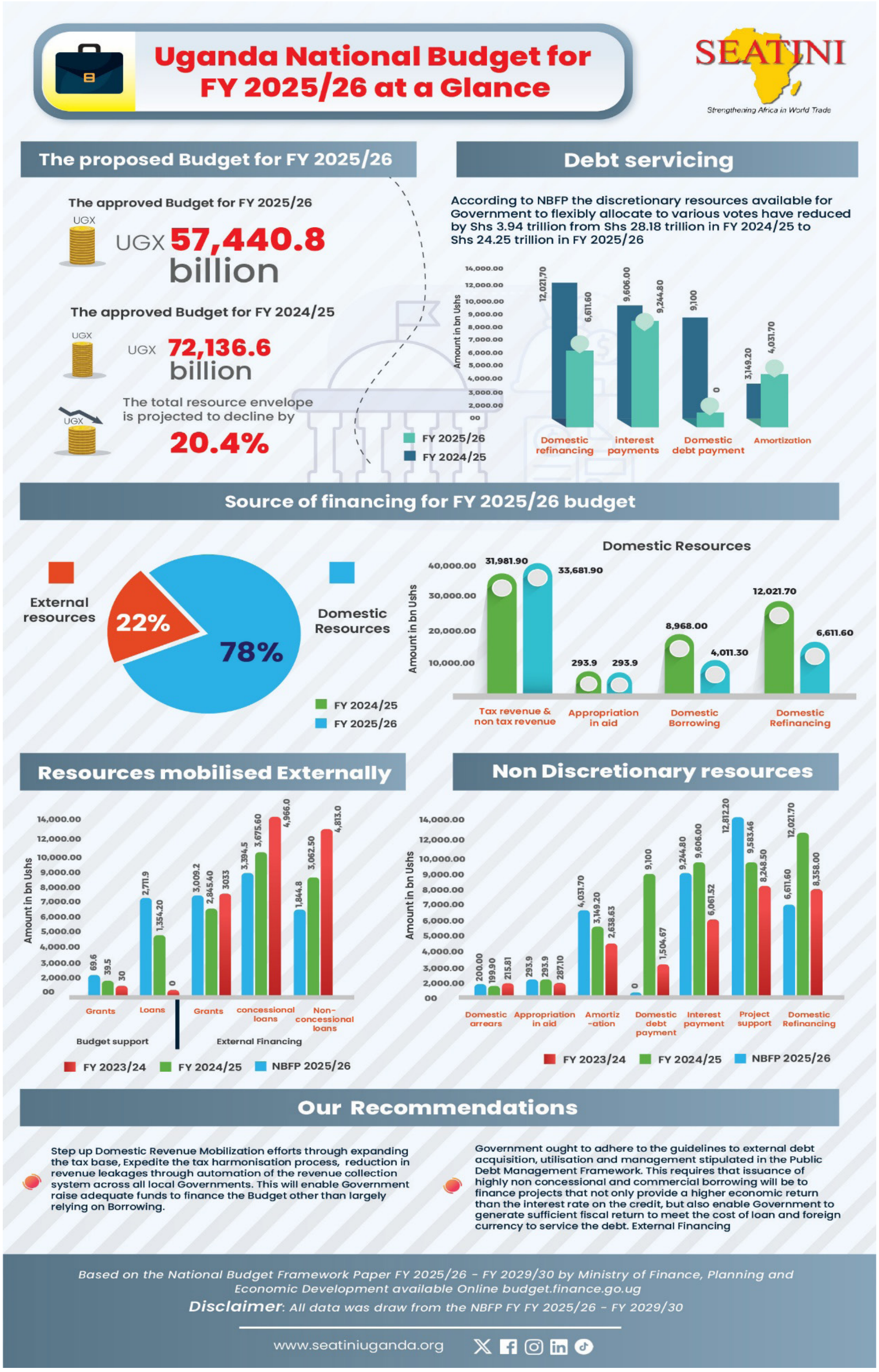
- In the same vein, the Government plans to reduce domestic borrowing

by almost 50% from 8.97 trillion to Shs 4.01 trillion. This is *a significant step towards enhancing access to credit for the private sector and preventing crowding out effects.*

- However, interest payments are projected to amount to Shs 9.245 trillion, equivalent to 3.7% of GDP and 28% of the projected URA collections for FY 2025/26. *This implies that for each UGX 100 worth of revenue collected by URA, UGX 28 will be used for interest payment on debt.*

- The projected budget also reflects a significant increase in external debt repayment, rising from Shs3.149 trillion to Shs4.011 trillion, an increase of Shs882.5 billion. Consequently, government discretionary resource envelope (less amortization, domestic debt payment (BOU), interest payments, external project support, domestic refinancing, domestic arrears, and local revenue) will reduce by Shs 3.94trillion from Shs 28.18 trillion in FY 2024/25 to Shs 24.25 trillion in FY 2025/26. *This represents just 42% of the total budget. Reduced discretionary budge* **Financing for development programme**

Financing for Uganda's National Budget for FY2025/26 at Glance



ALTERNATIVE BUDGET FOR FY 2025/26

Trade, Industry, and Cooperatives

Trade is a crucial driver of Uganda's economy, with agricultural exports such as coffee and tea contributing significantly to national revenue. However, insufficient budget allocations to key institutions like the Uganda National Bureau of Standards (UNBS) and the Ministry of Trade, Industry, and Co-operatives (MTIC) pose a threat to Uganda's competitiveness in global export markets. This analysis explores the impact of these budgetary constraints on the ability of these institutions to foster competitiveness, limit market access, and hinder Uganda's potential for growth in international trade.

The limited funding allocated to the Uganda National Bureau of Standards (UNBS) weakens the government's efforts to enforce product standards across various products. This deficiency compromises Uganda's capacity to meet regional, continental, and international trade requirements, thereby limiting the competitiveness of its exports. The lack of adequate resources for the UNBS hampers its ability to conduct necessary inspections, certifications, and quality assurance processes, which are essential for Uganda to maintain its standing in global trade.

Ugandan producers often struggle to meet the sanitary and phytosanitary (SPS) standards required to export their agricultural products to international markets, which negatively impacts trade. According to the National Budget Framework Paper (NBFP) for FY 2025/26, the government has proposed an allocation of only UGX 0.720 billion to the Uganda National Bureau of Standards (UNBS) under the agro-industrialization programme, a reduction from UGX 0.940 billion in the current financial year. This allocation is insufficient for the UNBS to develop, implement, and enforce the necessary standards to ensure the quality and safety of agricultural products. The lack of adequate standards will undermine the competitiveness of Ugandan products by preventing them from meeting international requirements, limiting market access, and hindering trade opportunities.

Recommendation:

- The government should allocate a more substantial budget to the UNBS' agro-industrialization programme to stimulate trade through the improved quality of agricultural goods.

Insufficient budget allocation to the Ministry of Trade, Industry, and Cooperatives:

The Ministry of Trade, Industry, and Cooperatives plays a vital role in promoting economic growth by fostering trade, diversifying export products, and creating a conducive business environment. However, according to the National Budget Framework Paper (NBFP) for FY 2025/26, the government has proposed a significant 56.9% reduction in the Ministry's budget, lowering it from UGX 164.564 billion in FY 2024/25 to UGX 70.764 billion in FY 2025/26. Furthermore, the non-wage budget, which is essential for operations, will decrease from UGX 156.852 billion to UGX 53.502 billion, accounting for 75.6% of the total budget in FY 2025/26.

The Ministry of Trade, Industry, and Cooperatives is tasked with promoting trade and implementing activities critical to enhancing it, such as research, building international relationships, export promotion, and supporting local industries and cooperatives all of which require substantial funding. The reduction in the non-wage budget will limit the Ministry's ability to execute these activities, significantly hindering its ability to promote trade effectively.

