

**The Price of Sovereignty:  
An Economic Impact  
Assessment of the Protection  
of Sovereignty Bill, 2026**

**A Perspective**

**Citizens Coalition Against Sovereignty Bill**



## 1. Introduction: Intent of the Bill

The **Protection of Sovereignty Bill**, 2026 seeks to safeguard Uganda's national interests by regulating foreign influence in domestic affairs. The Bill introduces provisions requiring registration, disclosure, and oversight of individuals and entities deemed to be acting on behalf of foreign interests, alongside restrictions on foreign funding and engagement in policy processes .

While the objective of protecting national sovereignty is legitimate, the design of the Bill has wide economic implications because Uganda's economy is significantly integrated with global financial flows, including foreign direct investment (FDI), development assistance, remittances, and international research and business partnerships.

## 2. Executive Summary

Uganda's economy relies heavily on external inflows and private sector dynamism. Domestic revenue stands at approximately **UGX 30 - 40 trillion annually (MoFPED, URA)**, while foreign inflows—comprising FDI, remittances, and donor financing—collectively exceed UGX 20 trillion per year.

The Bill, through its restrictions on foreign funding, broad definitions of foreign agents, and compliance requirements, is likely to:

- Reduce foreign inflows by **UGX 3 - 5 trillion annually**
- Slow GDP growth by **0.5 - 1 percentage points**
- Lead to job losses of **20,000–30,000 positions**
- Reduce tax revenue by **UGX 500 billion – 1 trillion annually**

These effects arise through disruptions in investment, employment, household consumption, and private sector activity. Without targeted safeguards, the Bill risks constraining economic growth, weakening fiscal performance, and increasing vulnerability among households.

## 3. Key Shortcomings and Economic Implications

### a. Negative Impact on Foreign Direct Investment (FDI)

Uganda attracts approximately **USD 2.5–3 billion in FDI annually (UNCTAD, Bank of Uganda)**, equivalent to **UGX 9–11 trillion**. FDI plays a critical role in industrialization, job creation, and technology transfer. The Bill introduces uncertainty through broad definitions of “agents of foreigners” and compliance obligations on entities interacting with foreign partners. This creates regulatory risk, which is a key determinant of investor decisions.

Empirical evidence from the World Bank indicates that even modest increases in regulatory uncertainty can reduce FDI by **10–15%**. Applying this to Uganda implies a potential annual loss of **UGX 1–1.5 trillion in investment inflows**. This reduction would directly affect sectors such as manufacturing, agriculture value chains, and extractives, thereby slowing structural transformation and export growth.

### b. Negative Impact on Foreign Funding

External financing, including grants and concessional loans, contributes approximately **UGX 8–10 trillion annually** to Uganda’s budget (MoFPED Budget Framework Papers). In addition, NGOs and development partners channel an estimated **UGX 1.5–2 trillion annually** into service delivery and community programs.

The Bill imposes restrictions, approvals, and reporting obligations on foreign funding. These provisions increase transaction costs and uncertainty, which may discourage donors or delay disbursements. If foreign funding declines by 20–30%, Uganda could lose UGX 2–3 trillion annually. This would create fiscal pressure, forcing Government to either increase borrowing or cut expenditures in critical sectors such as health, education, and agriculture.

### c. Financial Stability and Operational Risks Arising from the Bill

The proposed Bill poses significant operational and stability risks to Uganda’s financial system. Financial institutions including commercial banks, mobile money operators, and forex bureaus will face sharply higher compliance costs due to enhanced due diligence and reporting requirements for foreign-linked transactions<sup>1</sup>.

Evidence from global financial regulation suggests such frameworks can **increase operational costs by 5–10%**, which institutions are likely to pass on to customers through higher fees and lending rates. Moreover, regulatory uncertainty **may trigger de-risking behavior**<sup>2</sup>, where banks limit exposure to NGOs, SMEs, and individuals receiving foreign funds, thereby reducing financial intermediation and access to credit. This effect could be particularly damaging given that total **private sector credit (UGX 22–25 trillion)** is heavily supported by foreign inflows including remittances **(USD 1.2–1.4 billion annually)** and FDI.

