

'Our limited fiscal headroom must be a cause of concern'

Mr Julius Mukunda, the Executive Director of the Civil Society Budget Advocacy Group (CSBAG), in an interview with *Weekend Monitor's* **Ismail Musa Ladu** takes stock of the Auditor General's (OAG) 2025 report in which the country's revenue collection, public debt, and key economic sectors are reduced to their constituent parts. Excerpts:-

Your assessment of the 2025 OAG report seems more damning than the report itself. Is there a reason for outrage?

Look at the country's rising public debt. It has increased from nearly Shs70 trillion in Financial Year (FY) 2020/2021 to slightly over Shs115 trillion in FY2024/2025, representing a 67 percent increase in five years.

Our debt-to-GDP ratio is approaching the 51 percent benchmark set under the Charter for Fiscal Responsibility, a cap we didn't want to surpass because it's a danger zone. It's almost like playing with fire.

More concerning is the interest payments out of domestically collected revenues, which have risen to 23 percent, almost double the national benchmark of 12.5 percent. This means, for every Shs100 collected in domestic revenue, approximately Shs24 is spent on interest payments. This significantly constrains the National Budget's ability to fund programmes in health, education, agriculture, and infrastructure.

Did you also know that domestic debt increased significantly from nearly Shs40 trillion in June 2024 to about Shs60 trillion in June 2025, raising its share of total public debt to 51 percent? This potentially crowds out private sector credit and raises borrowing costs for businesses.

Revenue collection seems to increase, and the Auditor General appears to take note of that. So, what's your qualm?

Our domestic revenue collections increased from Shs22 trillion in FY 2021/2022 to Shs32.3 trillion in FY 2024/2025, representing a 46 percent increase over four years. However, this growth has not translated into stronger revenue effort.

Our Tax-to-GDP ratio remains below the 15 percent benchmark for developing countries, the 18.6 percent sub-Saharan Africa average, and far below the 23 percent global average. This suggests that while the economy is expanding and collections are rising, the government is not capturing a larger share of national income. Revenue performance, therefore, reflects economic growth rather than structural strengthening of tax mobilisation.

We have a tax register of about 5.2 million taxpayers. However, only 48 percent of registered taxpayers contrib-

uted at source. This indicates that the expansion of the taxpayer register has not been matched by effective compliance enforcement or broad-based contribution.

There has always been a mismatch in tax contributions of key sectors of the economy. Why should one care about this imbalance?

The Auditor General's findings reveal a clear mismatch between Uganda's economic structure and its tax contribution. Agriculture contributes 26 percent of gross domestic product (GDP), but only 1.6 percent of total tax revenue, while trade contributes 9.6 percent of GDP but 25 percent of taxes, and manufacturing contributes 14.5 percent of GDP but 22 percent of taxes.

This imbalance shows that a narrow set of formal sectors carries a disproportionate share of the tax burden, while large and economically significant sectors contribute minimally. The result is a tax system that is narrow, uneven, and vulnerable to sector-specific shocks.

We have seen run-ins between tax collectors and a section of the business community over Efris (the Electronic Fiscal Receipting and Invoicing System). The insistence on the system seems to be paying off, wouldn't you agree?

Following the introduction of the Electronic Fiscal Receipting and Invoicing System, VAT collections increased from Shs5.01 trillion in FY 2019/2020 to Shs8.78 trillion in FY 2024/2025, representing a 56 percent increase. The post-Efris growth trajectory significantly outpaces pre-digitalisation trends, suggesting improved compliance, reduced invoice fraud, and better capture of VAT transactions. This demonstrates that well-designed administrative reforms, when properly enforced, can materially strengthen domestic revenue mobilisation.

Persistent domestic arrears are causing many local suppliers to cut down on their operations, undermining the government's own local content policies. Does the government ever care about its commitments and reputation?

Delayed payment simply speaks to fiscal indiscipline—a lack of control in managing government finances. Remember this indiscipline badly strains

VIEWS ON AG'S REPORT ON INFRASTRUCTURE GAPS IN U.S.E SCHOOLS

"A total of 136 schools lacked science laboratories, 270 had inadequately equipped laboratories, 182 schools lacked libraries, and 233 had libraries without essential books. Additionally, 380 schools had inadequate classroom facilities, leading to congestion; 251 schools lacked teacher accommodation, 233 schools were using condemned pit latrines, 237 schools had very old and damaged iron sheets, and 252 schools had cracked classroom walls posing safety risks. These conditions undermine learning quality and weaken the intended impact of USE."

trillion in 2024.

