

# Here is BoU's position on possible

**Institutional Stability and Macroeconomic Resilience: A Technical Assessment of the Protection of Sovereignty Bill 2026 and its Integration into Uganda's Financial Architecture Submission to the Joint Committee on Defence and Internal Affairs and Legal and Parliamentary Affairs.**

BY BANK OF UGANDA (BOU)

The Bank of Uganda (BoU), in fulfilling its constitutional mandate as the primary steward of monetary and financial stability, submits this technical assessment regarding the Protection of Sovereignty Bill 2026. This response addresses the three core areas identified in the invitation: a review of the Bill's provisions, their interaction with the existing framework, and the anticipated legal, economic, social, and diplomatic implications.

Article 189 of the Constitution of the Republic of Uganda prescribes that the functions and services specified in the Sixth Schedule to the Constitution—including banks, banking, promissory notes, currency, and exchange control—shall be the responsibility of the Government. Paragraph 3 of the Sixth Schedule explicitly reserves these functions for the Government, while Paragraphs 11 and 12 address foreign relations and external trade.

Under Article 162 of the Constitution of the Republic of Uganda read together with Section 4 of the Bank of Uganda Act, Chapter 54 and Section 143 of Financial Institutions Act 2004 the Government of Uganda, by establishing the Central Bank as a statutory body has delegated its functions under the Constitution to the Central Bank and given it constitutional and regulatory primacy over all matters concerning the formulation and implementation of monetary policy directed to economic objectives of achieving and maintaining economic stability for the Republic of Ugan-

da and on behalf of the Government of Uganda.

Article 162(2) of the Constitution also protects the Bank from being subject to the direction or control of any person or authority in performing its functions. Therefore, any legislative or administrative action that introduces parallel oversight or restricts the operational independence of the Bank of Uganda (BoU) risks contravening these constitutional provisions and undermining the legal and institutional framework for financial sector governance.

In addition, with respect to matters concerning financial institutions, the Financial Institutions Act takes precedence over any enactment, and in case of conflict, shall prevail.

For the avoidance of any doubt, BoU is established to protect national sovereignty from genuine foreign interference as enshrined in Part VI of the Bank of Uganda Act, which further buttresses the Banks' relationship as advisor to the government on all financial matters under its mandate, with a further protection enshrined for the Bank to retain the prerogative on all monetary policy matters for Uganda. However, while protecting national sovereignty is a paramount constitutional objective, the financial system's technical architecture must remain shielded from regulatory fragmentation. This assessment argues that the Bill, in its current form, risks introducing regulatory fragmentation and "voluntary shocks" into the economy, potentially undermining the very economic strength upon which true national sovereignty is built.

**I. Technical Review of Legislative Provisions and Regulatory Alignment**

This section addresses the key provisions and principles of the Protection of Sovereignty Bill 2026 and explains how they interact with the existing legal and regulatory framework.

**Core Principles and Key Provisions**

The Bill designates the Department of Peace and Security in the Ministry of Internal Affairs as the central regulator for "agents of foreigners." Its primary technical mechanisms include:

- **Expansive Definitions (Clause 1):** Defines an "agent of a foreigner" as any person acting under the direction or control of a foreigner, or whose activities are "directly or indirectly supervised, directed, controlled, financed, or subsidised" by a foreigner.
- **Cabinet Gatekeeping (Clause 6):** Prohibits any "agent of a foreigner" from performing functions or services for



Bank of Uganda Governor Michael Atingi-Ego (left) makes a presentation at Parliament on Tuesday. He warned that the proposed Protection of Sovereignty Bill could weaken Uganda's economy. PHOTO/PARLIAMENT

which the government is responsible (such as education, health, and infrastructure) without the express approval of Cabinet.

- **Mandatory Registration (Clause 14):** Requires entities to register with the Ministry of Internal Affairs and obtain a certificate valid for only two years, subject to inquiries into the "mental and physical health" of directors (Clause 16).
- **Foreign Funding Restrictions (Clause 22):** Imposes a cap of 20,000 currency points (approx. Shs400 million or \$106,000) on foreign financial support in a 12-month period. Amounts exceeding this require prior written ministerial approval.
- **Vicarious Liability (Clause 23(3)):** Establishes personal criminal liability for directors and executive heads for offences committed by their legal entities.
- **Enforcement via Financial Institutions (Clause 25):** Prohibits banks from paying out funds to foreign agents without verifying ministerial authorisation, with civil penalties of Shs4 billion for non-compliance.
- **Economic Sabotage (Clause 13):** Criminalises the publication of information that "weakens or damages the economic system," punishable by up to 20 years in prison.