Additionally, the Ministry's budget under the manufacturing programme is proposed to decrease from UGX 160.953 billion in the current financial year to UGX 63.127 billion in FY 2025/26, as outlined in the NBFP for FY 2025/26. The programme's non-wage budget will only account for 79.6% (UGX 50.288 billion) of the proposed budget, down from UGX 154.389 billion (95.9% of the approved manufacturing budget under the Ministry) in the current financial year. This funding is inadequate for the Ministry to develop the necessary infrastructure to support secondary and tertiary manufacturing, as well as to establish and maintain special economic zones for access to domestic, regional, and global markets, ultimately hindering trade.

Recommendations

- The government should increase the MTICs budget allocation, revise the Ministry's manufacturing programme and non-wage budgets to ensure the smooth operation of activities critical to promoting trade.

Reduction in Uganda Investment Authority's wage will slow investment growth and trade

The year 2025 marks the conclusion of the Uganda Investment Authority's 5-year strategic plan, which began its implementation in 2020. This calls for extra effort from the Authority's human resources to ensure the full execution of the plan. While the Authority's overall budget allocation is proposed to increase to UGX 173.916 billion in FY 2025/26, as outlined in the National Budget Framework Paper (NBFP), the wage budget is set to decrease to UGX 6.833 billion in FY 2025/26, down from UGX 7.373 billion in the current financial year. This reduction will impact the promotion and facilitation of investment, undermining the objectives of the soon-to-end strategic plan. The resulting demotivation of employees could hinder their ability to fulfill their responsibilities effectively. Consequently, the inefficiency in attracting and managing investments will directly affect Uganda's trade performance.

Recommendations

- The government should restore the wage budget for the Uganda Investment Authority to ensure that its staff are adequately motivated and capable of fulfilling their mandate effectively.

European Union Deforestation Regulation (EUDR)

Uganda's exports are mainly agricultural products accounting for about 80% of the total exports[1]. Agricultural exports from Uganda include coffee, cotton, cocoa, and tea, among others, with coffee accounting for approximately 18% of total exports, a significant portion of which is destined for EU markets. The production of these products is often linked to human and environmental rights violations, such as deforestation. In response, the European Union (EU) has implemented the European Union Deforestation Regulation (EUDR) to ensure that its imports are deforestation-free and produced without violating human rights. However, compliance with the EUDR requires exporting countries like Uganda to meet stringent requirements, including establishing a fully traceable value chain system from the production plot to the EU importation port. The cost of implementing this directive largely falls on farmers, who must bear compliance-related expenses such as the registration of farm plots. This additional financial burden could reduce farmers' incomes, particularly if consumers are unwilling to pay higher prices for products that meet these requirements.

While coffee and tea are Uganda's primary agricultural exports to the EU, they are most at risk of being affected by the EUDR, which could pose a substantial challenge to trade. Furthermore, the directive may impact the demand for Uganda's agricultural exports in other markets, such as Asia, since China often processes and re-exports agricultural products to the EU. These products would still need to meet the traceability requirements, potentially limiting market access for Uganda's exports.

Recommendations

- The government should provide sufficient resources to the Ministry of Agriculture, Animal Industry and Fisheries and the Coffee Production and Development department to address various sustainability standards and requirements to enhance the preparedness and competitiveness of Uganda's coffee value chain.

Persistent Non-Tariff Barriers in the EAC

According to the EAC Trade and Investment Report 2023, the growth rate of intra-EAC trade declined by 0.3% to 10.9% in 2023 compared to 11.2% in 2022, with the low level of intra-EAC trade at only 15% of total EAC total trade attributed primarily to the implementation of Non-Tariff Barriers by member states.[2]

According to the MoFPED Performance of the Economy Monthly Report for November 2024, Uganda's trade with the EAC Partner States continued to reduce reaching a deficit of USD 82.54 million in October 2024 from a

1 *https://tradingeconomics.com/uganda/exports#:~:text=In%20the%20long%2Dterm%2C%20the,according%20to%20our%20econometric%20models.&text=Uganda%20mostly%20exports%20agricultural%20products%20(80%20percent%20of%20total%20exports).*

2 *https://www.eac.int/trade/internal-trade/trade-and-investment-information*

surplus of USD 51.92 million in October 2023, resulting from a concurrent increase in imports of USD 56.05 million and a fall in exports of USD 78.41 million mainly due to some EAC Partner States imposing duties and NTBs on Uganda's products making them very expensive in their countries.[3] This highlights the growing concern of NTBs that impede Uganda's trade in the EAC region.

On the other hand, the Ministry of Finance revealed that the Middle East emerged as the leading destination for Uganda's exports accounting for 35.4% of the total exports, followed by EAC with 30.2%, Asia with 13.7%, and EU with 13.0%. This highlights an opportunity for Uganda to grow its trade relationship with foreign markets due to the increasing demand for Uganda's exports. However, this calls for economic diversification and value addition to exports to ensure long-term sustainability.

There is a need to address the NTBs that have persistently limited intra-trade in the EAC and other limitations to trade with the rest of the world.

Recommendation

- The implementation of EAC trade policies should be strengthened to achieve the targeted levels of regional trade growth.
- EAC Partner States should develop effective mechanisms to address Non-Tariff Barriers (NTBs) in order to enhance regional trade and resolve trade disputes efficiently.

3 https://www.finance.go.ug/sites/default/files/reports/POE-2024-11-NOV.pdf

- The government should prioritize investment in value addition initiatives to unlock the full potential of agricultural value chains and increase their contribution to economic growth.

Challenges Facing Local Industries and SMEs in the AfCFTA Era

The African Continental Free Trade Area (AfCFTA) offers the promise of expanded market access, simplified trade regulations, and enhanced economic integration across Africa. While the agreement holds significant potential for businesses, it also presents considerable challenges for Uganda's small and medium-sized enterprises (SMEs) and emerging industries. Designed to foster business growth by reducing trade barriers, AfCFTA introduces increased competition that could disadvantage Uganda's smaller players, particularly in a regional market now accessible to larger, more resource-equipped companies from other African nations.

Compounding this issue, many Ugandan SMEs lack a comprehensive understanding of both the opportunities and challenges the AfCFTA presents. The complexities of the agreement—such as rules of origin, compliance with standards, and navigating cross-border trade—pose significant hurdles for smaller businesses, which often lack the capacity to effectively manage these demands. As a result, many local enterprises are at risk of being marginalized in an increasingly competitive regional market.

Recommendation

- The government should prioritize supporting SMEs by implementing targeted training programs, facilitating access to financing, and investing in infrastructure development. Moreover, a strong focus on local industrialization and value addition will be essential to ensuring that Uganda's SMEs remain competitive in the evolving AfCFTA market.

Public Service and Local Government

The Alternative Budget for the Public Service and Local Government Sector for FY2025/26 aims to improve efficiency, enhance service delivery, and ensure fiscal discipline, while addressing the most urgent needs of civil servants and local governments. Key areas requiring immediate attention include salary adjustments, sufficient funding for local government operations, and improvements in social services. At the same time, it emphasizes the implementation of cost-cutting measures to reduce wasteful expenditure, in alignment with the National Budget Framework Paper for the Financial Year 2025/26, with a focus on the Public Service and Local Government sector.