Although the stock was reduced to Shs8.4 trillion in 2025, this decline was largely technical, following the conversion of Shs7.7 trillion from Bank of Uganda advances into long-term Treasury Bonds. This restructuring improved the reported arrears position but did not reflect the actual clearance of outstanding obligations to suppliers and service providers.

The audit further shows continued accumulation of arrears across key ministries and agencies. The Ministry

of Energy and Mineral Development increased its arrears by more than 1,000 percent, from Shs7.14 billion to Shs80.11 billion, while the Ministry of Gender, Labour and Social Development recorded a 176 percent increase.

At the Ministry of Works and Transport, a major misalignment was observed between budgeted and actual payments, with only Shs10.8 billion budgeted, yet Shs793 billion settled in arrears.

The continued build-up of domestic arrears carries serious economic and governance implications. It constrains private sector liquidity, particularly for firms that depend on government contracts, and increases borrowing costs as suppliers factor payment uncertainty into pricing. It also fuels procurement inflation, exposes the government to litigation risks, and erodes confidence in public financial management systems. Over time, persistent arrears accumulation undermines budget credibility and weakens the integrity of fiscal governance.

The Auditor General continues to point out major weaknesses in key sectors of the economy, such as health and education. Why are these issues persisting, and what is your reading of the situation?

The Auditor General's findings reveal a health financing system under sustained structural pressure. In FY 2024/2025, the National Medical Stores required slightly more Shs1.5 trillion to fulfil its mandate but received only Shs1.4 trillion, leaving an 11 percent funding gap.

At Mulago National Referral Hospital, only Shs18.2 billion was provided against a need of Shs72.3 billion, representing a 75 percent funding gap for specialised medicines and supplies. Such disparities constrain access to life-saving treatment and increase out-of-pocket expenditure for households.

You may want to know that Uganda's Essential Medicines and Health Sup-

plies (EMHS) system remains heavily dependent on development partners who financed 64 percent of essential medicines in FY 2024/2025, compared to 36 percent from domestic resources.

Beginning FY 2025/2026, approximately \$312.8 million in donor support is expected to be withdrawn. Without a credible domestic transition strategy, this withdrawal risks widening medicine stock-outs and weakening the state's capacity to manage disease outbreaks and emergencies.

What became of the transformation meant for easing land management and administration?

Despite the rollout of the Uganda National Land Information System (UNLIS), processing times continue to exceed client charter standards. The audit identified incomplete digitisation, inaccurate mapping, missing parcel information, weak front-desk verification, and limited staff capacity to deliver forged documents.

Fraud risks remain high, including cases of double titling and forged land documents. These systemic weaknesses undermine land tenure security, expose government and citizens to litigation and financial loss. The government should accelerate full integration and data clean-up of UNLIS, strengthen parcel verification systems, and enhance staff capacity to detect forged documents and double titling.

What do State-owned enterprises need to do to stop bleeding the Treasury?

The Auditor General's review of selected State-owned enterprises (SOEs) reveals continued financial underperformance despite significant government capitalisation. Uganda Electricity Transmission Company Limited (UETCL) reported a loss of Shs456 billion, Uganda Broadcasting Corporation (UBC) recorded a loss of Shs424 billion, and Uganda Airlines reported a loss of Shs230 billion.

Persistent losses in these entities reduce the expected return on public investment and increase pressure on the National Budget. The ministry of Finance should strengthen monitoring of SOE financial performance, including timely publication of audited accounts and enforcement of corrective action where losses persist.

The sluggish execution of some key government-funded projects is becoming a chronic, damaging bottleneck. Do you agree with this assessment?

Yes. As of June 30, 2025, Uganda had 106 government-funded projects valued at Shs13.3 trillion. However, only Shs10.07 trillion had been released, creating a funding shortfall of Shs3.2 trillion. Implementation challenges were widespread, including seven projects that were extended due to unresolved project affected persons, rescope, land acquisition challenges, cash flow constraints, and delays in finalising designs.

Additionally, 60 projects were retained despite persistent implementation of bottlenecks, raising concerns about project viability and oversight.

As of July 1, 2025, the government had boarded 149 new funded projects worth Shs19.5 trillion.