**Beyond direct compliance burdens**, the Bill threatens to reduce foreign exchange liquidity and drive financial flows into informal channels. If remittances decline by 10–20% (UGX 450 billion – 1 trillion) and FDI falls further, the financial system would face lower foreign exchange supply, potentially increasing exchange rate volatility, pressuring the Uganda shilling, and raising import costs and inflation. At the same time, heightened scrutiny may push individuals and businesses toward unregulated cash transfers and informal networks, undermining financial transparency, tax compliance, and the effectiveness of monetary policy. The combined effect is likely to be reduced financial sector efficiency, higher credit costs, and constrained private sector growth. Overall, the Bill is likely to increase the cost of financial intermediation, reduce efficiency in the financial sector, and constrain credit to the private sector, thereby slowing economic growth

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<sup>1</sup> Source: IFAC (International Federation of Accountants) and Business at OECD (BIAC). Publication: *Regulatory Divergence: Costs, Risks, Impacts: An International Financial Sector Study*. Key Finding: The study surveyed over 250 regulatory and compliance leaders from major global financial institutions and found that fragmented financial regulation costs institutions between 5 to 10% of annual revenue turnover .

<sup>2</sup> Oxfam International & Global Center on Cooperative Security: Publication: *Understanding Bank De-Risking and its Effects on Financial Inclusion: An exploratory study (2026)*. Key Finding: The report defines 'de-risking' as financial institutions closing accounts of clients perceived as high risk for money laundering or terrorist financing abuse, including non-profit organizations, money service businesses, and correspondent banks . It explicitly examines the potential impact of de-risking on financial inclusion for vulnerable communities .

## d. Collateral Damage: Unintended Consequences for Remittance Flows

Remittances represent one of Uganda's most vital and stable sources of foreign exchange, estimated at **USD 2–2.4 billion annually** (World Bank, Bank of Uganda) equivalent to **UGX 4.5–5.3 trillion**, or approximately **3–4% of GDP**.<sup>3</sup> For millions of Ugandan households, these funds are not merely transfers; they are the difference between school fees being paid or deferred, between a small business surviving or closing, and between a family eating three meals a day or struggling to afford one.

The Bill's provisions targeting foreign transactions and classifying individuals who receive foreign funds introduce unprecedented scrutiny and compliance burdens. While the stated intent may be legitimate, the practical effect is to criminalize or stigmatize ordinary Ugandans who depend on relatives working abroad. The inevitable result? A dangerous shift of remittance flows into informal, untraceable channels—or an outright decline in transfers as sending costs rise and bureaucratic hurdles multiply.

Even a conservative estimate of a **10–20% reduction** in remittances would wipe out UGX 450 billion to 1 trillion annually<sup>4</sup> from the Ugandan economy. This is not an abstract statistic. It translates directly into:

- **Reduced household consumption** – families cutting back on food, medicine, and basic necessities
- **Lower education spending** – children withdrawn from private schools, university dreams deferred
- **Collapsing small business financing** – the lifeblood of informal traders, boda boda operators, and market vendors who rely on remittance-backed working capital

Remittances are not a luxury they are a poverty reduction tool, a social safety net, and a source of working-class foreign exchange that bypasses volatile capital markets. The Bill risks severing this lifeline, with the heaviest burden falling not on wealthy elites, but on the very households that can least afford it. **Policy makers must ask: Is the compliance gain worth the human and economic cost?**

## e. Jobs at Risk: The Hidden Cost of Foreign Funding Decline

The development and NGO sector is not merely an adjunct to Uganda's economy it is a significant employment anchor. Drawing on NGO Bureau data and International Labour Organization (ILO) employment benchmarks, the sector directly supports an estimated 50,000–80,000 formal jobs.<sup>5</sup> When indirect employment through local service providers, logistics firms, security companies, hospitality establishments, and community-based organizations is included, the total exceeds 100,000 livelihoods dependent on foreign-funded development activities.<sup>6</sup> These are not abstract numbers. They represent teachers, nurses, agricultural extension workers, accountants, drivers, and administrators whose wages circulate in local economies, paying school fees, rent, and market bills.

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<sup>3</sup> Bank of Uganda, "Remittance Flows to Uganda," *Bank of Uganda Statistical Bulletin*, October 2025, <https://www.bou.or.ug>; World Bank, "Migration and Development Brief 40," *KNOMAD*, December 2024, <https://www.knomad.org>.

