CSO STATEMENT ON THE BUDGET STRATEGY FOR FY 2023/24

Introduction

FY 2023/24 will be the fourth year of implementing the Third National Development Plan (NDP III) which is currently undergoing its mid-term review. This plan among other things is expected to transform the Ugandan economy to middle-income status. This all however is happening at a point where the country is still recovering from the effects of the COVID-19 pandemic and global externalities that are affecting the economy.

With the full opening of the economy in the previous financial year 2021/22 following the full suspension of all the COVID-19 pandemic-related restrictions, Uganda's economic buoyance was highly anticipated. Economic activity is anticipated at a growth rate of 4.6% per annum in FY 2022/23 from 3.5% in FY 2021/22.[1] Real Gross Domestic Product (GDP) was estimated at UGX 162,123 billion by end of June 2022 having risen by 9.3 per cent from UGX 148,310 billion in June 2021.[2] Services continue to dominate as the key driver of Uganda increasing from UGX 52,217 bn in FY 2017/18 to UGX 62,062 billion in FY 202/21 and UGX 67,271 billion. Agriculture, forestry and industry have however contributed the least with UGX 28,013 in FY 2017/18 for the period 2017/18 to 2021/22.

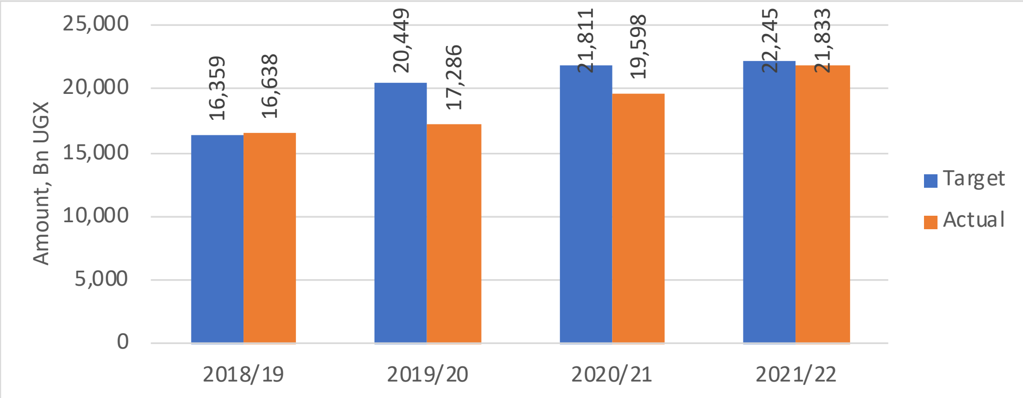
Revenue collections for FY 2021/22 were 21,833 billion against a target of 22,245 billion,[3] increasing the need for debt which is impacting heavily on low-income economies, Uganda inclusive.

1 MFPED, 2022, FY 2022/23 Background to the Budget

2 Ibid

3 MFPED, July 2022, Performance of the Economy Macroeconomic Policy Department, Monthly Report

Figure 1: Revenue collections against the target, Bn, UGX



Source: MFPED

Statistics from the Uganda Bureau of Statistics (UBOS) indicate that annual inflation in Uganda has risen from 2.7 percent in January 2022 to 9 percent in August 2022 which surpassed the inflation targeting line of 5 percent by the Bank of Uganda, mainly driven by imports. The steadily growing inflation is likely to see more Ugandan's falling below the poverty line as the country's currency purchasing power further dampens.[4] Relatedly, a sharp rise in prices of basic commodities has led to an increase in the cost of living for the Ugandans. For instance, liquid fuel prices had risen by 44.7 percent in June 2022 on a year-on-year basis while cooking oil prices rose by 43 percent in June 2022 over the same time horizon (Bank of Uganda, June 2022).[5]

The prevailing inflation especially on fuel has ripple effects on the cost of doing business which further hurts the economy as the private sector, the key driver of Uganda's economy, is negatively affected. The Business Tendency Indicator reduced from 58.61 in June 2022 to 55.75 while the July headline Purchasing Managers Index (PMI) reduced to 48.2 from 50.9 in June 2022.[6] These among others reflect a reduction in optimism about doing business in the country.

There is an increase in interest rates for major financial products which also increases the cost of borrowing and reduces access to global capital (reversal of capital flow to DCs). In addition, vulnerability has increased resulting from climate change effects that have led to prolonged drought, disasters, and low economic activity. These have resulted in food shortages, hunger and internal displacements.