Ministry of Local Government Budget allocation by Programme in FY 2025/26

	NDP4 Programme	Approved Budget FY2024/2025 (UGX. bn)	Proposed Budget FY 2025/2026 (UGX.bn)	Gain/Loss (UGX. bn)
1	Development Plan Implementation	4.930	4.930	0
2	Sustainable Urbanization and housing	1.132	1.611	0.479
3	Regional Balanced Development	191.222	171.481	-17.741
4	Human Capital Development	0.017	0.017	0
5	Public Sector Transformation	27.485	20.243	-7.212
6	Governance and Security	0.473	0.473	0
7	Legislation, Oversight and Representation	0.170	0.170	0
8	Agro-Industrialization 0.396 0.330			-0.066
9	Administration of Justice	0	0.20	0.2
	Total budget across the 9 programs under MoLG	**225.825**	**201.455**	**-24.37**

Source: Report of the committee on public service and local government on the NBFP FY 2025/2026

The Ministry of Finance, Planning, and Economic Development must prioritize increasing funding for critical areas that directly impact local governance and development. For example, programs such as Regional Balanced Development (UGX 17.741 billion) and Public Sector Transformation (UGX 7.212 billion) have experienced budget cuts, highlighting the need for increased allocation to ensure equitable regional growth and the efficient delivery of public services.

Additionally, the Agro-Industrialization program, a key component of the Agricultural Transformation and Modernization Strategy (ATMS), has seen a reduction in its budget from UGX 0.066 billion. This is concerning given the government's commitment in FY2024/2025 to commercialize agriculture, enhance production and productivity, and improve the competitiveness of agricultural products in both regional and international markets.

Recommendation

- We recommend that MoFPED allocates additional resources to the Agro-Industrialization program in line with previous commitments. This will enable the program to succeed in areas such as commercialization, increasing production and productivity, and enhancing the competitiveness of agricultural products in both regional and international markets.

Reduction in budget allocation for the Ministry of Local Government

The Mandate of the Ministry as derived from the Local Governments Act Cap 243 is: *"To guide, inspect, monitor, mentor and advocate for all Local Governments in support of the overall vision of Government to bring about socio-economic transformation of the country".*

Our Observation: the Ministry of Local Government budget has declined by UGX. 24.371Bn. According to the National Budget Framework Paper for FY 2025/26, the Ministry has been allocated a Total Budget of **UGX. 201.455Bn**, of which, lower than the budget allocated in the FY 2024/25, the Ministry of Local Government was **UGX 225.826Bn**[4]. This will have a repeal effect in delivering their mandate. According to the Ministry of Local Government report to Parliament on NBFP FY 2025/26 there are several key unfunded priorities which are going to be affected by the budget cuts these include among others.

a. Compliance Inspection, Monitoring, and Supervision: UGX 6.73 Bn is necessary to conduct compliance inspections, monitor Service Delivery, and provide supervisory support across all 176 Local Governments.
b. Preparatory Activities for Induction of newly elected Leaders – UGX. 2.84 Bn is required to facilitate preparatory activities to induct the newly elected Political Leaders

Recommendations:

a. In General, the Ministry of Finance should allocate reasonable resource to the Ministry of Local Government to embrace and uphold the decentralization system or the local Government System Article 176 of the Constitution of Uganda.

b. Adequate resources should be allocated to the Ministry of Local Government to ensure effective monitoring and suppression of Local Government. This is a critical activity for improved service delivery and bringing the local government to order.

4 *presentation of the budget framework paper for ministry of Local Government FY 2025/26 to the committee of public service and local government* https://parliamentwatch.ug/wp-content/uploads/2025/01/FINAL-DRAFT-Presentation-to-Parliament-on-14th-JAN-1.pdf

c. Induction of Local Government officials combined with retooling is critical to bring the newly recruited official on board based on the changing working environment, especially their roles and responsibilities in Local revenue mobilization, utilization and accountability and more especially the tax administrators, the technical and political leadership.

Adequate resources should be allocated to the Ministry of Local Government to effectively support the Local Government Public Account Committees (LGPAC) Section 88(1) of Local Government Act CAP 243, specifically around capacity building on various aspects of their work and being regularly updated on government policies and programmes.

Energy and Mineral

Energy

The Sustainable Energy Development Programme is listed among the development programmes in the achievement of the National Development Plan IV goal and is critical to Uganda's development. According to the NDP IV, access to affordable, reliable, clean, and modern energy services facilitates industrialization, agricultural productivity, value addition, and competitiveness of products; technological advancements resulting in efficient operation of businesses; boost trade; and economic growth [5]. However, according to the NBFP for FY 2025/26, the projected budget allocation for the sustainable energy development programme is Ugx. 1,301.622 billion against the NDP IV programme budget targets of Ugx. 1,777 billion for the financial year 2025/26. This undermines the programme's efforts towards Uganda's transition to affordable, and cleaner energy. Furthermore, it also indicates that the National Budget Framework Paper FY 2025/26 is not aligned with the National Development Plan.

5 *FOURTH NATIONAL DEVELOPMENT PLAN (NDPIV)2025/26 - 2029/30* *https://parliamentwatch.ug/wp-content/uploads/2025/01/PDF-FINAL-NDPIV-for-Parliament-Approval-13122024-1.pdf*

Due to this inconsistency, among other factors, the cost of electricity remains exceptionally high, despite expectations of price reductions. This ongoing issue continues to impact electricity consumers, as the transition to climate-smart energy remains a challenge. According to the National Development Plan IV, electricity prices are expected to decrease, though this issue persists. *See the table below:*

Key performance indicators for NDPIV

Result	Development Indicators	Baseline FY2023/24	Target FY29/30
Increased access to clean, reliable, affordable and climate-smart energies	4.6.2 Cost of electricity-Industrial large	9.8	7.84
	4.6.3 Cost of electricity-Industrial -Extra Large	8	6.4
	4.6.4 Cost of electricity-Commercial	17	13.6
	.7 Energy generation capacity (MW)	2047	15,420

Source:https://parliamentwatch.ug/wp-content/uploads/2025/01/PDF-FINAL-NDPIV-for-Parliament-Approval-13122024-1.pdf

However, based on the current tariff rates from Uganda Electricity Distribution Company Limited, the prices are still alarming, especially for domestic consumption. *See the table below.*

Customer Tariff Category	Tariff Rate (Shs / kWh)
A) Domestic consumers code 10.1 (Additional kWhs in excess of the first 8 units charged at shillings).	775.7
B) Commercial Consumers -Code 10.2 Electricity supplied at 415 Volts to Consumers for Three Phase installation with load not exceeding 100 Ampere (Peak)	753.0
Medium Industrial Consumers - Code 20 Electricity supplied at 415 Volts to Consumers for Three Phase installation with load exceeding 100 Amperes and Maximum Demand up to 500 kVA (peak)	574.0
Large Industrial Consumers - Code 30 Extra Large Industries Electricity is supplied at Medium Voltage 33,000 Volts, to Consumers with maximum demand exceeding 500 kVA up to 1,500 kVA (peak)	466.7

Source: https://www.uedcl.co.ug/approved-tariffs/[6]

Although there are some efforts made to reduce the cost of manufacturing, for instance, it remains below the targeted USD 5 cents, thus making electricity costs a significant burden for manufacturers. More still, electricity is unreliable, forcing many to depend on fuel. On the side of the consumer, the situation has been exacerbated by the high cost of living, which has forced many to remain on charcoal for cooking in the urban centers and electricity for lighting.

