

CSO POLICY BRIEF

Beyond Numbers in FY 2025/26: Assessing Uganda's Budget Commitments to Poverty Alleviation



Policy Brief on Uganda's Budget Commitments Towards Poverty Alleviation was produced by the Civil Society Budget Advocacy Group. The contents of this publication are the responsibility of CSBAG and not of our development partners.

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1. Foreword



This policy brief examines Uganda’s FY2025/26 National Budget in the context of the Fourth National Development Plan (NDP IV) and its alignment with poverty reduction goals. It highlights key gaps, opportunities, and civil society recommendations to ensure the budget delivers inclusive and equitable development.

Uganda’s macroeconomic environment in FY2024/25 showed signs of resilience, with GDP growth rising to 6.3% and inflation remaining below the Bank of Uganda’s 5% target. However, unemployment remains high at 12.3%, and the cost of borrowing is still prohibitive for many, especially the low-income earners. The introduction of a 2.8% monthly interest rate cap for money lenders, while intended to protect borrowers, may inadvertently sustain high lending costs.

The brief highlights underfunding in poverty reducing sectors. Despite a commendable 26.1% allocation to Human Capital Development, several sectors remain underfunded. These include Agro industrialization (4.2%), Digital Transformation (0.9%), Manufacturing (0.7%), and Natural Resources and Climate Change (0.8%). These sectors are vital for job creation, value addition, and climate resilience—areas that directly affect the livelihoods of Uganda’s poor.

Local governments, which are central to delivering essential services, face severe staffing shortages. Only 2% of districts have fully staffed departments, and 84.3% lack District Commercial Officers. This has led to poor outcomes in agriculture, health, education, and infrastructure, especially in rural areas. The mismatch between budget growth and local government capacity continues to hinder effective poverty reduction at the grassroots level.

Uganda's public debt has surged to UGX 116 trillion, and continuously Crowding Out Development Spending, with UGX 9.6 trillion allocated to debt servicing in FY2024/25 alone. This growing burden is shrinking the fiscal space available for critical development investments. Sectors like social protection, housing, and communication have seen reduced allocations, limiting their potential to uplift vulnerable populations and address structural poverty.

The brief also examines the Parish Development Model (PDM), which has disbursed **UGX 2.7 trillion** to over **2 million households**, yet risks limited impact due to fragmented implementation. Additionally, diaspora remittances—valued at **US\$1.42 billion**—remain an untapped resource for national development.

While Uganda has made progress in reducing income poverty, multidimensional poverty remains high at 27%. To achieve Vision 2040 and transition to upper-middle-income status, the FY2025/26 budget must be more deliberately aligned with poverty reduction priorities. CSBAG urges government to adopt the recommendations outlined in this brief to ensure inclusive and sustainable development.

Julius Mukunda

EXECUTIVE DIRECTOR

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2. EXECUTIVE SUMMARY

BACKGROUND

EVERY year the Minister in charge of Finance and on behalf of the President delivers the National Budget Speech. This year's budget speech was delivered on June 12th, 2025, for FY2025/26. More importantly, this will also be the first year of the implementation of Uganda's fourth National Development Plan (NDP IV) that will run until FY 2029/30. The Civil Society Budget Advocacy Group (CSBAG) – over 90 membership organization based in Kampala has developed this policy brief highlights our assessment of the extent to which national budget is responsive to required investments needed to advance broader poverty reduction in Uganda.

1.1 The Rationale for Policy Brief

This policy brief points out issues raised by the civil society on FY2025/26 national budget allocations and the extent of their alignment with national poverty reduction goals. Each issue presented in this policy brief is accompanied by corresponding recommendation (s) that CSOs have suggested.

3. THE ISSUES

This policy brief highlights the following eight (8) issues that CSOs have identified in the budget proposal by Government for FY 2025/26 and make commensurate recommendation (s) on each as in the sub-sections that follow:

ISSUE 1:

Appreciation of a stable Macro-economic framework

CSOs applaud government for sustaining a stable macroeconomic framework characterized by four aspects: A growth in the country's gross domestic product (GDP) whose rate accelerated to rate of 6.3% in FY 2024/25 compared to 6.1% in FY 2023/24. Secondly Inflation has remained low, with headline inflation averaging 3.4 percent and core inflation at 3.9%. Both were below the Bank of Uganda medium term target of 5%. However, unemployment remains high at 12.3% which is a significant increase from 9.4% in 2014. Lastly overall, interbank market rate remained relatively stable well anchored around the Central Bank Rate of 9.75%. There was only a slight increase in lending rate for shillings-denominated loans (increasing between 18.17% from 17.89% in the year previous) Foreign exchange stability due to prudent monetary policies by the Central Bank has seen foreign currency loans fall very modestly to 8.63% from 8.94 in the year previous (FY 2023/24)¹.

In this regard, the CSOs note that the cost of money remains high and could increase with the recent introduction of a monthly interest rate cap of 2.8% (33.6% per annum) for money lenders to protect borrowers from exploitative lending practices. In the fight against poverty, this presents a challenge as most of the population below the poverty line are in the informal sector and depend on money lenders to access credit.