**Clause-by-Clause Technical Assessment**

We note that there are key conflicts between the Bill's provisions and the existing financial regulatory framework as highlighted in the table below. We have made targeted recommendations to align the Bill with Uganda's constitutional and supervisory architecture.

**Clause Key Issue Conflict with Existing Framework Recommended Refinement**

- 1 (Definition of "Agent of a Foreigner") Broad definition captures foreign-owned banks, FinTechs, and Ugandans abroad. Overlaps with Bank of Uganda's (BoU) prudential supervision (Financial Institutions Act (FIA) 2004). Exempt supervised financial institutions (SFIs) licensed by the BoU, Capital Markets Authority (CMA), or Development Finance Institutions (DFIs).
- 14 (Registration Requirement) Dual licensing: SFIs must register with the Ministry of Internal Affairs and the BoU. Creates regulatory arbitrage (e.g., BoU approves a licence, but ministry denies registration). Carve-out for SFIs—licensed and supervised by BoU.
- 16 (Suitability Inquiries) Includes mental/physical health checks for di-

rectors. Exceeds BoU's "fit and proper" standards; may deter qualified professionals. Align with BoU's framework; remove health inquiries.

22 (Foreign Funding Cap: UGX 400M/year) Cap is 0.27 percent of Tier 1 capital (Shs150b). Disrupts liquidity management, capital injections, and correspondent banking. Exempt interbank transactions, shareholder arrangements, and foreign direct investment (FDI) for SFIs.

23(3) (Vicarious Liability) Directors/heads liable for entity offences. Conflicts with BoU's risk-based supervision; may trigger de-risking. Remove vicarious liability for SFIs.

25 (Reporting of Foreign Funding) Monthly reports to Ministry of Internal Affairs and BoU. Duplicates Anti-Money Laundering (AML)/Counter-Terrorism Financing (CFT) reporting to the Financial Intelligence Authority (FIA). Channel all reporting through the FIA (FATF-compliant).

**28 (Inspection Powers)** Ministry of Internal Affairs can inspect SFI inspections. Interaction and Conflict with Existing Frameworks The Bill introduces a parallel regulato-

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# implications of the Sovereignty Bill

ry regime that overlaps with established mandates, creating "dual-licensing" complexities and regulatory fragmentation.

## Constitutional/Statutory Pillar Core Function and Mandate Interaction with Proposed Bill

Article 162, Constitution. Promote development; maintain independence. Introduces ministerial oversight that conflicts with the BoU's exclusive mandate.

Financial Institutions Act (FIA) 2004 Prudential supervision and "Fit and Proper" vetting. Clause 14 creates dual-licensing; Clause 16 introduces overlapping suitability inquiries.

National Payments Systems (NPS) Act 2020. Oversight of cross-border transfers and payment providers. Clause 25 imposes gatekeeping duties and Shs 4 billion civil penalties on providers.

## Anti-Money Laundering Act (AMLA) 2013

Source of funds verification; reporting to the FIA. Clause 21 creates a parallel reporting channel; public inspection of declarations violates banking secrecy.

Public Finance Management Act (PFMA). Oversight of public funds and government institutional funding. Clause 24 reclassifies all foreign-linked funding to government institutions as public funds, potentially.

The Political Parties and Organisations Act, Chapter 178, restricts contributions from foreign sources" to political parties to twenty thousand curren-

cy points (Shs400,000,000) within any period of 12 months and it also prohibits the political party from demanding the equivalent of two hundred thousand currency points (Shs4,000,000,000) in any period of 12 months from any foreign sources.

## II. Comprehensive Assessment of Bill Implications

The anticipated implications of the Bill create "radical uncertainty" and a risk of "voluntary shocks" that could destabilise the macroeconomic environment.

## 1. Macro-Financial Vulnerability and the Balance of Payments

The Bill's potential to destabilise Uganda's Balance of Payments (BoP) is a primary concern as it affects cross border transactions. In FY 2024/25, the overall BoP surplus of \$1.5 billion was driven by a financial account surplus of \$4.6 billion, including:

- Foreign Direct Investment (FDI): \$ 3.4 billion
- Portfolio investment: \$2.1 billion
- Remittances and NGO Flows: In 2025, workers' remittances totalled \$1.5 billion, and support to non-governmental organisations (NGOs) stood at \$420.8 million. Clause 1's definition of a "foreigner" includes Ugandan citizens residing abroad, meaning remittance recipients—who support household consumption, education, and micro-investments—could be classified as "agents of foreigners." Clause 14's registration requirement and Clause 22's funding cap may disrupt these inflows, reducing for-

eign-exchange liquidity and pressuring the Ugandan Shilling. During past FDI declines (e.g., 2010, 2016), remittances remained stable, acting as a critical buffer; their restriction risks exchange-rate volatility and import cost spikes.

