



BUDGET TRENDS

CIVIL SOCIETY BUDGET ADVOCACY GROUP | JUNE 2025 | VOL. 58

BUDGETING FOR THE / YOUTH



**Economic Highlights:
Inflation increase**

**Why invest in
the youth?**

**Unlocking Uganda's
Demographic Dividends**

EDITORIAL

At CSBAG, we believe that equitable and participatory budgeting is the key to unlocking our nation's true potential. We're committed to empowering citizens, especially the youth, to take an active role in shaping budget decisions. This is both a democratic imperative and an economic necessity."



Greetings from the Civil Society Budget Advocacy Group (CSBAG). Welcome to our latest issue of the Budget Trends Magazine for June 2025.

As we reflect on the past month, June has been marked by a surge in demand for accountability and transparency. From the Post Budget Dialogue and deliberations on Uganda's Debt Burden to the Quarter One FY 2025/26 Expenditure Releases.

At CSBAG, we believe that participatory budgeting is the key to propelling our nation to her greatest potential. We're committed to empowering citizens, especially the youth, to take an active role in shaping budget decisions. This is both a democratic imperative and an economic necessity.

Our work has shown that participatory budgeting can improve access to healthcare and education, boost agricultural productivity and economic growth. However, Uganda's youth need to be recognized and invested in. Recent studies show that investing in youth will unlock key potential including eradication of poverty and development of human capital development. We stand in solidarity with the youth of Uganda, who are demanding a greater say in how their taxes are spent. We support their calls for transparency, accountability, and inclusivity in budgeting processes. We commend government on their various initiatives such as Youth Livelihood Development Program under the Office of The President among other activities

There is an urgent need to ensure that the youth get allocation of resources and opportunities together with accountability and good governance. It is time to act and start now to ensure that we don't miss

these opportunities for the youth. At CSBAG, we're committed to advancing participatory budgeting initiatives across Uganda. We'll continue advocating for a budgeting process that reflects the needs and priorities of all Ugandans.

We commend the Uganda Revenue Authority (URA) for its efforts in promoting good governance and transparency. As an advocate for good governance and transparent resource management, we recognize URA's strides in effective tax collection, particularly through innovative solutions like Electronic Fiscal Receipting and Invoicing Solution (EFRIS) and Digital Tax Stamps. We applaud the tax body for hitting their revenue target two years in a row. For the period FY 2024/25, the authority collected over UGX 31.6 trillion, exceeding its official target of UGX 262 trillion. This performance reflects improved tax compliance, digitization of tax processes and strategic enforcement initiatives across the country.

As we look to the future, CSBAG acknowledges the timely Quarter One FY 2025/26 expenditure releases as a positive step in ensuring the continuity of public service delivery and budget execution amounting to UGX17.21T. These developments reflect improved fiscal discipline and a commitment to efficient resource utilization. We urge the government to keep this momentum to ensure that public finances continue to support equitable development and improved service delivery for all Ugandans.

Mr. Julius Mukunda

Executive Director CSBAG

ECONOMIC HIGHLIGHTS



Economic Growth

▲ 6.3%
from 6.1%

The Bank of Uganda's decision to lower the Central Bank Rate (CBR) by 25 basis points to 9.75% in October 2024 signals a strategic pivot towards expansionary monetary policy, aimed at stimulating economic growth amidst easing global inflationary pressures. This move is reinforced by the Ugandan shilling's appreciation against the US dollar, now trading at 3,690 UGX/USD, which is expected to enhance the country's export competitiveness and attract foreign investment.

Central Bank Rate

— 9.75%
maintained

The Central Bank maintained the CBR at 9.75%, citing heightened risks as the basis for its decision. Key factors included escalating geopolitical tensions and new trade restrictions that are disrupting global supply chains, as well as anticipated adverse weather conditions likely to impact food production. Additionally, the Ugandan shilling weakened by 3.8% in June 2025 (from UGX 3,594.6 per USD in May to UGX 3,631.8 in June), reflecting ongoing global uncertainty and financial market volatility.