6 *Electricity End User Tariffs and Charges, https://www.uedcl.co.ug/approved-tariffs/*

Recommendations

- The government should allocate adequate resources towards promoting the use of new renewable energy solutions (wind, solar water heating, solar cookers, solar water pumping among others) which could reduce the cost of operation for manufacturing businesses and promote trade.
- The government should increase access to clean, reliable, and affordable energy because it is essential for industrialization, value addition, competitiveness and ease of doing business among manufacturing companies with ability to check on energy poverty. Therefore, government should smartly invest in the smart energy sector to ensure sufficient generation, cheap and accessible energy to support value addition and industrial development as well as access to clean energy for household consumption
- Adequate funds should be allocated in alternative sources of energy, for instance, solar energy, wind energy and nuclear energy to diversify the country's energy and increase access to clean, reliable, affordable and climate smart energy sources.
- Adequate resources are needed to be invested in energy transmission and renewables to ease access and affordability among the Ugandan consumers and the small and medium enterprises, especially those operated in the homestays.
- More resources should be invested in research and development in clean energy related sources.

Mineral

Minerals have intrinsic and practical value as an input in manufacturing, boosting the supply of locally manufactured products like cement, iron & steel, and fertilizers, and greatly contribute to the country's trade sector through the exports of minerals like gold, copper, combat, and iron ore. Value addition to minerals is critical as it contributes to the economy by increasing export earnings and the creation of jobs. In addition, minerals contribute to the diversification of energy sources and technology which serve high-technology-intensive companies and automotive manufacturing. Uganda's mining sector comprises of 27 commercially viable minerals. In FY2022/2023, Uganda's mining sector contributed 2.2% to the country's GDP, an increase from 0.3% in 2009/2010. Uganda has many commercially viable minerals, including iron ore, gold, copper, cobalt, uranium, marble, limestone, phosphates, and graphite. The Uganda Chamber of Mines and Petroleum projects that the mining sector's contribution to GDP will grow to 10% by 2040.

Furthermore, mineral development, including oil and gas, is one of the four key drivers to expand the size of the economy from about USD 50 billion to USD 500 billion by 2040 . However, according to the National Budget Framework Paper, programme allocation for the FY 2025/26, item 02 was not allocated resources, an indication of poor planning and failure to align it with National Development Plan IV whichcosted the programme at UGX. 2,098 bn for FY 2025/26 relatively higher compared to the FY 2024/25 budget where the government allocated Ushs 982.56 billion. Being an enabler for Uganda's economic growth tenfold, central to facilitating resource-based industrialization, with the ability to contribute to the diversification of energy sources and technology, the government needs to prioritize it.

Recommendations:

a) The government should align the budget for the sustainable extractive industry development program with the targets outlined in the National Development Plan (NDP) IV.

b) The Ministry of Finance, Planning, and Economic Development should allocate sufficient resources to the relevant ministries, departments, and agencies involved in the mineral supply chain. This will strengthen their capacity in both human resources and systems, enabling them to effectively monitor and enforce regulations, conduct inspections, and combat illicit activities such as illegal mining and smuggling.

c) The Government of Uganda should earmark resources to support artisanal and small-scale miners, helping them transition from illegal mining practices, such as the use of mercury, which harm both miners and the environment. Additionally, addressing the widespread use of inefficient and labor-intensive mining methods will improve economic returns, reduce environmental degradation, and mitigate accidents, while unlocking the potential for job creation both directly and indirectly.

d) The program should be allocated sufficient resources to facilitate effective value addition (mineral beneficiation), fostering long-term prospects for industrialization, job creation, and embracing local content within the mining sector, thereby enhancing trade opportunities within the sector.

Agriculture, Animal Industry and Fisheries

Introduction

The 2024 National Population and Housing Census revealed that 62.3 percent of households were engaged in agriculture and constitutes 36 percent of the working population in Uganda[7]. The sector agriculture, forestry, and fisheries accounted for 24 percent of GDP and 42 percent of export earnings during FY2022/23. Due to the dominance of agriculture as a source of livelihood, Agro- Industrialization program offers a great opportunity for Uganda to embark on its long-term aspiration of increasing household incomes and improving the quality of life through transforming the subsistence agriculture sector to a commercial and competitive sector[8]. Furthermore, the program is one of the four anchor sectors for investment to drive higher economic growth to realize the 10-fold growth Agenda. As such, the program is key in unlocking potential in the agriculture sub program through facilitating value addition, job creation inter alia thus eventually contributing to attainment of the SDGs.

The Financial Year (FY) 2024/25 is the inaugural fiscal year for implementation of the NDP IV and the agro industrialization program will contribute to realization of the key strategic objectives including, Increase Production and Productivity in agriculture, Increase Value Addition in Agriculture and Improve food security and nutrition for all

Despite these aspirations, the program faces significant challenges including limited access to modern technology and infrastructure, limited capacity of smallholder farmers to engage in agribusiness, and a regulatory environment that can be challenging for agribusinesses to navigate[9]. Furthermore, Financing for agro industrialization has been inadequate over the years for less than 5% of the National Budget in various financial years thus hindering attain-

7 *Background to the Budget FY 2024/25*

8 *National Developomet Plan III*

9 *Accelerating SDGs through Agro-Industrialization in Uganda – GOU- SDG- Office of the PrimeMinister*

ment of key priorities under the program. Moreover, some financing interventions under this program are not designed to contribute to attainment of desired outcomes. For instance, while the Agricultural Credit Facility (ACF) funding was aimed at facilitating the provision of medium- and long-term financing to projects engaged in Agriculture and Agro processing, focusing mainly on commercialization and value addition[10], the fund has largely facilitated on-farm activities and grain trade are considered to be lower levels of the agriculture value chain. This implies that the intervention is skewed towards supporting the lower levels of the value chain to enhance agricultural production and productivity and are less focused on addressing the higher levels of the value chains of improving post-harvest handling and agro-processing. This does not holistically support a progressive movement towards agro-industrialization and increased competitiveness for both local and international market[11]

Limited budget allocation for the agro-industrialization program

We acknowledge the government's commitment to promote the agro-industrialization programme. However, the potential of the programme is limited by resources. Despite the Malabo including the Kampala Declaration come 2025, the programme is still hugely underfunded[12].Only 2.5% of the National budget is committed to a programme despite providing 24% of the national GDP contributions, employing over 62% of the population both directly and indirectly, contributing UGX 43.9 trillion in absolute terms as per the FY 2022/23 and has potential of including an extra 34% into the money economy to participate in its economic development.

The National Budget Framework Paper for FY 2025/26 indicates that the Agro-industrialization program will receive a budget of UGX 1,689.352 trillion (which accounts for 2.9% of the total budget way below the 10% proposed commitment under the CAADP Kampala Declaration). The proposed budget further reflects a 6.86% decrease from UGX 1,813.860 trillion allocated for FY 2024/25. This undermines Government efforts to attain key development aspirations specifically those driven by agriculture like the 10-fold growth agenda.

Funding to the agro-industrialization program is still heavily dependent on external financing even after reducing from UGX 1007.192billion to UGX 675.8billion.

Recommendations:

i. The government should increase the budget allocation for the agro-industrialization program to 10%, as per the CAADP Kampala Declaration. This will enhance a food systems approach, including sustainable

10 *https://archive.bou.or.ug/bou/ACF/Overview.html*

11 *Agro-Industrialization Programme Annual Budget Monitoring Report Financial Year 2022/23*

12 *National Budget Framework Paper FY2025/26, page 35*

agricultural productivity, value addition, and product marketing, while also creating employment opportunities, promoting agribusinesses, attracting investments, and improving post-harvest handling. Achieving this can be facilitated through enhanced Domestic Resource Mobilization.

ii. We reiterate this committee's recommendation to strategically shift from reliance on unreliable external financing, as has been evident over time, to greater Government of Uganda financing for the program's stability and long-term success.

Limited prioritization of the emerging global market requirements and commitments.