The Budget Strategy for the Financial Year 2022/23 and over the medium term seeks to restore economic activity to the pre-pandemic levels, and subsequently accelerate the pace of socioeconomic transformation. The Strategy is set under the theme, ***"Full Monetization of Uganda's Economy through Commercial Agriculture, Industrialization, Expanding and Broadening Services, Digital Transformation and Market Access."*** This position paper presents CSO views on

4 https://bti-project.org/fileadmin/api/content/en/downloads/reports/country_report_2022_UGA.pdf

5 Bank of Uganda, State of the Economy Report-June 2022.

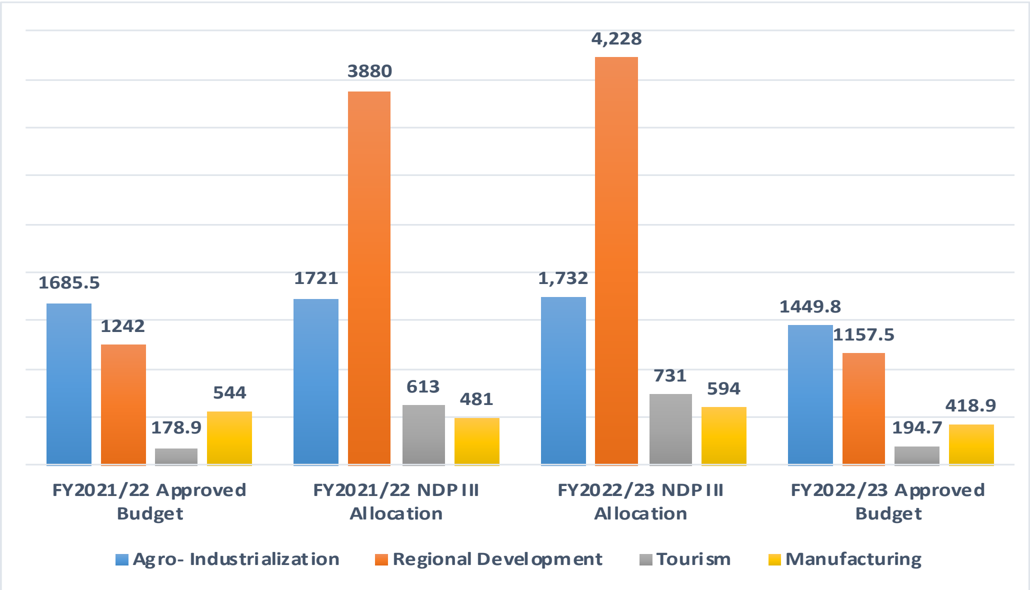
6 MoFPED, July 2022 Economic Performance Report

the budget strategy and issues for consideration as we embark on budgeting for FY 2023/24.

1. Performance of the Third National Development Plan

FY 2023/24 will be the fourth year of implementing the Third National Development Plan (NDP III) which is currently undergoing its mid-term review. However, despite some progress achieved in its implementation, several challenges pose a threat to the realisation of the set objectives of the plan. Key among those include, fiscal indiscipline, budget allocative inefficiencies, financing of core NDPIII projects, and the mismatch of results and indicators in the budget instruments. An analysis of the FY2022/23 budget shows inconsistencies in resource allocations to the productive sectors/programs of the economy. For instance, in FY2022/23 Agro industrialisation program was allocated UGX 1,449.8 billion (4.5%) against the NDP III proposed allocations of UGX 1,732 billion while the tourism program was allocated UGX 194.7 billion (0.6%) against the NDP III target of UGX 731 billion (1.1%). This clearly shows that there is a challenge of budget allocative inefficiency since resources are not being allocated as prioritised in the NDPIII. Furthermore, the management of public investments remains a challenge that needs to be addressed if the country is to realise value for money in its investments. For example, out of 69 core projects, only 34 per cent are under implementation with only one (1%) on schedule while 17 per cent are still project ideas without any preparatory work undertaken.[7]

Figure 1: Allocative efficiency to the Agro-industrialisation, Regional Development and Manufacturing Programs FY2021/22-2022/23



Source: Report on the Annual Budget Estimates FY2020/21-2022/23; Budget Speech FY 2022/2023