Inflation Rate

3.9%
June 2025
3.8%
May 2025

Annual inflation rates increased in Uganda, Rwanda, and Tanzania, while remaining unchanged in Kenya. In Uganda, inflation rose slightly to 3.9% in June 2025 from 3.8% in the previous month. Rwanda's inflation also increased to 7.0% from 6.9%, and Tanzania's to 3.2% in June 2025 from 3.3% in May 2025. This rise in prices is mainly attributed to increases in either food crops or non-alcoholic beverages in the mentioned countries. Unlike Kenya, the inflation rate remained unchanged at 3.8%.

Trade Balance

Uganda's trade deficit slightly narrowed to \$110.8 million in May 2025, from \$114.7 million in April 2025, driven by a 6.95% increase in exports (\$1,198.9 million), which outpaced the 5.9% increase in imports (\$1,309.7 million) between April and May 2025. Such a good performance of the export, if maintained, will strengthen the economic footing of the country.

| Revenue Sources | FY2024/25 (UGX' billion) | FY2025/26 (UGX' billion) |
|--------------------------------------|--------------------------|--------------------------|
| Domestic Revenue | 31,981.0 | 37,227.2 |
| Budget Support | 1,393.7 | 2,084.3 |
| Petroleum Fund | 115.0 | |
| BOU recapitalization | 7,778.5 | |
| Net domestic borrowing | 8,968.0 | 11,381.3 |
| Domestic refinancing | 12,021.7 | 10,027.8 |
| Local Government Revenue | 293.9 | 293.9 |
| Project Support (External Financing) | 9,583.5 | 11,327.1 |
| Total Envelope (inflows) | 72,135.3 | 72,341.6 |

Source: Background to the Budget for FY 2025/26 (MoFPED)

INVESTING IN UGANDA'S YOUTH

Opportunities in the FY2025/26 Budget

1. INTRODUCTION

Uganda's demographics indicate that the country has one of the world's youngest populations, coming second to Niger in Africa. 73% of the country's population (33,519,852) of the total population of 45,905,417 persons are Ugandans below the age of 30, while 10,769,151 (23.5%) are youth aged 18-30 years.

Globally, the youth are recognized as instrumental in fostering sustainable, inclusive, and peaceful societies. While a young population presents significant economic opportunities, it also poses challenges that must be addressed to fully harness its potential. Challenges such as high unemployment rates among the youth can lead to economic instability and social unrest, and for Uganda, the NDPIV notes that of the over 600,000 Ugandans that enter the job market, only 15% of these are demanded, creating a loophole for the challenges associated with unemployment.

Recognizing the critical role of young people in national development, Uganda has gone ahead to implement various youth-responsive programs aimed at enhancing their livelihoods and encouraging active participation. Notable initiatives include the Youth Livelihood Development Program and the Youth Skilling Program under the Office of the President, both designed to equip young people with market-relevant skills to foster self-employment and job creation nationwide. However, the impact of these programs on youth remains minimal.