<sup>4</sup> <sup>3</sup> Daily Monitor, "93% of Remittances to Uganda Are Below \$499, BoU Data Shows," *Daily Monitor*, April 5, 2026, <https://www.monitor.co.ug>.

<sup>5</sup> NGO Bureau, "Annual Sector Report on NGO Registration and Employment in Uganda," Uganda NGO Bureau, 2024, <https://www.ngobureau.go.ug>; International Labour Organization (ILO), "Employment Benchmarks for Development Sector in East Africa," ILO Regional Office for Africa, 2023, <https://www.ilo.org>.

<sup>6</sup> This indirect employment estimate is derived from ILO multiplier benchmarks for the development sector in low-income economies, where each direct NGO job supports approximately 1.25–1.5 indirect jobs through local supply chains and household consumption. ILO, "Local Multipliers in Development Sector Employment," ILO Briefing Note, Geneva, 2024.

The Bill's restrictions on foreign-linked transactions and increased scrutiny of NGO funding pose a direct and measurable threat to this employment base. Should foreign funding decline by 25%—a conservative estimate given the compliance burdens and de-risking behaviors already documented—an estimated 20,000–30,000 jobs would be lost<sup>7</sup>. The impact would fall disproportionately on two groups: youth, who constitute the majority of entry-level NGO and development sector staff, and skilled professionals (project managers, monitoring and evaluation officers, finance specialists) who would struggle to find comparable employment in an already tight labor market.

The economic transmission mechanism is devastatingly straightforward. Job losses reduce household income → lower household consumption (food, transport, education, healthcare) → reduced aggregate demand → businesses scale back production → further job losses → a self-reinforcing negative feedback loop.<sup>4</sup> This is not theoretical economics; it is the anatomy of a local recession. Each job lost in the NGO sector removes a consumer from the economy, triggering knock-on effects for small businesses, informal traders, and service providers who never received a single dollar of foreign funding but depended entirely on the spending power of those who did.

The bottom line: Restricting foreign funding does not merely affect NGOs—it unravels the local economic ecosystems built around them. Policymakers must weigh any perceived compliance gain against the certainty of youth unemployment, skilled labor displacement, and a contraction in household demand that will be felt from Kampala's suburbs to the most remote district headquarters.

## **f. The Demand Drain: How the Bill Could Shrink Uganda's Economy by UGX 2 Trillion**

Aggregate demand in Uganda rests on three pillars: household consumption (the largest component), government expenditure, and private investment<sup>8</sup>. The Bill is uniquely dangerous because it attacks all three pillars simultaneously. Household consumption falls as jobs are lost **an estimated 20,000 to 30,000 positions and as remittances decline by UGX 450 billion to 1 trillion annually**. Government-supported programs become constrained as foreign-funded development activities shrink. And investment spending retreats as foreign direct investment declines due to regulatory uncertainty and reduced market demand.

The arithmetic is sobering. When job losses and remittance declines are combined, total potential consumption **loss reaches over UGX 1 to 2 trillion annually**<sup>9</sup>. This is not merely a statistical contraction. A UGX 1–2 trillion drop in demand means retailers sell fewer goods, from market stalls to shopping malls. Housing markets soften as rents go unpaid and construction stalls. Transporters carry fewer passengers and less cargo. Farmers receive lower prices as urban demand for fresh produce weakens. Each sector that loses revenue cuts costs typically through layoffs or reduced hours triggering a second, deeper round of demand contraction<sup>10</sup>. The Bill does not simply regulate foreign transactions; it initiates a cascading economic slowdown that will be felt in every district, every market, and every household.

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<sup>7 3</sup> The 25% decline scenario is based on documented impacts of similar regulatory restrictions in other jurisdictions (e.g., Hungary, Nicaragua, Ethiopia) where enhanced scrutiny of foreign-funded NGOs resulted in funding contractions of 20–35% within 18–24 months. See: Center for Global Development, "When Foreign Funding Dries Up: Case Studies on NGO Regulation and Employment," Working Paper 612, Washington, DC, 2025.

<sup>8</sup> Bank of Uganda, "Composition of Aggregate Demand in Uganda," Monetary Policy Report, Kampala, October 2025, <https://www.bou.or.ug>.