At the global level, regional blocs and countries are establishing standards with specific requirements for exporting countries, including the EU Deforestation Regulation (EUDR), the Corporate Sustainability Due Diligence (CS3D), and the Carbon Border Adjustment Mechanism (CBAM). These standards necessitate adequate funding, as well as a supportive policy and regulatory environment.

We are concerned that, in FY 2024/25, the Uganda Coffee Development Authority (UCDA) presented a total budget of UGX 35 billion, yet only UGX 13.9 billion (40%) was allocated to establish and maintain the national traceability system. This limited budget allocation has hindered the effective implementation of the requirements under the EUDR.

The compliance deadline has been extended to 30 December 2025 for large operators and traders, and to 30 June 2026 for micro- and small enterprises.

Recommendations

i. It is crucial that the government establishes mechanisms to ensure the stability of actors along the value chain in the affected sub-sectors during and after the transition. Administrative changes can have negative consequences on the program if not properly managed. Key considerations should include a focus on standards, price stability, regulatory barriers, research and development, marketing, transportation costs, and other relevant factors.

ii. The government should prioritize increasing the budget allocation to the Ministry of Agriculture, Animal Industry, and Fisheries (MAAIF) to support a comprehensive approach to Uganda's compliance with the EUDR, CS3D, and CBAM. This will ensure the prompt implementation of the traceability system, the development of regulations under the National Coffee Act, 2021 (as amended), and facilitate nationwide awareness and capacity building efforts.

Inadequate Agricultural Extension Services

The provision of agricultural extension services and adequate inspection of crop, animal, and fisheries resources is crucial to achieving the agro-industrialization objectives outlined in the NDP IV. Extension services are vital for supporting farmers with knowledge on sustainable agronomic practices. However, funding and human resource capacity gaps remain significant challenges. For instance, the extension worker-to-farmer ratio ranges from 1:2000 to 1:3000, compared to the internationally recommended ratio of 1:500, as indicated in Objective 4 of the NAES 2016.

The National Service Delivery Survey Report 2021 highlights that 47% of agricultural extension workers face challenges such as inadequate funding (84%), lack of equipment (69%), insufficient staffing (67.2%), and lack of transport and equipment (57.3%). Additionally, 5% of extension workers report job insecurity.

The Ministry also plans to roll out the E-Extension system for real-time information sharing and to monitor the delivery of extension services nationwide. However, with a weak extension system, the government's strategies and objectives under the program will remain unmet. The estimated budget allocation for the Ministry for FY2025/26 is UGX 850.650 billion, a reduction from UGX 1,182.506 billion in FY2024/25. The estimated budget for local government remains at UGX 281 billion.

Recommendation

a) The government should increase the budget allocation for the agriculture extension services to facilitate an increase in the number of extension service providers and their capacity building.

Non-adherence to quality standards and regulations of Agricultural Inputs

Adherence to standards and regulations is essential for unlocking viable market access opportunities at the local, regional, and global levels. While Uganda has made progress in developing standards, the effectiveness of these efforts is hindered by weak enforcement mechanisms. The Uganda National Bureau of Standards (UNBS) 2022/23 report indicates an increase in substandard goods on the Ugandan market, rising from 49% to 58%. The report further reveals that, out of a target of 9,000 inspections, only 4,537 were conducted, representing 50.4% of the target.

We are concerned that weak inspection and enforcement are allowing substandard products, including agricultural inputs, to flood the market. Moreover, UNBS is currently stationed at only 28 entry points, compared to 554 entry points managed by the Uganda Revenue Authority (URA), where UNBS

should also be present. This disparity leaves significant gaps through which substandard goods can enter the country.

Uganda's agrifood system is also grappling with an increasing number of hazardous and counterfeit agro-inputs, including pesticides and fertilizers.

The Bureau faces substantial funding challenges, receiving only UGX 56 billion annually, far below the UGX 200 billion required to fully execute its mandate. This shortfall is further compounded by the government's program-based budgeting system, under which UNBS receives funding from only 5 out of 18 relevant programs. Despite these limitations, UNBS has made significant progress, including automating processes, enforcing quality standards, and conducting inspections. According to the Auditor General's report for the year ending June 2023, the Bureau had budgeted to collect UGX 44.1 billion but instead collected UGX 64.9 billion, achieving 147% of its performance target.

Recommendations

i. Increase the budgetary allocation for the Uganda National Bureau of Standards (UNBS) to strengthen enforcement and surveillance of Ugandan markets and border points.

ii. The Agricultural Chemicals Control Board, under the Ministry of Agriculture, Animal Industry and Fisheries, should expedite its efforts to profile the various agrochemicals, acaricides, and other inputs available in the Ugandan market, along with their sources.

iii. The government, in collaboration with other stakeholders, should proactively plan and allocate resources for education and awareness programs on the management, use, handling, storage, and trade of agrochemicals in Uganda.

Limited financing under the Agriculture Credit Facility

The Agricultural Credit Facility (ACF) was set up by Government of Uganda (GoU) in 2009 and its main objective is to commercialize agriculture through provision of medium- and long-term financing for projects engaged in agriculture, agro processing, modernization and mechanization. This initiative allows farmers to access ACF to a sum of Shs20 million without the need for registered collateral typically required in conventional banking. Notably, access to finance by Small and Medium Sized Enterprises has significantly increased, with 91 percent of the funded projects under the scheme comprising micro, small and medium-sized enterprises (MSMEs), which constitute much of the agriculture sector in Uganda[13].

Key challenges in the implementation of the ACF include low appetite by the Participatory Financial Institutions (PFIs) citing the high risks associated with the sector. For instance, out of the thirty-one (31) Supervised Financial Institutions, only sixteen (16) are actively participating in lending under ACF. In addition, many small-holder farmers belong to Tier IV institutions such as Savings and Credit Cooperative Societies (SACCOS), which are not accredited to participate in the scheme. This exclusion prevents most small-holder farmers from accessing finance under the ACF.

Recalling the Committee's recommendation in October 2022, to establish an Agricultural Bank and develop an Agricultural Financing Policy to guide agricultural financing mechanisms, progress on these recommendations has been slow[14].

Recommendations

i. The government should fast track the development of the Agricultural Financing Policy to guide on proper financing mechanisms in the agricultural sector and provide a holistic approach including agricultural insurance.

13 *Ministry of Finance, Planning and Economic Development, June 2024. Background to the Budget Fiscal Year 2024/25.* https://budget.finance.go.ug/sites/default/files/National%20Budget%20docs/BACKGROUND%20TO%20THE%20BUDGET%20FY%202024-25.pdf

14

TAXATION

Dwindling Resource Envelope for FY 2025/26

According to the National Budget Framework Paper FY2025/26, the total resource envelope is projected to decline by 20.4 percent (UGX. 14,695.7 billion) from UGX 72,136.6 billion approved for FY 2024/25 to UGX 57,440.8 billion in FY 2025/26. The NBFP FY2025/26 also indicated that theBudget will be financed from both domestic and external resources.

According to NBFP FY2025/26, the discretionary resource available for Government to appropriate has reduced by Shs 3.94 trillion from Shs 28.18 trillion in FY 2024/25 to Shs 24.25 trillion in FY 2025/26 on account of among others;

a. Increase in the National external debt repayments (amortization) by Shs 882.5 billion from Shs 3.15 trillion to Shs 4.03 trillion;

b. Increase in Interest Payments by Shs 361 billion from Shs 9.24 trillion to Shs 9.61 trillion.

c. Local Revenue for Local Government: Shs 293.9 billion is maintained till the local government provide their adjusted projections.

