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UGANDA'S DOMESTIC ARREARS CRISIS: CHALLENGES AND POLICY RESPONSES

INTRODUCTION

Uganda is grappling with a growing crisis of domestic arrears, which have surged from ***UGX 10.502 trillion*** in Fy2022/23 to **UGX 13.8144 trillion** in FY2023/24 signifying 31.4% increase in a span of one year. The persistent accumulation of unpaid government obligations has raised concerns about the country's economic stability, business liquidity, and governance. Despite the provision of the "Strategy to Clear and Prevent Domestic Arrears 2021," as a guideline to enable government address the perpetual problem of arrears, domestic arrears continue to rise posing a significant threat to Uganda's financial health.

The Rising Burden of Domestic Arrears

The accumulation of domestic arrears is largely attributed to unpaid court awards, compensations, pensions, gratuities, and outstanding supplier invoices. For instance, compensations and court awards more than doubled from ***UGX 134.2 billion*** to ***UGX 334.7 billion***, while pension and gratuity arrears rose from ***UGX 68.77 billion*** to **UGX 249.88 billion.** These delays have severely impacted service providers, particularly small and medium-sized enterprises (SMEs), which struggle with cash flow constraints due to delayed payments.

As of June 2024, Uganda's total public debt reached **UGX 94.9 trillion**, with domestic debt accounting for ***UGX 42.980 trillion***, up from ***UGX 40.633 trillion*** in June 2023. This represents a 5% increase, attributed to heightened financing requirements during the year. In the FY2023/24 government was able to clear ***3.679trillion*** on the ***6.639 trillion*** accrued during the year, However, this allocation is widely regarded as insufficient, given the substantial and growing stock of arrears. The persistent rise in domestic arrears underscores the challenges in fiscal management and the need for more robust measures to address the underlying causes of debt accumulation.

The 2021 Strategy and Its Challenges

In an effort to address the growing arrears, the Ugandan government launched the "Strategy to Clear and Prevent Domestic Arrears 2021." The strategy aimed to:

- *Establish a centralized database to track and verify arrears.*
- *Enforce strict fiscal discipline among accounting officers.*
- *Ensure timely payments to suppliers, particularly SMEs.*
- *Allocate funds to systematically clear existing arrears*

However, the effectiveness of this strategy has been hindered by insufficient budget allocations and weak enforcement mechanisms. For example, the Ministry of Finance allocated only ***UGX 200 billion*** for domestic arrears clearance in the 2025/26 fiscal year, an amount deemed grossly inadequate by the Parliamentary Budget Committee. The committee recommended an annual allocation of ***UGX 1.15 trillion*** over the next five years to comprehensively address the backlog.

Economic and Business Impact

The persistent increase in domestic arrears has had far-reaching consequences on Uganda's economy. Delayed payments to contractors and suppliers have led to liquidity shortages, reduced business growth, and, in some cases, closure of enterprises. Additionally, the accumulation of arrears exposes the government to potential litigation risks, as unpaid contractors and suppliers seek legal redress. This could lead to even higher financial obligations due to accrued interest and penalties.

Way Forward

To effectively address domestic arrears and prevent their recurrence, several measures need to be prioritized. First, the government must commit to increasing budget allocations annually to clear arrears, in line with recommendations from the Parliamentary Budget Committee. Second, strict fiscal discipline must be enforced, with ministries, departments, and agencies held accountable for making timely payments to service providers. Third, enhanced monitoring and transparency are essential, requiring the strengthening of a digitalized, real-time tracking system to ensure proper arrears management. Fourth, policies must be enacted to support small and medium-sized enterprises (SMEs), protecting them from delayed payments that threaten their survival. Finally, legislative reforms are necessary, establishing a legal framework that mandates timely payments and penalizes financial mismanagement.

Conclusion

Uganda's rising domestic arrears present a critical challenge that requires immediate and sustained intervention. While the 2021 strategy provided a framework for addressing arrears, weak implementation and inadequate funding have hindered its success. Without urgent reforms, Uganda risks further economic instability, weakened private sector growth, and increased litigation costs. A strategic, well-funded, and transparent approach is essential to resolving the crisis and fostering economic resilience.

OBS WORKSHOP PICTURES

OBS Workshop Participants from the Committee on budget and Parliamentary committee of planning and economic development

Opening Remarks by the Executive Director Uganda Debt Network Mr. Patrick Tumwebaze during the OBS Workshop at Imperial Botanical Beach Entebbe.

Participants from the Parliamentary Budget Office (PBO) and the Office of the Auditor General (OAG) during a group work discussions

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