Credit: Skilling the Girl Child Uganda

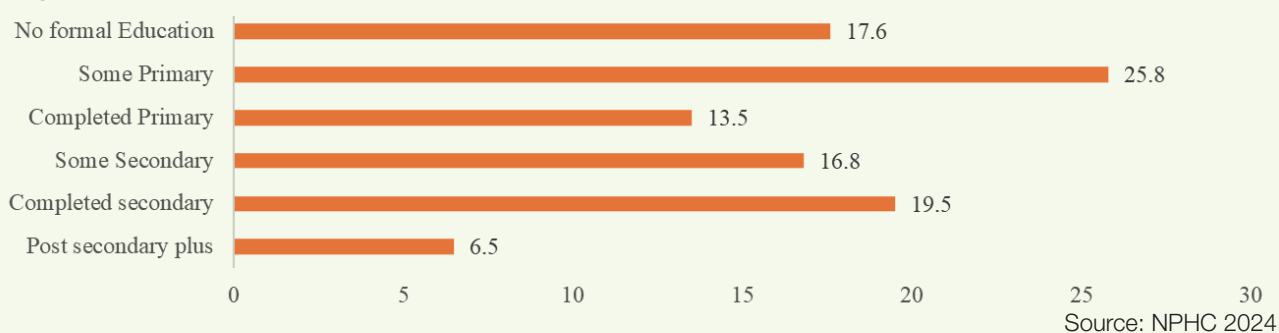
2. YOUTH STRUCTURES IN UGANDA

The proportion of youth in Uganda has been on an upward trajectory, currently standing at 23.5% of the overall population as of the 2024 national census results, from 22% in 2014. At the regional level, Buganda and Lango have the highest proportion of youth, both at 25%, while Kigezi has the lowest with only 19.1% of its people being youth.

a. Youth Education Profile. The attainment of education among the youth in Uganda remains a challenge, with 17% surviving with no educational background, while only 6.5% have attained post-secondary education as of 2024.

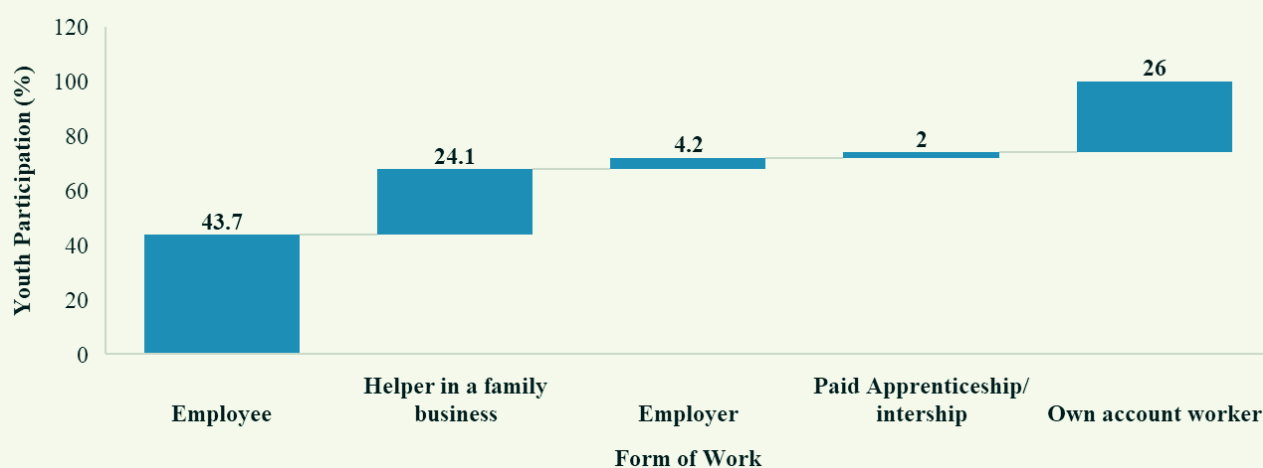


Figure 1: Youth Education Profile (%)



b. Youth Employment Profile. In Uganda, 25.2 million persons (56.7%) of the population are in the working age population; however, 16% of those aged 18-30 years were deemed unemployed during the 2024 census, while 50.9% were neither employed, in education or training, and 50% of the youth spend at least a year or above in unemployment.

Figure 2: Youth Participation in Different Forms of Work (18-30 years)



c. Youth and the Wealth Creation Programs. In 2016, the government of Uganda reviewed and finalized the 2001 Uganda National Youth Policy, which aimed at unlocking the potential of youth for sustainable wealth creation and general development. Subsequently, a National Youth Action Plan was developed to operationalize the policy and ensure proper implementation of youth-related programs.

