

By Paul Busharizi

These days Haji curses the day his friend Jack walked into his workshop with what looked like the deal of a lifetime.

Jack had a contact in a government agency that needed thousands of desks and chairs for public schools. The local purchase order (LPO) carried the authority of the state. The volumes were large. The opportunity seemed obvious. Supply the furniture. Deliver the desks. Get paid.

What Haji did not know then was that he had just stepped into one of the most dangerous transactions in Uganda's economy: Supplying government.

The banks had already learnt the lesson the hard way. They no longer discount government LPOs. Too many suppliers had walked into branches with official paperwork only to discover that payment might take years. So Haji financed the contract himself.

He drained his savings, borrowed from friends, sold part of his inventory and rolled the rest through expensive overdrafts. By the time the desks were delivered, he had sunk hundreds of millions of shillings of his own money into the deal.

That was five years ago. He is still waiting to be paid.

His workshop is barely surviving. Expansion plans have been shelved. Machinery upgrades postponed. The only way he has kept the doors open is by shrinking the business — cutting staff, closing one production line and focusing on private clients who actually pay their bills.

Haji's story is not unusual. It is simply the human face of one of the least discussed problems in Uganda's public finances.

Buried deep in the recently released Medium-Term Expenditure Framework for 2026/27 is a number that should worry anyone interested in the health of the economy. The government plans to allocate about sh200b to clear domestic arrears estimated at roughly sh8.4 trillion.

BUDGET IGNORES DOMESTIC ARREARS — AGAIN



If you owed your suppliers sh8.4 trillion and planned to repay them sh200b a year, it would take more than 40 years to clear the bill, assuming you stopped accumulating new arrears tomorrow.

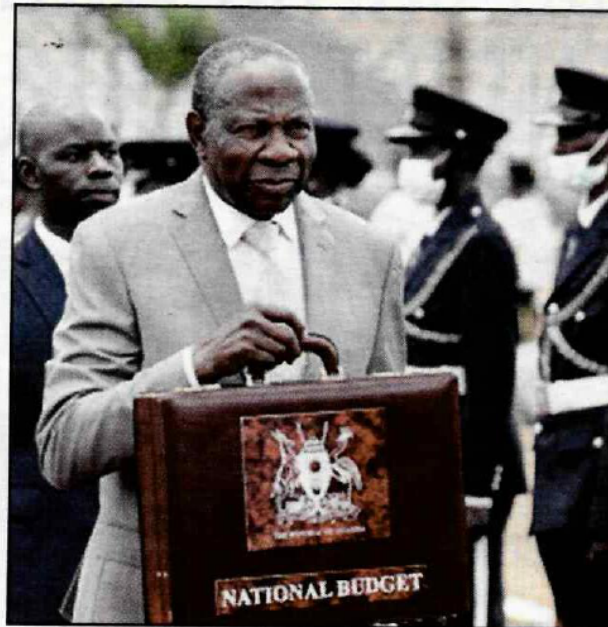
That assumption is heroic.

Domestic arrears are one of the most persistent structural weaknesses in Uganda's fiscal system. Every year contractors build roads, firms supply medicines, manufacturers deliver furniture like Haji's desks and small traders supply food to schools, hospitals and barracks. But a significant share of those bills is not paid on time.

Instead they accumulate quietly in ministry ledgers until they become arrears — unpaid obligations sitting on the Government's balance sheet like sediment at the bottom of a river.

And the problem has been building for more than a decade. Ten years ago, domestic arrears were estimated at roughly sh2 trillion. By 2018, they had crossed sh3 trillion, prompting repeated directives from the finance ministry warning accounting officers not to commit expenditure without cash backing. Yet the numbers kept rising. By the early 2020s, the stock had climbed to around sh5 trillion. Today the figure stands at about sh8.4 trillion, roughly four times what it was a decade ago.

In effect, the Government has allowed arrears to grow faster than the economy itself. The Budget Framework Paper acknowledges the scale of the problem and outlines a multi-year strategy to eliminate the stock, even allocating sh1.4 trillion this financial year towards the effort. Yet the Medium-Term



Finance minister Matia Kasaija (holding the national budget regalia) during the Budget Day at Kololo Ceremonial Grounds. Ten years, ago domestic arrears were estimated at roughly sh2 trillion

BETWEEN THE LINES

■ The Budget Framework Paper acknowledges the scale of the problem and outlines a multi-year strategy to eliminate the stock, even allocating sh1.4 trillion this financial year towards the effort.

Expenditure Framework that follows suggests the effort quickly reverts to a token sh200b annually. In fiscal terms, that is not a strategy. It is an accounting gesture. To understand why domestic arrears matter, think of them as the Government's hidden tax on the private sector.

When the Government fails to pay suppliers on time, those suppliers must finance the gap themselves. They borrow from banks, delay paying workers and suppliers, or scale back investment.

A contractor waiting years to be paid for a project is effectively extending a loan to the state, except the interest rate is whatever his bank charges him. In Uganda's case, that rate easily sits between 18 and 22%.

At the current arrears stock of sh8.4 trillion, the business community is effectively financing the Government to the tune of roughly sh1.5–1.7 trillion every year in interest costs alone. And because arrears are not cleared on a strict first-in-first-out basis, some suppliers wait far longer than others, pushing their financing costs even higher.

So what begins as a government cash-flow problem quickly becomes a private sector solvency problem. You can see the consequences across the economy.

Banks complain about non-performing loans from contractors whose payments have stalled.

Businesses become reluctant to bid for government contracts unless they price in the risk of delayed payment. Smaller firms simply avoid government tenders altogether.

The result is predictable: Higher project costs, weaker competition and slower growth. And yet the irony is striking.

At the same time, the Government struggles to pay suppliers like Haji, it continues to borrow aggressively on the domestic bond market.

Interest payments next year are projected to reach about sh12.7 trillion, with more than sh10 trillion going to domestic creditors. Put differently, Uganda will spend many times more servicing interest than clearing arrears.

That tells you something about our fiscal priorities. We pay the bond market religiously. We pay suppliers when we can. And this creates a dangerous incentive. If government bonds offer 15–16% risk-free returns while productive businesses struggle with unpaid invoices and borrowing costs above 20%, what stops genuine producers from abandoning expansion altogether?

Why struggle with factories, machinery and payrolls when the state itself is offering double-digit returns for simply buying its paper?

The risk is that capital slowly migrates from production to speculation. Which brings us back to Haji and his desks.

For him, the cost of supplying the Government was not just delayed payment. It was the freezing of capital, the shrinking of a business and the quiet death of expansion plans.

Multiply that story across thousands of suppliers, and you begin to see the real economic cost of domestic arrears.