<sup>9 2</sup> This estimate is derived by combining average wage losses from 20,000–30,000 job losses (based on ILO Uganda wage data for NGO and private sector employees) with the direct consumption effect of remittance declines, assuming 80–90% of remittances are spent on consumption per Bank of Uganda survey data. See: Bank of Uganda, "Remittance Utilization Survey," 2024; ILO, "Wage Indicators for Uganda," ILOSTAT, 2025.

## **g .The Revenue Reversal: How the Bill Could Cost Uganda UGX 1 Trillion in Taxes**

Uganda's domestic revenue collection stands at approximately **UGX 35 -40 trillion annually**. Tax revenue rises and falls directly with economic activity, and the International Monetary Fund has consistently documented that in low-income economies, **a 1 percent decline in GDP leads to approximately a 1 percent decline in tax revenue**, due to heavy reliance on consumption-based VAT and payroll-based PAYE<sup>11</sup>.

The Bill's combined shocks, job losses, reduced consumption, and lower investment are projected to **reduce GDP growth by 0.5 to 1 percentage points** relative to baseline. Given Uganda's GDP of approximately UGX 200 trillion, this represents an **annual economic loss of UGX 1 to 2 trillion**.

Applying Uganda's tax-to-GDP ratio of 12 to 13 percent, the direct revenue loss reaches UGX 120 to 240 billion annually<sup>12</sup>. When sector-specific impacts are included—reduced PAYE from laid-off workers, lower VAT from decreased consumption, and diminished customs duties from falling imports—the total revenue loss is estimated at UGX 500 billion to 1 trillion annually.<sup>7</sup>

Consider just one channel: the loss of 20,000 to 30,000 formal sector jobs. Based on Uganda Revenue Authority data, the average formal sector employee contributes approximately UGX 3 to 5 million annually in direct PAYE, while each lost job also removes UGX 4 to 6 million annually in VAT from foregone consumption. The total PAYE and VAT loss from job losses alone therefore reaches UGX 100 to 200 billion annually.<sup>8</sup>

This revenue hole must be filled by higher taxes on those still employed, increased borrowing, or cuts to essential public services. The Bill does not merely reduce foreign funding; it forces Ugandan taxpayers to compensate for the shortfall or watch schools close and clinics run out of medicine. The irony is striking: a Bill ostensibly seeking greater oversight over foreign transactions would most **predictably cost Uganda UGX 500 billion to 1 trillion in domestic tax revenue** funds the country desperately needs for infrastructure, education, and healthcare.<sup>9</sup> Policymakers must ask whether the compliance gain is worth a billion-shilling hole in the national budget.

## **h. Balancing Sovereignty and Growth: A Way Forward**

The **Protection of Sovereignty Bill**, 2026, is well-intentioned but economically dangerous. By restricting foreign inflows, increasing compliance burdens, and creating regulatory uncertainty, the Bill will reduce investment, raise unemployment, lower household consumption, and shrink government revenue. Collectively, these effects are expected to **cut economic growth by 0.5 to 1 percentage points** annually **a loss of UGX 1 to 2 trillion** in economic output each year.

In its current form, the Bill risks slowing Uganda's progress toward middle-income status by weakening the very channels that drive growth: investment, innovation, global integration, and job creation.

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<sup>10</sup> <sup>3</sup> For the theoretical framework of demand-driven multiplier effects in low-income economies, see: International Monetary Fund, "Fiscal Multipliers in Sub-Saharan Africa," IMF Working Paper WP/25/43, Washington, DC, 2025, finding that consumption shocks in aid-dependent economies produce output contractions 1.3-1.7 times the initial shock.

<sup>11</sup> <sup>5</sup> IMF, "Tax Elasticity in Low-Income Countries: New Estimates," WP/24/187, Washington, DC, 2024 (finding short-run tax-to-GDP elasticity of 0.95-1.05 for sub-Saharan Africa).

<sup>12</sup> <sup>6</sup> Author's calculation based on MoFPED (2025) GDP estimates (UGX 200 trillion), URA (2025) tax-to-GDP ratio (12.7%), and IMF (2024) elasticity findings.

Sovereignty is not undermined by economic openness; it is strengthened by a resilient and dynamic economy. A more balanced approach is urgently required—one that safeguards national sovereignty without sacrificing investment flows, development financing, and the livelihoods of millions of Ugandans.