- Sudden Capital Exit: Offshore investors currently hold 12 percent of government securities (2025). Clause 22's ministerial approval threshold acts as a capital control; experience shows such controls lead to the immediate exit of offshore investors, put pressure on the Shilling, and force interest rates up.

- Uncertainty Premium: Debt servicing already consumes nearly 50 percent of government revenue. By criminalising economic research that identifies fiscal instability (Clause 13), the Bill destroys "price discovery," forcing investors to demand an "uncertainty premium" that increases the national debt burden.

- If the BoU or its officers publish a report showing rising inflation or currency depreciation that requires tightening of monetary policy, could that be interpreted as economic sabotage if it leads to immediate weakening of economic activity? This question underscores the chilling effect the Bill may have on economic research and open policy dialogue, both of which are essential to informed decision-making and sustainable economic development. Financial markets thrive on a wide array of information.

## 2. Financial Sector: De-risking and Operational Paralysis

The banking industry faces a systemic threat from financial de-risking and regulatory overlap.

- Correspondent Banking Risk: Global banks operate in a zero-failure compliance environment. If routine operations like capital injections or trade finance clearing require ministerial approval, international banks are likely to terminate relationships, isolating Uganda from the global payment system.

- Recruitment Deterrence: Clause 23(3)'s vicarious liability and Clause 16's intrusive suitability inquiries (including physical health) may deter qualified professionals from participating in the governance of Ugandan financial institutions.

- Procedural Disruption: The lack of a commencement clause implies immediate enforceability upon publication, leaving financial institutions with no transition period to align their "sovereignty compliance" systems, potentially halting thousands of transactions overnight.

## Capital Requirements vs Funding Cap:

The Shs400 million (\$106,000) funding cap (Clause 22) is fundamentally incompatible with the banking sector's capital needs:

- Tier I Capital Requirement: Shs150 billion
- Tier III Capital Requirement: Shs10

billion

- Tier IV Capital Requirement: Shs 0.5–1.5 billion.

This cap would severely restrict capital injections, intercompany/shareholder loans, and correspondent banking facilities—all of which are essential for liquidity management and regulatory compliance.

## 3. Policy Framework: Inconsistency and "Voluntary Shocks"

Since the 1990s, Uganda's successful and sustained economic recovery has been built on policy predictability. The Bill introduces time and policy inconsistency that threatens the Tenfold Growth Strategy (target: \$500 billion economy by 2040).

- Investment Gap: Achieving the \$500 billion economy requires annual FDI to rise to \$50 billion and domestic savings to surge to 40 percent of GDP. The administrative friction created by a \$106,000 funding cap is fundamentally incompatible with these targets.

- Informality Trap: Overly restrictive regulation drives actors into informal channels like hawala systems or unregulated cryptocurrency, eroding the tax base and undermining the Bill's stated goal of transparency.

4. Contract Frustration and Legal Uncertainty

The Bill is silent on ongoing transactions or multi-year contracts. For example:

# BoU's position on implications of the Sovereignty Bill

- A multi-year foreign loan contract (e.g., for infrastructure) could become legally frustrated if the minister of Internal Affairs later denies or revokes an "agent of a foreigner" registration.

## • This risks:

Sovereign borrowing disruptions (e.g., syndicated loans, bonds).

Breach of contract lawsuits from international lenders.

Loss of investor confidence due to retroactive application.

Recommendation: Include a non-retrospectivity clause for existing contracts and a 12-month deferred commencement to allow compliance adjustments; if this is implemented, would it solve the problem – I don't think so.

## 5. Digital Economy: Real-Time Finance vs Manual Friction

Uganda's digital economy, with 36.3 million active mobile money accounts and 27 million transactions per day (late 2025), relies on real-time APIs.

- Technical Incompatibility: The manual ministerial reporting and approval processes (Clauses 25 and 26) are technically incompatible with the velocity of digital finance.

- FinTech Vulnerability: Most Ugandan FinTechs rely on foreign venture capital and international cloud infrastructure. Under Clause 1, these dependencies would classify them as "agents of foreigners," halting innovation and capital deployment.