Recommendation:

While CSOs appreciate that the monthly interest rate cap of 2.8% is to standardize interest rates collateral requirements, loan recovery process, it may sustain high cost of lending and disincentivize the poor to borrow and invest. The cap could be reduced to 1.8% as opposed to 2.8%. This would put the rate at 21.6% compared to current 33.8 per annum.

¹ Ministry of Finance Planning and Economic Development (2025): Background to the Budget FY 2024/25, Kampala Uganda

ISSUE 2:

Limited spending on NDP IV programmes that are critical to poverty-reduction

Table 1: Allocations to Clusters and NPD IV Programmes for FY 2025/26

Cluster of the NDP IV	Programme	Allocation for FY 2024/25 UGX Bn	%
Production and Value Addition	Agro-Industrialization	1,858	4.2
	Sustainable Extractives Industry and Development	875.8	2.0
	Tourism Development	430	1.0
	Manufacturing	312.1	0.7
	Private Sector Development	2,704.92	6.2
Sub-Total 1		6,180.82	14.14%
Social Development	Human Capital Development	11,440.61	26.1%
	Sustainable Urbanization and Housing	1,491	3.4%
	Regional Development	1,633.52	3.7%
Sub-Total 2		14,565.13	33.2%
Enablers	Integrated Transport Infrastructure and Services	6,383.6	14.6%
	Sustainable Energy Development	1,034.9	2.4%
	Digital Transformation	381.8	0.9%
	Natural Resources, Environment, Climate Change, Land and Water Management	366.1	0.8%
	Innovation, Technology Development and Transfer	388.23	0.9%
Sub-Total 3		8,554.63	19.5%
Governance	Legislature, oversight, and Representation	1,030.3	2.4%
	Administration of Justice	602.7	1.4%
	Development Plan Implementation	2,713	6.2%
	Governance and Security	9,899.7	22.6%
	Public Sector Transformation	260.1	0.6%
Sub-Total 4		14,505.8	33.1%
Total		43806.38	100%

Whereas there has been impressive allocation to human capital development, taking 26.1% of all Programmes allocation, there are still various programmes very critical in terms of poverty-reducing investments that remain under-funded notably:

- i. Digital transformation (allocated 0.9% of budget)**
- ii. Manufacturing (allocated 0.7% of budget)**
- iii. Natural resources (allocated 0.8% of budget)**
- iv. Administration of Justice (allocated 1.4% of budget)**
- v. Agro-industrialization (allocated just 4.1% of budget)**

Recommendation:

In era of digital transformation and a global dispensation that demands value-added products from manufacturing, more investments are required in these areas – especially in processing in agricultural produce – a mainstay of the poor. There is also a feeling among stakeholders in the CSO space, that not enough resources are being dedicated to addressing climate change, (with the program receiving 0.8% of the budget) yet the poor are most-at-risk to its adverse effects.

ISSUE 3:

Inadequacies in local government financing that are constraining decentralized service delivery

It has been a long-standing position of CSOs in the budget advocacy space, that reducing poverty in Uganda will stem from enhancement of decentralize service delivery. The rise in the size of the budget has not been commensurate with rise in financing for decentralized service delivery especially in filling the current large staffing gaps in LGs. As consequence, development outcomes in agriculture, health, education, water, and road sectors remain dismal – this has sustained high out-of-pocket costs and poverty in both rural and urban areas. An illustration of the challenge for decentralized service delivery is shown below:

The rise in the size of the budget has not been commensurate with rise in financing for decentralized service delivery especially in filling the current large staffing gaps in LGs. As consequence, development outcomes in agriculture, health, education, water, and road sectors remain dismal

Table 2: Staffing Gaps in Local Governments

Narrative	Situation (LGs that took part in the TWENDE MBELE survey (2022))
LGs with filled structure of all Heads of Department (2022)	2% (Kalangala, Kiboga and Mayuge Districts)
LGs with vacancies for District Planners and Chief Finance Officers	56/121 districts constituting 46.3%
LGs with vacancies for District Commercial officers	102/121 districts constituting 84.3%
LGs with vacancies for District Engineers	95/121 districts (78.5%)
LGs with vacancies for District Health Officers	59/121 districts (48.8%)
LGs with vacancies for Education Officers	36/121 (29.8%)

Source: Twende Mbele (2022): Rapid Evaluation of the challenges in LG staffing: Filling critical positions in LG structures in Uganda, Report published by Office of the Prime Minister, Kampala Uganda

Recommendation:

Government should implement a comprehensive review of the centrally recruitment process, if possibly, done at regional than national level. More importantly staff housing, salary enhancement and other incentives remain critical in attracting and retaining vital staff in LGs

Remittances from the diaspora community hit US\$1.42 billion (UGX 5.18 trillion) higher than all agricultural export value combined.

ISSUE 4:

High debt burden that is constraining public resources for national development

According to the National Budget Speech FY 2025/26, the stock of public debt stands at UGX 116 trillion. Of this external debt is UGX 56.3 trillion and domestic debt is UGX 59.77 trillion. This poses a significant pressure on resources available for poverty-reducing investments – that instead are spent on debt-servicing. It is projected from the National Budget Speech FY 2025/26 that domestic financing will be UGX 11.381 trillion. In addition, government plans to undertake domestic debt re-financing worth UGX 10.027 trillion for FY 2025/26.