Whereas the government has created different programs, including the Youth Livelihood Program, skilling programs, Emyooga, among others, to provide financial support, skills training, and access to resources to help young people start and grow businesses, ultimately contributing to their economic empowerment, the uptake of these remains low. Particularly for the Youth Livelihood Program, the 2024 census results indicate that only 0.4% of the youth in Uganda have benefited from the program, highlighting a challenge in ensuring the uptake of these funds.

By sub-region, the highest proportion of the youth who benefited from any government program are in Acholi (22%), followed by Lango and Karamoja, both at 17% while the least proportion of beneficiaries are in Buganda (8%), and Busoga and Ankole are both at 10%.

Table 1: Percentage of uptake of Wealth Creation Programs among the Youth

| Program | % Total Uptake of Wealth Creation Programs among the youth |
|---------|--|
| YLP | 0.4 |
| Emyooga | 0.1 |
| UWEP | 0.3 |
| PDM | 1.4 |
| NAADS | 9.9 |



3. WHY INVEST IN THE YOUTH

i. A tool for eradicating National Poverty.

The 2024 “Leaving No One Behind” country report for Uganda indicated that nearly half of Ugandan households experience multi-dimensional poverty at 42.1%, more than double the percentage living in monetary poverty at 20.3% while people living below the international poverty line are 41.2% with prominence in rural areas at 48.1% while Urban areas are at 22%.

Since 73% of Uganda’s population is young people with associated challenges such as limited access to quality education and job opportunities, and the 2024 Census Report revealed that a concerning share of Youth (15-24 years) not in Employment, Education, or Training (NEET) stands at 4,001,528 persons (42.6%). Investing in high outcome areas such as education and skilling for the youth has the potential to reduce poverty in Uganda. According to World Bank data, education is one of the most powerful instruments for reducing poverty and inequality, as well as for laying the basis for sustained growth, with an additional year of schooling increasing earnings by 10% annually in any country.

ii. Youth and the Achievement of the Sustainable Development Goals.

According to the UN SDG database, currently, there are 1.8 billion people between the ages of 10-24, making it the largest generation of youth in history. Close to 90% of them live in developing countries, where they make up a large proportion of the population. In order to achieve the SDGs by 2030, the youth are recognized as change makers, innovators, communicators, and leaders, if leveraged, can lead to any country’s sustainable development.

Thus, investment in areas with direct impact on the youth, ensuring their active participation and involvement in the planning and monitoring of government expenditures, poses a significant contribution to realizing Uganda’s development goals.

iii. Human Capital Development.

According to the Human Capital Index (HCI) 2020, Uganda’s score was 0.38, indicating that a child born today will reach only 38% of what her lifetime productivity could have been had she received a complete education and been in full health. (World Bank, June 2024). Given Uganda’s demographic structure and the overall government strategy to improve the welfare of its people through prioritization of healthcare, education, water, sanitation, and hygiene, investing in the well-being and skills of youth not only benefits them but also strengthens the overall human capital of the country.

iv. Reduction in the chances of violence and civil disorder.

Young people are both disproportionately responsible for violent crime and are also more likely than other age groups to be the victims of such crime¹. Countries where young people have low levels of participation in education, civic space, poor health services, and high unemployment are more likely to engage in civil strife. Uganda has specifically witnessed the unfolding of such instances where the youth have on several instances taken to the streets to riot due to salient issues of unemployment, corruption, and lack of freedom of expression. To reduce such instances, there is a need for sustainable investment in areas that benefit the youth, ensure empowerment, and free exercise of their rights.

¹ The Case for Investing in Young People as part of a National Poverty Reduction Strategy

4. 10 OPPORTUNITIES FOR THE YOUTH IN THE FY2025/26 BUDGET

i. Youth Livelihood Program (YLP).

Launched in 2014, this is a Government of Uganda-financed program designed as one of the interventions in response to the high unemployment rate and poverty among the youth in the country, covering 112 Districts of Uganda (including Kampala Capital City Authority). This is an interest-free revolving fund and as far reached 24,584 youth groups. In the FY2025/26 Budget, UGX314.672 billion was allocated to this program.

ii. Youth Venture Capital Fund.