7 Report on the Annual Budget Estimates 2022/23

Recommendation

Therefore, as NPA reviews the plan;

- Government should develop a comprehensive legal framework on Public Investment Management to support all procurement requirements for successful implementation. For example, only projects that meet the requirements and have undergone all the mandatory stages of appraisal i.e. concept, profile, pre-feasibility study, and feasibility study should be admitted into the Project Implementation Plan and financed.
- Government/MoFPED should revise and re-negotiate non-core projects/ non-performing projects to focus resources on priority projects/interventions.
- Government needs to exercise fiscal discipline by reducing wasteful expenditures and streamlining the issuance of supplementary budgets which are currently being abused.

2. Inadequate Preparedness of Local Governments on the Parish Development Model Implementation

We commend Government for rolling out the Parish Development Model (PDM), a vehicle aimed at transforming 39% of the households in the subsistence economy into the monetary economy. A rapid assessment of the readiness of Local Governments on PDM in 10 districts shows that there are capacity gaps for Parish Development Committees and there is a negative mindset about the PDM among the community. Some refer to the financial inclusion pillar funds as *"an appreciation from government,."* lack of beneficiaries' involvement in the selection of the different PDM commodities, a mismatch in PDM information among the technocrats and politicians in the district. At the national level, there is poor coordination and linkages between MDAs and other stakeholders; and weak linkages between PDM and other existing government systems continue to manifest. While the current allocations of *"one size fits all,"* without paying attention to the unique needs of each district. For example, some districts have a relatively higher proportion of the population in the subsistence economy.

Therefore, achieving the PDM calls for a concerted effort by all stakeholders.

Recommendations

- Government should invest in undertaking well-coordinated citizens' awareness and provide a clear dissemination roadmap of the PDM guidelines translated into the respective major local languages.
- The coordination function and linkages among stakeholders need to be streamlined and consistent for implementing Government MDAs. This will help in addressing duplications of interventions by the different actors responsible for the implementation.

- The Ministry of Finance should reconsider the criteria used for budget allocation to include the population sizes of the local governments, accessibility of the local government, and levels of poverty rather than just depending on the number of parishes or wards.
- There is a need to establish the total cost for implementing the PDM and align the costs to the targets.
- MDAs should create votes and budgets for their investment in PDM activities.

3. Weak Coordination among Government Ministries, Departments, and Agencies

Despite FY2022/23 being the third year of implementing the NDP many government institutions continue to operate in *"silos"* with little coordination or integration, which leads to competition for resources, duplication of human and financial effort,[8] and conflict amongst agencies due to overlapping mandates. For instance, using funding from different sources, the government implemented four (4) different systems for the management of local revenue collection in different urban authorities; URA procured an Enterprise Resource Planning System (ERP) which serves the same purpose as the GOU IFMIS. While many MDAs have well-operating data centres, yet GOU invested in the National Cloud (Data Centre).[9]

Recommendation

- Government should strengthen the role of the Ministry of ICT in coordinating the planning and acquisition of IT to eliminate duplication and ensure system interoperation ability.
- There is a need for the National Planning Authority (NPA) to develop specific guidelines on the coordination roles and performance targets for the NDP III program working groups.

4. The Inadequate Fiscal Transfers to Local Governments

The decentralisation policy in Uganda put Local Governments as frontline actors in the provision of service delivery. However, local governments have not effectively delivered on this mandate due to several challenges ranging from, a low revenue base, to inadequate financing from the central government. Much as local government transfers have increased in nominal terms from UGX 2.7 trillion in FY2016/17 to UGX 4.6 trillion in FY2021/22, unconditional transfers to Local Governments have

8 https://www.oecd-ilibrary.org/sites/fb0aaf22-en/index.html?itemId=/content/component/fb0aaf22-en

9 Report of the Auditor General to Parliament for the Financial Year ended 30th June 2021

remained inadequate. Over the same period, unconditional grant releases to Local Governments increased by 14% (UGX 18 billion), DDEG by 51% (UGX 265 billion), and conditional grants by 41% (UGX 1,632 billion).

Recommendations

- Government should revise the unconditional grants to Local Governments which has remained stagnant by operationalizing the relevant articles under Chapter 11 of the Constitution of the Republic of Uganda specifically chapter (176(d),[10] 193, 195) and Seventh Schedule.
- MoFPED should enact a law to protect the share allocation to the Local Government to protect it from arbitrary cuts.