Observation: It is imperative to note that the government exists to provide services to the citizenry and this obligation can be fulfilled through the availability of resources such as taxation. This also calls for placing the people's interest at the heart of planning and budget allocation. However, according to the National Budget Framework Paper FY 2025/26, the discretionary resources available for Government to freely allocate to various development priorities amounts to only Shs 24.25 trillion in FY 2025/26 visa vis the country's expenditure requirements.

Recommendation:

a. We recommend the government to increase revenue mobilisation through strengthening administration, cubbing Illicit Financial Flows (IFFs), reducing on tax expenditures. This will enable the government to generate more tax revenue as a sustainable source of revenue for development. Thus, an increase in available resource allocation to the discretionary resource.

b. We recommend the goverment to effectively implement the Public Investment Management Strategy which requires that public debt is only acquired for ready projects thus, attaining the intended Rate of return on debt funded projects and value for money. This will enable the government to clear the existing principal and interest on the respective loans and also invest in the critical and productive sectors in the economy.

c. We recommend the government to prioritize concessional than non-concessional borrowing.We are cognizant of the dwindling concessional finance that government are left with non-concessional borrowing as the source of financing for development. Therefore, the issuance of highly non concessional and commercial loans should only be for financing projects that not only provide a higher economic return than the interest rate on the credit but also enable Government to generate sufficient fiscal return to meet the cost of loan and foreign currency to service the debt.

The failure to attain the 0.5% annual increase in Tax-to-GDP ratio

Observation: Tax-to-GDP ratio indicates the extent to which a country's economic output contributes to its tax revenue. A low tax to GDP ratio indicates that a significant part of the country's economic activity is untaxed and that there are fewer actors contributing to the country's tax revenue. Regardless of the Tax-to-GDP ratio set in several documents including protocols and strategies, for instance in the East African Monetary Union tax-to-GDP (25%) Sub-Saharan average of 18% , URA Corporate Plan 2020/21 - 2024/25, tax to GDP ratio will be 18%, and the Domestic Resource Mobilisation Strategy (DRMS) between 16-18 tax-to-GDP ratio, Uganda has continue to record a low tax-to-GDP ratio standing at 13.9% -14.0 %.

The National Budget Framework Paper FY2025/26 to sustain the budgetary needs it will;

a. Effective implementation of the Domestic Revenue Mobilization Strategy (DRMS) to ensure stability in the tax system supports private sector growth and investment.

b. Instead, we will focus on amending tax laws to close the loopholes that cause revenue leakage, provide clarity to encourage voluntary compliance, and strengthen the Uganda Revenue Authority's (URA) capacity to enforce compliance effectively.

However, DRMS Section 2; limitations and interventions condemn the wide range of allowances, including capital allowances, and deductions reduce chargeable income and the effective tax rate and among others discourage compliance and encourage others to claim for similar treatment, leading to exemption creep. Despite the efforts in place, Uganda is still warding harmful tax incentives and exemptions, they are harmful in the way that, they are not informed by the cost-benefit analysis which requires continues monitoring and evaluation of these incentives and exemptions. According to the Uganda Tax Expenditure Report FY21/22 the value of revenue foregone from tax expenditures in Uganda was estimated to stand at UShs. 2,478.1bn, or 1.56% of GDP, for the Financial Year 2021/22 meaning that the value of revenue due to tax expenditures was estimated to stand at UShs. 2,2972 bn or 1.62% which is equivalent to 12.5% of the total tax collected. This indicates that the revenue foregone through Tax Expenditure is increasing and the country is losing the much-needed revenue to finance development and fulfillment of Sustainable Development Goals (SDG) commitments.

Recommendations:

a. The Ministry of Finance should walk the talk and ensure effective rationalization of tax exemptions to improve their effectiveness and reduce revenue leakage.

b. The Ministry of Finance should undertake a cost-benefit analysis for tax incentives and exemptions being awarded, especially to attract investments and investors to ensure that they fulfil the criteria agreed upon to ensure value for money.

c. There is a need for tax harmonization among the East African Community Member States to check on the race to the bottom but also facilitate trade and investment among the Member states.

d. In its efforts to widen the tax base, Uganda should reconsider the increasing reliance on regressive tax measures, particularly those targeting consumables, as they contribute to growing inequality and adversely impact people's livelihoods. At the same time, the government should address issues related to tax evasion and avoidance by multinational companies, which continue to benefit from tax incentives and exemptions.

Unfairness in handling in the Uganda Tax Appeals Tribunal (TAT)

Observation:

In 1997, Uganda established the Tax Appeals Tribunal (TAT) to provide taxpayers with access to an independent and impartial tax dispute resolution process. Its founders intended for the tribunal to improve voluntary tax compliance, ensure that everyone is treated equally under the law, and prevent a high amount of taxes from being held up in disputes. However, according to the report of the report of the sectoral committee on legal and parliamentary affairs on the National Tribunal Bill, 2024 9 (October 2024), the Committee was informed that currently, 40 cases are filled with the Tax Appeals Tribunal every month while the backlog stands at 600 cases yet to be determined due to operational reasons. However, National Budget Framework Paper FY2025/26 under Administration of Justice only 300 Tax disputes were disposed of. According to the Republic of Uganda in the Tax Appeal Tribunal at Kampala registry cause list for the week starting 20th January to 24th January 2025 there were about 59 cases at the Tax Appeals Tribunal[15] in the pipeline.

15 *https://tat.go.ug/download/tax-appeals-tribunal-cause-list-20th-january-to-24th-january-2025/?wpdmdl=3568&refresh=67a4e009441db1738858505&ind=1737169357689&filename=Tax%20Appeals%20Tribunal%20Cause%20List-%2020th%20January%20to%2024th%20*

It is imperative to note that there are several factors that contribute to the high number of incomplete tax disputes, including a lack of performance targets (for example, a minimum number of cases to be finalized within a particular time) for the tribunal members, limited staffing, and the rigid requirement that a TAT ruling must be made by a member equivalent to a High Court judge.

Recommendations

a. **Mediation as an alternative dispute resolution mechanism** needs to be introduced in tax dispute settlement at TAT to reduce the escalating number of tax disputes finalized beyond 12 months of lodgment. Mediation allows for a faster and more amicable resolution of disputes.

b. Performance targets are need for the TAT as it will lead to an increase in the Tax disputes disposed of for quick attainment of justice.

c. Introduce a new Part XVII of the TPCA to create a provision governing the Tax Ombudsman where service complaints (as opposed to legal complaints) against the tax authority can be submitted.

Inadequate data to inform the projected revenue from Local Revenue for Local Governments.

This is evident in the statement made by the Ministry of Finance Planning and Economic Development indicated in the NBFP FY2025/26 that *"Local Revenue for Local Governments: Shs 293.9 billion is maintained till the Local Governments provide their adjusted projections"* this has been the case in the previous FY as shown below:

FY	**2021/2 2**	**2022/2 3**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Projections	212.4	212.4	238.5	238.5	293.9	293.9

Observation: It is imperative to note that Local tax, non-tax and other own revenues are designed for financing devolved expenditure functions. Local Revenue is supposed to supplement the Central Government Transfers. However, on average 95% of LG budgets are financed by central budget grants and other direct donor funding hence making the local governments more accountable to the Central Government and the donor community than the citizens in the local governments.

Furthermore, the Ministry of Finance made a commitment *"Our task, going*

January%202025.pdf

forward, is to work with the Ministry of Local Government and Local Government Finance Commission to step up local revenue collection in all districts, cities and municipalities as a measure of boosting financing their budgets and to reduce dependence on the Central Government". However, there is a need to go beyond setting up local revenue collection to, currently use the available information provided by Integrated Revenue Administration System (IRAS) currently being enrolled in 9 Cities, 22 Municipalities and 135 Districts bringing the total to 166 Local Governments covered by IRAS[16] and eLogRev.