Allocated a total of UGX 12.5billion, these funds are accessible for youth engaged in sole proprietorship or a joint venture up to UGX.5 million per youth; however, it requires two credible guarantors or collateral as security and is only accessible in Centenary bank at an 11% interest per annum

iii. Special Procurement Reservations for the Youth. 15% of all annual procurement plan budgets are reserved for special interest



groups, including youth-owned enterprises, only if the enterprise is at least 51% owned, led, and controlled by Ugandan citizens aged 18-30 years. These can be assessed at the districts and government agencies.

iv. PDM reservation for the Youth. UGX. 1.059trillion allocated with UGX.100million per parish, of which 30% is reserved for the youth, aimed at youth empowerment.

v.Support to the Creative Industry. 34.8% of artists in the cultural and creative industry are youth (18 –30 years), and 49% musicians are youth. UGX 28bn allocated, of which UGX.18billion for constructing regional centers–studios, recording centers, UGX.5Billion for copyright and patent, UGX.5billion for musician SACCOS.

vi. Skilling initiatives/program. UGX.58.5bn Presidential skilling initiative and an additional Ugx0.248bn towards the Ministry of Gender, Labor, and Social Development (MGLSD) regional centers. The Presidential Skilling Initiative targets 7,000 young people annually in 19 zonal hubs, while MGLSD skilling targets 640 youth annually through 3 centers. Additionally, these skilling programs are free of charge and open to all youth across the country

vii. JuaKali (Green Jobs). UGX. 3 billion were allocated to support informal sector (Jua-kalis) businesses with tool kits, and it targets all Ugandans(18-60years), including women, youth, and persons with disabilities.

viii. Support to Small and Medium Enterprises (SMEs). According to the Uganda Entrepreneurship Index report, 38.5% of MSMEs are owned by youth between 18-24 years. UGX 275.05 billion was allocated to support these ventures.

ix. Uganda Women Entrepreneurship Program (UWEP). A Government of Uganda initiative aimed at improving access to financial services for women and equipping them with skills for enterprise growth, value addition, and marketing of their products and services. This benefits female youth with the willingness to work in a group of 6-10 members (at least 30% female).

x. Technical Vocational Education and Training. UGX.35.37Billion allocated under the Ministry of Education and Sports.

5. CHALLENGES

- Low uptake of government wealth creation programs among the Youth. According to the 2024 census results, only 12% of the youth time of the survey had benefited from government programs, while less than 1% had benefited from the Youth Livelihood program. This low uptake of government programs among the youth renders the purpose of these programs non-viable, irrelevant, diminishing trust and engagement with future programs.
- Barriers to accessibility of these funds. Lack of credible information on the availability of wealth creation funds remains the most significant barrier to uptake of such programs, and bureaucratic processes involving complex administrative procedures further limit youth participation. Without adequate engagement, marginalized or less-informed youth continue to face barriers to wealth creation, widening existing socioeconomic gaps. This, therefore, underscores the need for improved information dissemination, transparency, and streamlined processes to enhance youth engagement with wealth creation initiatives
- Inadequate financing for the key social sectors.

For the youth to thrive and engage in constructive activities for the development of the country, there is a need for adequate financing for areas that directly impact them, including agriculture, health, education, and Social development. However, despite government efforts to increase investments in the human capital development program, the financing gap is still huge, especially when compared to the cost figures. This has exacerbated challenges such as a lack of access to adequate health care services, especially Sexual and Reproductive health.

6. CONCLUSION

Investing in Uganda's Youth poses a pivotal opportunity to improve the country's human capital, eradicate poverty, and ensure sustainable prosperity and attainment of the development goals. However, ensuring that the young population has access to quality education and vocational training, adequate healthcare services is essential for equipping them with the skills needed in the modern economy and maintaining a healthy and productive workforce to support Uganda's economic growth.