5. Inadequate Public Investments Management

Despite the key reforms undertaken by the government to improve Public Investments Management (PIM) in the country, there still exist challenges that needs to be urgently addressed. For example, out of 69 core projects, only 34 percent are under implementation with only one (1%) on schedule while 17 percent are still project ideas without any preparatory work undertaken. We are also aware that the MoFPED is developing Public Investment Financing Strategy (PIFS) which introduces the Project Preparation Fund (PPF). However, the source and percentage allocation to the fund are not defined hence leaving room for non-commitment. Therefore, improving PIMS calls for reviewing the performance of some of these projects in PIP and exiting those performing poorly. Secondly, Parliament needs to enact a legal framework for PIMs.

Recommendations

- Therefore, improving PIMS calls for reviewing the performance of some of these projects in PIP and exiting those performing poorly. Secondly, Parliament needs to enact a legal framework on PIMs.

6. Increased Levels of Food Insecurity

We commend the Government's response and interventions to address the issue of food insecurity in the country especially, in the Karamoja region. By June 2022, Uganda had lost over 900 people to hunger-related sickness in Karamoja.[11] Relatedly, 8.6% of rural households are food insecure compared to 16.3% of their urban counterparts.[12] The main triggers of food insecurity are climate change, pests

10 There shall be established for each local government unit a sound financial base with reliable sources of revenue;

11 https://www.monitor.co.ug/uganda/special-reports/hunger-kills-900-in-karamoja-leaders-3891186 accessed on 8th September 2022

12 Nutrition Situation Report 2020

and diseases, high food prices, and population growth. According to the Food and Agriculture Organization (FAO), Uganda loses between 30-50% of the grain and fresh vegetables, and fruit harvest. This reduces the amount of food available for both household consumption and in the market.[13]

Recommendation

- Government should prioritize investments in and establishment of national and regional food reserves in accordance with Objective XXII of the Constitution of the Republic of Uganda as long-term and predictable safety nets to cushion vulnerable communities against food insecurity shocks.
- Ministry of Agriculture, Animal and Fisheries (MAAIF) should fast-track the development, approval, and dissemination of the irrigation master plan to guide the sustainable management of water for agriculture production.

7. Climate Change Financing both at the National and Subnational Levels

NPA in partnership with ACODE undertook a climate change-specific compliance assessment which sought to analyze and present the extent of alignment of the 2022 National Budget to the NDP III climate change relevant interventions. Overall, the alignment of the 2022/23 Annual Budget to climate change integration was found to be unsatisfactory at 46.1 per cent compliance compared to the FY 2021/22 assessment at 64.7 per cent. Climate Change response is largely inclined to awareness creation with limited or no resources allocated to core climate change interventions that reduce vulnerability and build adaptive capacity.

Recommendations

- Government should follow-up on the preparation and provision of the Certificate of Climate Change as stipulated in the law and ensure that various MDA work plans and budgets are climate change responsive before approval by Parliament.
- Government should expedite the rolling out of climate change budget tagging which Government introduced to enable governments to identify, classify, and track climate change and/or green growth-related public expenditures.
- Ensure that the budget completely reflects what has been planned for in the NDPIII. The assessment of the Natural Resources, Environment, Climate Change, Water and Land Management Programme indicated a misalignment between budgeting tools (especially the Budget Framework paper) and the planning tools i.e. the NDP III. None of the interventions (output indicators) for climate change in the NDP III are reflected in the BFP. Most of the priority areas are not catered for in the BFP and MPS, this needs to change as the NDP III priority areas need to be considered and budget lines should be aligned with the same.

13 https://eprcug.org/press-releases/ugandas-food-loss-and-waste-dilemma-the-role-of-post-harvest-handling/

8. Leakages in Value-Added Tax Collection

Section 7 Cap 349 of the Value Added Tax (VAT) requires that all persons dealing in taxable supplies with a gross turnover above UGX 150 million per annum register and file monthly returns. A report on Uganda's Tax (2021) reveals that in trying to evade taxes, the transaction amounts reported by seller-buyer pairs do not match in 79% of monthly observations, even after allowing for rounding errors and potential timing mismatches. Sixty per cent of such discrepancies are due to the seller reporting a smaller amount than the buyer and vice versa in the remaining 40% of cases implying weak tax enforcement and level of administrative capacity. As such, if all discrepancies for the period 2013 – 2016 were corrected, the net effect would be an increase in VAT revenue of US$384 million, equivalent to 25% of actual VAT revenue and 4% of total tax collection over that period.

