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SEEKING MORE, USING LESS: GOVERNMENT EYES NEW LOANS DESPITE UGX 16.4 TRILLION IN IDLE FUNDS

INTRODUCTION

Uganda's State Minister for Finance, Evelyn Anite, has presented two major loan requests to the Ministry of Finance, proposing to borrow nearly UGX 953.9 billion for service delivery projects. The funding includes:

- **€183.3 million (approx. UGX 761.3 billion)** for water supply and sanitation projects in 115 parishes, to be sourced from Standard Chartered Bank and local treasury instruments.
- **US $20 million (approx. UGX 72.2 billion)** from the Arab Bank for Economic Development in Africa (BADEA) to rehabilitate and equip Bugiri General Hospital in Eastern Uganda

The proposals aim to address gaps in clean water access and healthcare infrastructure critical sectors that directly affect public health and productivity. However, these new loans raise an uncomfortable but urgent question: will they truly deliver for Ugandans, or will they deepen an already dangerous debt spiral?

An Economy Weighed Down by Undisbursed Loans

Perhaps the most troubling part of Uganda's public financing challenge isn't just how much it borrows, but how poorly it utilizes borrowed funds.

Between *January and May 2025* alone, Parliament approved new loans worth approximately *UGX 5.6 trillion*. Yet, despite continued borrowing, a staggering *UGX 16.4 trillion* in previously approved loans remains undisbursed funds that are already accruing interest. This means that even before these newly proposed loans are considered, Uganda is already paying interest on billions it hasn't even spent. These unused funds represent lost development time and wasted debt servicing resources. It is within this context that Anite's fresh borrowing proposals must be viewed with skepticism and urgency.

Debt Trends: A Growing Concern

Uganda's public debt stock reached US $29.1 billion by the end of 2024, up nearly 18% from the previous year. The debt-to-GDP ratio now stands at 52.1%, surpassing the IMF's recommended ceiling for low-income countries. This has serious implications for the national budget:

- *For every 100 shillings collected in revenue, UGX 32 goes toward debt repayment.*
- *External debt servicing is projected to absorb over 35% of GDP in FY2024/25.*

The pressure to repay debt is not only squeezing out spending on social services but also weakening public confidence in the government's ability to manage resources effectively.

Policy Contradictions: Borrowing vs. Austerity

Ironically, the push for new borrowing comes at a time when the government has publicly committed to cutting back on debt. President Museveni recently announced plans to significantly reduce external borrowing beginning July 2025. Similarly, the Ministry of Finance is projecting a 53% cut in domestic borrowing and a 20% cut in national expenditure for FY2025/26. This raises a critical contradiction: how can Uganda claim to be entering a period of fiscal discipline while simultaneously adding close to UGX 1 trillion in new loan requests?

What Must Change

If the government is to regain public trust and ensure that borrowed funds translate into meaningful service delivery, it must do the following:

a) Unlock and spend the UGX 16.4 trillion in undisbursed loans before seeking new debt.b
b) Strengthen project implementation capacity, especially at the local government level.
c) Ensure that future loans include funding for long-term maintenance, staffing, and monitoring not just infrastructure.
d) Prioritize only projects with clear, measurable outcomes that align with Uganda's development strategy and fiscal limits.

Conclusion: Don't Just Borrow Deliver

Uganda's latest loan proposals for water and health projects highlight the government's ongoing struggle to balance urgent development needs with fiscal responsibility. While the investments are arguably necessary, the country's track record of poor loan absorption, ballooning debt servicing costs, and weak delivery systems casts a long shadow.

The issue is no longer about whether Uganda should borrow but whether it can convert borrowing into results. Until the government demonstrates that it can spend loans efficiently and transparently, continued borrowing risks doing more harm than good.

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