BUDGETING FOR THE YOUTH: UNLOCKING UGANDA'S DEMOGRAPHIC DIVIDENDS

Uganda's population is predominantly young, with 73% (33.5 million people) under the age of 30, and approximately 23.5% (10.7 million people) falling within the youth age bracket of 18 to 30 years (UBOS, National Population and Housing Census 2024). Recognizing the critical role young people play in driving national development, the Government of Uganda has implemented several youth-responsive programs aimed at improving livelihoods, fostering job creation, and increasing civic participation. The government has, over time invested in programs with youth focus such as the Youth Livelihood Program (YLP)-UGX 564.672BN, Youth Venture Capital fund-UGX12.5BN, Parish Development Model (30% of 3.3TN), and Skilling initiatives- 58.5BN among others all tailored towards equipping youth with marketable skills and promoting self-employment.

In FY2025/26 alone, the government has further allocated resources to Key youth centered interventions including the Youth Livelihood Program (YLP)-UGX23BN, Emyooga -1BN, Parish Development Model (30% of 1.059trn), Jua Kali - 3BN, Support Apprenticeship - 2BN, Revolving fund to support Artists - 5BN and Support Artists and the Creative Industry fund - 18BN have been launched to enhance incomes and encourage innovation, particularly among youth in the informal sector.

Despite these efforts, youth participation in Uganda's planning and budgeting processes remains significantly low. This could potentially account for the low uptake of the above programs and limited success for example, programs such as NAADS involved only 55% of youth in planning, with less than 21% taking part in critical decisions like procurement. Moreover, according to the recently concluded population census report 2024, over (4,001,528) 42.6% of youth aged 15 to 24 are Neither in Employment, Education, Nor Training (NEET), and nearly 75% of employed youth work in informal or unstable conditions. This



Tracy Anna Namalike

mismatch between policy design and the lived realities of young people underlines the urgent need for truly inclusive and participatory budgeting processes.

Youth unemployment is more than an economic challenge; it's a developmental crisis. Uganda continues to produce graduates whose skills often don't align with market needs. With only 13% securing formal employment, the country faces a widening education-to-employment gap. While several interventions exist to empower youth, many suffer from limited accessibility, political interference, poor implementation, and low awareness. Financial exclusion remains a major barrier, especially for youth without collateral or elite connections.

In conclusion, Uganda's youthful population holds transformative potential. To harness this demographic dividend, the government must make strategic, sustained investments in sectors with growth potential like



agribusiness, ICT, renewable energy, and the creative industry but also provide platforms for youth to actively participate in planning and budgeting processes at all levels. These efforts must be backed by transparent and accountable funding by institutionalizing youth voices in budget processes, monitoring the flow and impact of youth-targeted funds, and redesigning economic programs based on real youth needs. Uganda's future depends on its young people. Budgeting with and for them is not just a policy option, it is a national imperative

Tracy Anna Namalike

Economics Intern at the Civil Society Budget Advocacy Group (CSBAG).

UPDATES ON CSBAG WORK

CSBAG B2B DIALOGUE



The Civil Society Budget Advocacy Group (CSBAG) with support from KCB bank and OXFAM organized the Budget to business high-level post budget dialogue on the 17th of June 2025 at the Sheraton hotel under the theme “From Budget to Business: How Fiscal Reforms Can Unlock Trade and Investment Opportunities in Uganda” served as a strategic platform to foster alignment between Uganda’s fiscal policies and private sector priorities. The dialogue aimed to deepen collaboration between public and private actors

to unlock investment, promote trade, and catalyze pro-business reforms that support inclusive and sustainable economic growth. This discussion also explored policy adjustments, financial innovations, and investment-friendly regulations that can create a thriving business environment



CSOS POST BUDGET DIALOGUE

CSOs Recognize Top Government Agencies and Local Governments for Service Excellence



Civil Society Organizations (CSOs) recognized the top-performing gov't agencies and local governments for outstanding service delivery during the CSO Post-Budget Dialogue held at Mestil Hotel, Kampala in June. The event, themed “Transforming Challenges into Opportunities: Budgeting for People-Centered Economic Growth,” was organized by CSBAG in partnership with Oxfam, PELUM, ACODE, NGO Forum and FOWODE. The dialogue provided a platform for CSOs to acknowledge agencies that have gone above and beyond in meeting citizens’ needs.