While MoFPED urges that this is government's endeavour to manage its debt portfolio, ensure reduced re-financing risks and lower overall borrowing costs, CSOs view this as a prolonged undertaking that has crowded out the private sector in the financial market. The table below shows how debt servicing is narrowing the fiscal space for poverty-reducing investment.

Table 3: Classification of Budget Central Government Outlays (2020-2025)

	2020/21	2021/22	2022/23	2023/24	2024/25
Public Debt Transactions	4,056.40	3,282.70	4,261.70	6,061.5	9,606.0
Defense	5,416.70	4,067.50	2,001.80	3,990.40	5,271.00
Public Order and Safety	307.80	1,810.30	394.70	786.80	1,371.70
Economic Affairs	4,427.50	7,490.40	3,849.50	7,673.60	9,265.60
incl. Commercial and labour affairs	194.00	406.70	3.50	6.90	8.40
incl. Mining, Manufacturing and Construction	158.60	193.00	26.50	52.80	63.70
incl. Communication	57.70	121.60	24.80	426.60	59.70
Environmental Protection	153.80	357.60	109.30	218.00	513.20
Housing and Community Amenities	717.20	822.70	192.50	383.70	563.30
Health	2,019.50	2,769.40	2,171.10	4,327.90	5,275.80
Recreation Culture and Religion	36.30	21.40	-	-	123.30
Education	2,212.50	3,527.40	2,806.20	5,593.90	7,054.50
Social Protection	198.50	526.00	29.80	59.40	142.60

As can be seen from this table above, as a consequence of pressure on the treasury to meet public debt transactions, the fiscal space for key expenditure assignment has narrowed. This has particularly affected, commercial services, construction, communication, housing and social protection which are critical to poverty reduction.

Recommendations:

Government urgently must curtail wastages and excesses in the budget financial loss caused to government funds as listed in Office of the Auditor General reports, inefficiencies in accountability leading to a high rate of corruption and sticking the budget as close to the resource envelope as much as possible – to let the country operate within its means. To do so, some NDP investments could be scaled down and implemented in a phased manner to keep within the available budget.

Government should strengthen public investment management with a more focus on allocative efficiency and stricter implementation oversight (right from procurement). Parliament on the other hand should strength its oversight and halt loan approvals for new project loans while non-performing loans remain outstanding.

ISSUE 5:

Enhancing the PDM to be more poverty-responsive

CSOs welcome the endeavour by government to ensure inclusion of all in the monetarization of economy through the parish development model, and other initiatives. As per February 2025, the table below shows the value and proportion of beneficiaries as recorded in the Background to the Budget FY 2025/26. By May 2025 Government had disbursed UGX 2.728Tn to PDM SACCOs at Parish level country-wide according to the Background to the Budget report for FY 2024/25

Table 4: Cumulative PDM Programme Beneficiaries as per Feb 2025

Age Category	No. of Households that have benefitted	%
Below 18 (transfers to care givers)	57	0.003%
Youth 18-35 Years	775,884	38.657%
Adults 35-59 Years	983,431	48.997%
Elderly 60 years and over	247,744	12.343%
Total as per Feb 2025	2,007,116	100%

However, just as previous similar programmes, cash transfers have been necessary but not sufficient poverty-response initiatives due to their inability to inspire both prudent private investments and re-pay. They have also been misperceived as token of thanks (*akasiimo*) from Government.

Recommendation:

It would be most prudent if PDM focused on financing proven and local-context investments that drive-up production and productivity across various few high-value enterprise value chains under VSLAs, SACCOSs, farmer groups and cooperatives.

Another recommendation is to pool PDM allocations to parishes at Sub-county level. With each sub-county constituted by an average of 5 parishes, pooling 100 million that is allocated annually would be **UGX 500m** on average-if focused on few but feasible would generate higher impact on communities as opposed to cash-transfers to households of UGX 1 million

ISSUE 6:

Limited efforts to leverage the contribution of Ugandans in the Diaspora

It is estimated that there are over 4 million Ugandans living in abroad. Remittances from the diaspora community hit US\$1.42 billion (UGX 5.18 trillion) higher than all agricultural export value combined. Remittances outstrip FDI and ODA as primary source of external financing that directly impacts citizen lives. Leveraging this contribution is critical to increasing incomes and reducing poverty.

Recommendation:

Government is called upon to develop secure, lower cost digital platforms for remitting money as well as providing information of specific investment opportunities for the diaspora back home

CONCLUSIVE NOTE

While poverty has decreased to 16.1% in FY 2023/24 from 24.5% in FY 2010/11, multidimensional poverty index remains high at 27% factoring in the vulnerability of those above poverty line to slide back into poverty. Government is therefore called upon to critically implement the recommendation in this policy brief as a contribution gradually reduce poverty in Uganda and aim for an upper-level middle income status as espoused in the Vision 2040.

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