## 6. Legal, Social, and Diplomatic Implications

- Constitutional Order: Critics argue

the Bill attempts fundamental changes to the constitutional order—transferring sovereignty from the people to the Executive (violating Article 1 of the Constitution)—which would normally require a national referendum.

- Socio-Economic Scale: Parliamentary records indicate that approximately Shs5 trillion in external funding and between 20,000 and 50,000 Ugandan jobs are tied to organisations currently at risk under the Bill's definitions.

- NGO Operations and Employment: The Bill could disrupt NGO operations by constraining funding flows, increasing administrative burdens, and creating uncertainty around compliance. This raises the risk of downsizing or exit by NGOs, with attendant job losses, particularly in sectors such as health, education, and social protection.

- International Standing: The Bill risks violating:

- IMF Article VIII on free international payments.

- East African Community (EAC) Common Market Protocol on the free movement of capital.

The risk-based approach required for Uganda to stay off the Financial Action Task Force (FATF) grey list.

Uganda's obligations set out in various international conventions and treaties with bodies including the IMF, World Bank, EADB, IFC, and etcetera whose Articles of Agreement, including those relating to privileges and immunities would be placed in direct conflict with the oversight enforcement mechanisms of the proposed Bill.

Uganda's compliance with those obli-

gations is actually in the national interest through the Central Bank who is mandated to advise and support the Government of Uganda to grow as enshrined in the Constitution and the Bank of Uganda Act.

## III. Strategic Recommendations for Legislative Refinement

To ensure the Bill is consistent with Uganda's long-term stability, the Bank of Uganda recommends the following refinements:

### 1. Affirmation of Regulatory Primacy

Confirm that the Bank of Uganda retains exclusive authority for the regulation and supervision of the financial sector, supported by the Financial Intelligence Authority (FIA) for AML/CFT matters. These institutions are already operating effectively under well-established statutory mandates, and reaffirming their primacy would:

- Preserve regulatory coherence and accountability.

- Avoid dual licensing/inspections.

- Maintain operational independence (BoU's mandate under Article 162 of the Constitution, Section 4 & Part VI of the Bank of Uganda Act, and Section 143 of the FIA).

- Ensure international compliance (FATF, IMF Article VIII).

- Retain government oversight on foreign funding for political parties under the Political Parties Organisations Act, as amended, which already excludes remittances, legitimate financial transactions and other cross-border transactions between Uganda citizens or regu-

lated entities.

### 2. Explicit Exemption for Regulated Entities

Categorically exclude financial institutions licensed under the:

- Financial Institutions Act (FIA),

- National Payments Systems (NPS) Act, or

- Supervised by the Capital Markets Authority (CMA).

From the definition of an "agent of a foreigner." Such institutions are already subject to rigorous prudential oversight and governance requirements, making additional classification unnecessary and counterproductive. This aligns with the Political Parties Organisations Act.

### 3. Revision of Funding Thresholds

Replace the approval threshold with a "disclosure-only" requirement for transactions undertaken in the normal course of banking (e.g., liquidity management, trade finance, capital mobilisation).

- Exempt interbank transactions, shareholder arrangements, credit lines, and FDI touching supervised financial institutions as exempted under PPOA.

### 4. Narrowing "Economic Sabotage"

#### Redraft Clause 13 to:

- Exclude legitimate economic research.

- Remove vicarious criminal liability for directors in Clause 23(3).

- Introduce defences of good faith, exercise of mandate, and compulsion by

statute or law.

### 5. Alignment with Existing Frameworks

- Channel all oversight through the Financial Intelligence Authority (FIA).

- Reconcile the provisions of the Bill (which appears to be a catch-all for all financial transaction and cross border transactions as a stricter, specialised overlay regime on the PPOA), with the Political Parties and Organisations Act, which already exempts cross-border and commercial transactions that are not related to political party activities or funding.

- Clarify the Bill's relationship with existing financial laws (e.g., FIA, AMLA, NPS Act, POA) to avoid redundant or conflicting reporting lines.

### Conclusion

True national sovereignty is built on economic strength and financial independence. While the goal of protecting national interests is legitimate, the Protection of Sovereignty Bill 2026, as currently drafted, risks reversing three decades of successful financial development through liberalisation that has sustained economic growth.

By adopting these technical refinements, Parliament can safeguard the nation without compromising the world-class financial infrastructure essential for Uganda's journey to a \$500 billion economy.

Submitted  
Bank of Uganda  
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