Public Procurement and Disposal of Public Assets Authority (PPDA), Office of the Auditor General, Ministry of Finance, Isingiro District Local Government, and the Uganda Drivers Licensing System were honored for their commitment to transparency, community engagement, and innovation in service delivery.



OUR WORK IN THE MEDIA



Permanent Secretary Ramadhan Ggoobi (on the left) sharing a handshake moment with CSBAG Executive Director Julius Mukunda (on the right) during the press briefing for the Quarter One FY 2025/26 Expenditure Releases.

Photo Credit: MoFPED



Members of CSBAG together with partners and the youth pose for a group picture after the Technical Talk on Youth Opportunities in the National Budget FY2025/26

Photo Credit: CSBAG



From left to right, Mr. Patrick Ocailap, Deputy Secretary to the Treasury MoFPED, Stephen Asiimwe, CEO PSF, Matia Kasajja Minister of MoFPED and CSBAG ED Julius Mukunda during the launch of the National Budget Month.

Photo Credit: MoFPED



The dollar dilemma: How Capital M

Uganda is at a crossroads, balancing immediate needs with long-term strategy. While the country had alternatives like dollar bonds, investment schemes, or global capital markets, it opted for a quick fix—commercial banks, revealing that its capital markets are not yet ready for such challenges.

BY DEOGRATIUS WAMALA

When governments go hunting for cash, they often grab the nearest thing in sight: commercial banks. And Uganda? Well, it's no different.

But in opting for costly, short-term debt, the government might be overlooking a more strategic—and cheaper—option: its own capital markets.

Local bonds could do more than just bail out the government in a pinch. They would not only strengthen Uganda's underdeveloped financial ecosystem but, over time, attract the foreign investors the country so desperately courts abroad.

Think of it as a long-term play for stability, rather than the short-term hustle.

Take March, for example. Uganda found itself scrambling to fund a liability it had seen coming for decades: the Umeme buyout after a 20-year concession.

When the curtain fell, the Finance and Energy officials were caught flat-footed, scrambling to estimate asset values of the company they contracted to distribute electric power to the population.

This was mired with navigating a \$116 million (Shs426.5 billion) valuation gap—one that quickly turned into a tug-of-war between the state and Umeme's investors. Umeme invoiced \$234 million (Shs860 billion) but the government was willing to pay it \$118 million (Shs433.7 billion).

The outcome? Predictable, yet baffling. Parliament gave the green light to a \$191 million (Shs703.1 billion) loan from Stanbic Bank—disguised as an 'emergency' measure and slipped into a last-minute supplementary budget.

So while Parliament treated the loan like a fire drill, it now turns out this was just another expensive routine expenditure, *dm Money* has established.

This matters because Uganda's national debt is becoming less manageable and more like a game of "How much can we borrow today?"

Since 2018, domestic debt has shot up by 157 percent—from Shs15.2 trillion to Shs39.1 trillion—while external debt soared to Shs54.4 trillion in 2023. And let's not forget the Shs469.7 billion spent on commitment fees for idle projects.

There is that growing pile of commercial loans. The Umeme loan is a prime example of the price Uganda is paying for such fiscal improvisation.

"Without a smarter, forward-looking debt strategy—one that taps into capital markets and leverages tailored instruments—Uganda risks paying more in interest than it actually gets in outcomes," warns Eric Odong, an economist at Civil Society Budget Advocacy Group (CSBAG).

Here are the missed opportunities. Uganda could have structured local bonds, tapping into collective investment schemes or even issuing dollar-denominated bond instruments domestically—an approach Nigeria successfully employed in 2024.