Recommendation:

a) The Ministry of Finance should work with the Ministry of Local Government and the Local Government Finance Commission to Section 80 (2) to ensure that each local government draw up a comprehensive list of all its internal revenue sources and maintain data on total potential collectable revenue. This will be a good starting point to ensure that local government knows their taxpayers and how much they can collect from those sources of revenue.

b) Local Governments should embrace and be forced to enroll in available digital tax collection systems (IRAS and eLogRev). This will assist Local governments to check local revenue leakages associated with manual collection of revenue as well as availing the authorities with data needed for prior and proper planning. This should be combined with frequent technical support on the implementation of the IRAS and eLogRev.

c) Efforts are needed towards enhancing the capacities of tax administrators in all Local governments in Cities, Municipal Councils, Town Councils and Sub Counties to understand and appreciate their roles in Local revenue Mobilisation for fair revenue mobilisation.

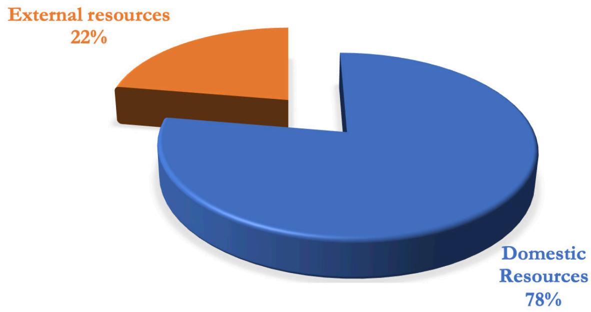
d) A continuous citizen/taxpayer's awareness and sensitization is critical, and it should be prioritized by all local government to ensure it checks on resistance, tax apathy and lead to an increase in voluntary tax compliance.

16 https://iras.go.ug/

DEBT

SOURCE OF FINANCING FOR FY 2025/26 BUDGET

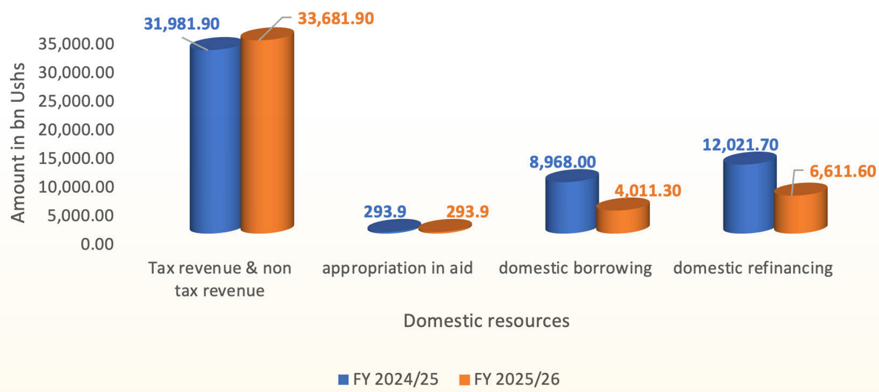
Figure 2: sources of financing for the FY 2025/26 Budget



78% of the FY 2024/25 budget will be financed with resources mobilized from the domestic market while 22% of the resources will be sourced externally as shown in figure 2. In FY 2025/26, it is projected that 76% of domestically raised resources will be generated from tax and non-tax revenue, 15% from domestic refinancing, 9% from domestic financing, and the rest will be generated from local Government revenues (appropriation in aid).

Despite tax and non-tax revenue accounting for the largest portion (78%) of Domestic resources see (figure 3), there exists concerns on whether this revenue target will be met at the end of the financial year as reflected in previous financial years for instance in FY 2023/24, URA registered a revenue shortfall of Ushs. 1,917.470 billion (6.5%) against the set target of Ushs. 29,856.164 billion . Continuous revenue shortfalls are due to limited compliance of taxpayers, large informal sector, tax expenditures that have not yielded intended returns inter alia. Failure to attain the set revenue target affects the overall revenue performance and cash flow performance of the Government. This partially explains the continuous debt rollover as Government lacks liquidity to redeem maturing securities within a financial year. While domestic refinancing is expected to decrease by 45% to

Figure 3: Domestic Resources



shs. 6,611.60 billion, this will solve a short-term challenge as redemption of these securities is deferred to a later time at more expensive terms. Furthermore, we applaud the Government for her efforts towards reducing domestic borrowing to sustain private sector credit as reflected in the substantial reduction (55%) in domestic borrowing in FY 2025/26.

Recommendations

- We call upon the Government to continue with this trend of reducing domestic borrowing in the subsequent years since the outstanding stock of borrowing still remains high. Indeed, domestic interest payments are projected to account for 82% of the total interest payments in FY 2025/26. This reflects a persistent reliance on expensive domestic market securities by the Government to finance the budget.

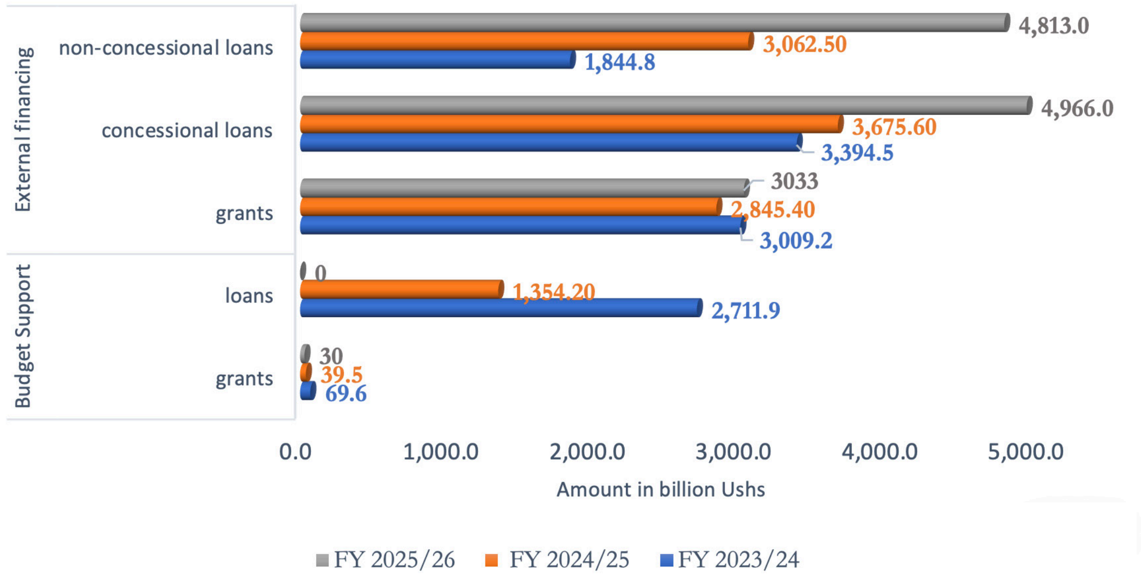
Limited financing options has exposed Uganda to reliance on costly non-concessional debt to finance her development aspirations.

In FY 2025/26 project support will account for 99.7% of the total externally mobilized resources while budget support will account for only 0.23% of which are all grants. This is due to no commitment by most development partners towards this cause at the time the NBFP was prepared. Non-concessional finances will account for 38% of the total external financing and increase by 57.16% to Ushs. 4,813.0 billion in FY 2025/26 (see figure 4). This is due to a decrease in access to finance at concessional terms hence exposing the country to expensive debt characterized by high interest rates usually on floating terms, short term to maturity and high insurance fees. Unfortunately, the Government continues to divert from the guidelines to external debt acquisition, utilization and management stipulated in the Public Debt Management Framework as they continue to acquire this form of financing for budget support. Indeed, the government obtained two non-concessional loans for FY 2022/23 amounting to USD.739Mn for budget support (to cater for recurrent expenditure) instead of Infrastructure development.