Instead, the Ugandan government opted for a \$191 million commercial loan to cover the Umeme buyout and another \$50 million commercial loan to kickstart the Uganda Electricity Distribution Company Limited (UEDCL). Fast, easy cash? Sure. Sustainable? Not so much.

A buyout poorly bought

The \$191 million (Shs703.1 billion) loan to finance Umeme's buyout is already signed, but that doesn't mean we shouldn't ask important questions. There were more affordable



Dollars in a bank. While the Umeme loan may address a short-term need, it raises deeper questions about financial independence, market oversight, and whether Uganda is building a capital market. PHOTO BY EDGAR R. BATTE

and sensible options available—if only the government had taken a moment to look beyond the latest crisis.

One easy option? Issue a bond to the National Social Security Fund (NSSF)—which already owns nearly a quarter of Umeme (23.4 percent)—and to other shareholders willing to swap equity for debt.

That move could have kept borrowing costs low and spared taxpayers the full brunt of the financial burden.

Then there is the bonus: Offer those investors a slice of the soon-to-be government-run UEDCL. That way, the government could have deferred the payout, kept the cash in the vault, and still made investors feel like they had a stake in the future.

Even if a loan was truly unavoidable, syndicating it across multiple banks could have spread the risk, shielded private sector credit access, and softened the inevitable impact on domestic interest rates.

But the National Treasury went for the fastest fix, one that carries a heavy, expensive tail.

So, the question remains: Was this a well-thought-out strategy or just another panicked stumble in Uganda's fiscal dance?

A high-cost short term fix

On paper, Uganda's \$191 million (Shs703.1 billion) loan to finance the Umeme exit might look like a neat solution. But dig a little deeper, and the numbers start to sting.

The loan stretches over five years, with a six-month grace period followed by 45 years of repayments. It is pegged to the six-month Euribor rate (forecast at 2.39 percent by March 2025) plus a 4.7 percent margin, which leads to an effective interest rate of around 7.27 percent. Not exactly a steal.

But wait, there is more: a 1.2 percent arrangement fee, a 2 percent annual default penalty, and the need to prepay the insurance premium.

Borrowers can cancel undrawn

amounts (in €10 million chunks), but that flexibility feels less like a victory and more like a consolation prize.

The loan's present value of \$213.37 million (Shs785.9 billion) far exceeds its nominal value of \$190.99 million (Shs702 billion). When all is said and done, Uganda will pay a total of \$235.41 million (Shs866 billion) over five years. That is an expensive price tag.

With a grant element of -11.7 percent, this loan is a commercial one, missing the concession mark by a wide margin.

"Moving forward, the government must take a more proactive approach," Civil Society Budget Advocacy Group (CSBAG) urges in an expert analysis. "Identifying and managing transition risks long before contracts expire is crucial. Otherwise, taxpayers will keep footing the bill for preventable mistakes."

Denis Kizito, the director of market supervision at Uganda's Capital Markets Authority (CMA), warns that borrowing from local commercial banks—while regulating the same—risks blurring the lines between referee and player.

"In finance, there is an unwritten rule: whoever lends you money becomes your boss," he says.

"It is risky when the government negotiates with commercial banks in bilateral deals instead of submitting itself to the discipline of the open market," Kizito says.

The government might argue it needed dollars, but it also borrowed \$50 million (Shs184.2 billion) to finance UEDCL's start-up capital and operations that did not necessarily require dollars, something that could have necessitated a public bond, where the price is determined by supply and demand.

But it did not. Why? The answer likely lies in Uganda's regulatory setup. Government borrowing through the domestic primary market is exempt from CMA oversight, giving the central bank power to act as auctioneer without regulatory scrutiny when it borrows local.

\$235.4m
TOTAL AMOUNT UGANDA
WILL PAY UMEME OVER 5
YEARS



worker at Umeme's Ring Main Units in Namanve last year. PHOTO/FILE





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