Recommendations

- Government ought to adhere to the guidelines to external debt acquisition, utilization and management stipulated in the Public Debt Management Framework. This requires that issuance of highly non concessional and commercial borrowing will be to finance projects that not only provide a higher economic return than the interest rate on the credit, but also enable Government to generate sufficient fiscal return to meet the cost of loan and foreign currency to service the debt.

Figure 4: resources mobilised externally

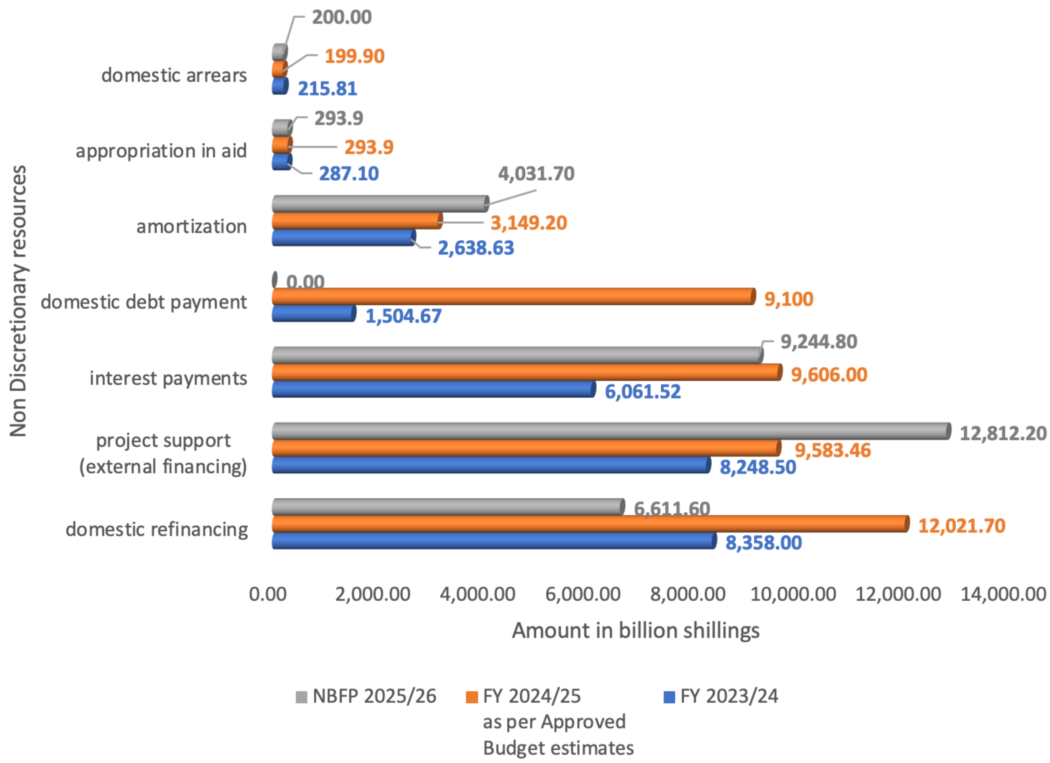


Dwindling flexibility in allocation of budgetary funds to various votes

In FY 2025/26, Non-Discretionary resources (see figure 5) are projected to account for 58% of the total resource envelope. This implies that the Government is left with only shs. 24,246.60 bn to allocate to various programs. Cognizant of the fact that non-discretionary resources are largely comprised of Government statutory obligations of debt servicing costs (which will account for 34.97% of the total budget) clearly reflects the extent to which these expenses continue to shrink the already constrained Fiscal space.

This is due to an increase in stock of external debt maturing in FY 2025/26 (stock of external debt repayments are projected to increase by 28% to shs 4,031.7 bn in FY 2025/26) and large amounts of interest payments despite the projected slight reduction of 4% to Shs 9.245 trillion in FY 2025/26 as shown in figure 6. Indeed, these are projected to account for 3.7% of GDP in that period. It is important to note that domestic interest payments are projected to account for 82% of the total interest payments reflecting a persistent reliance on expensive domestic market securities by the Government to finance the budget. Moreover, debt servicing continues to crowd out other budgetary spending.

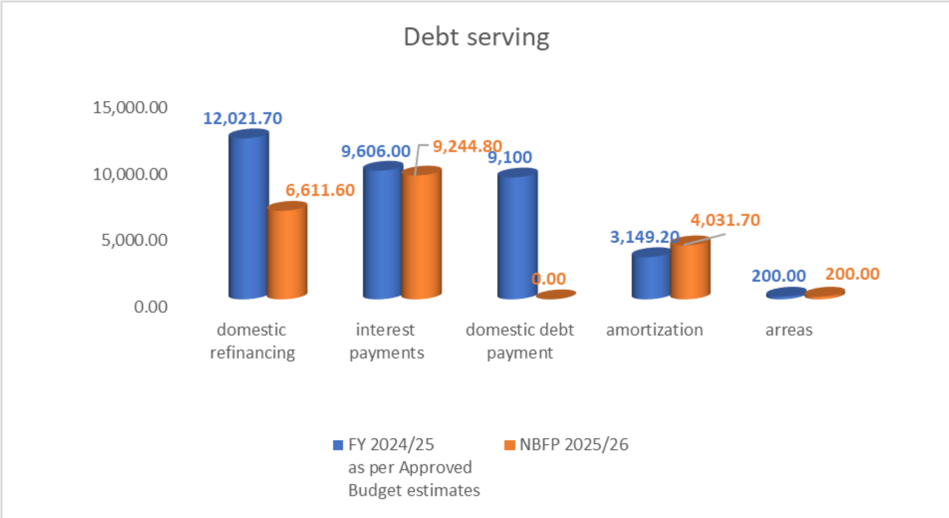
Figure 5: Non Discretionary resources



Recommendations

- Step up Domestic Revenue Mobilization efforts through expanding the tax base, reduction in revenue leakages through automation of the revenue collection system across all local Governments. This will enable the Government to raise adequate funds to finance the Budget other than largely relying on Borrowing.

34.97% of the total budget for FY 2025/26 will be channeled towards debt servicing, this has reduced from 46.97% in the previous FY. This is attributed to a decrease in domestic refinancing and interest payments as shown above



Limited allocation towards clearance of Domestic arrears signalling failure to enforce the budget commitment control guidelines, Despite the existence Strategy to Clear and Prevent Domestic Arrears (2021) Government has continued to accumulate domestic arrears increasing by 31.54 % from shs 10.502 trillion in FY 2022/23 to Ushs.13.814 trillion in FY 2023/24[17]. In FY 2025/26, the Government proposed an allocation of shs. 200 billion to settle outstanding arrears. This indicates that it would take the Government 69 years to settle these outstanding payables if no other arrears are accrued. Delayed clearance of arrears Cripples the operations of the private sector as they face liquidity constraints to run day to day operations in their business including clearance of short-term bank loans. Furthermore, arrear accumulation undermines trust in Government and the effectiveness of fiscal policy since over reliance on domestic arrears to finance Government spending leads to a reduction in the fiscal multiplier[18].

Recommendation:

- Amend section 21(2) of the PFM Act 2015 as amended to provide for penalties and sanctions on accounting officers who continuously commit Government to an extent of absence of funds.

17 *REPORT OF THE AUDITOR GENERAL TO PARLIAMENT FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2024, Page 21*

18 https://www.elibrary.imf.org/display/book/9781513514055/ch03.xml

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