Recommendation

- There is a need to expedite the automation of tax enforcement to improve the level of tax administrative capacity since the enforcement of VAT requires accurate records of firm transactions that can be traced to both parties (seller and buyer). This will strengthen tax administrations' ability to track businesses and make tax evasion more difficult.

9. Negative Effects of Tax Exemptions

Tax exemptions as an incentive are vital to promote and attract investment and create employment opportunities. However, such incentives are costly to taxpayers in terms of tax revenue foregone and indirectly through distortions to economic activity. Uganda has increasingly foregone revenue in tax expenditure amounting UGX 947.43bn (0.87% of GDP and 7.45% of total tax collected) in FY2016/17) to UGX 2,478.08bn (1.56% of GDP and 11.87% of total tax collected) in FY21/22.[14] In addition, the details of tax expenditure are not regularly provided yet in some cases it distorts economic incentives either towards consumption or investment and sometimes makes tax systems less transparent and/or regressive from a social viewpoint.

Recommendation

- There is need for the MoFPED and URA to formulate and implement a policy to reduce tax exemption while upholding tax compliance.

10. Slow Progress on the Rationalization Process

When the government announced that as part of its public expenditure Management

14 Tax Expenditure Report FY 2021/22

reforms to rationalization of government expenditure in early 2018, this was welcome news to ordinary Ugandans. The *"agencification"* of Government services had resulted in unintended consequences, such as fragmented government, increased cost of running the government, overlapping and duplication of mandates and functions, eroded control by elected leaders over technocrats and weakened the link between policy formulation and implementation. Today, this process has, however, taken so long to start or concluded

Recommendations

- The Office of the Prime Minister (OPM) should design a road Map for starting the process with the agencies that can easily merge or rationalize (the low-hanging fruits).

11. Enhance Transparency and Accountability in the Extractives

Uganda has 1.4 billion barrels of oil reserves that are ready to be extracted and sold, and additional exploration is planned in the Albertine Graben area. These petroleum and gas reserves have the potential to generate revenue that Uganda could use to finance the development of critical infrastructure and social services such as health and education.[15] The key to ensuring we maximize the potential benefits is realised will be transparency. It is critical that Ugandans are able to access contracts that show what companies should be paying to the local- and national-level governments and the data that allows citizens to monitor whether they are actually paying what they are supposed to. Critical to this process is adequate financing of the Uganda EITI and the development of an appropriate tax regime.

Inadequate Financing implementation of Extractive Industries Transparency Initiative: There is a close link between Extractive Industries Transparency Initiative (EITI) which is a tool for transparency and accountability, and domestic resource mobilization. If the tool is implemented, it has the effect of mitigating Illicit Financial Flows (IFFs) that undermine the country's ability to raise revenue, especially minerals, oil and gas. EITI can boost revenue mobilization through enhanced transparency and accountability in revenue generation, management, and allocation. However, the EITI secretariat and activities are grossly underfunded. This, therefore, undermines the EITI interventions in the country and will have consequences for Uganda's performance in the sector.

Loss of Tax Revenues: Uganda foregoes billions of shillings in potential revenue because of mining company tax avoidance schemes that rely upon non-disclosure of accurate cash flows, the use of tax havens, transfer pricing, false declarations, and the nondisclosure of the beneficial ownership of mining corporations (Oxfam, 2015).[16] For instance, in the financial year 2016/2017, the DGSM issued gold export

15 Global oil transparency initiative can help Uganda, but not if member companies get to play by their own rules. https://uganda.oxfam.org/latest/blogs/global-oil-transparency-initiative-can-help-uganda-not-if-member-companies-get-play

16 Publish What You Pay (2021) Increasing Women's Voice and Participation in Extractive

permits for just over 16kg, while Revenue Authority records indicated that over 8,691 kg of gold had been exported from Uganda. The larger amount represented a value of USD 339 million which translates into a loss of between USD 3.4 million and USD 17 million in royalty revenue (depending upon the applicable tax rate used).[17] The revenue shortfalls are linked to a combination of: non- or inadequate disclosure on the part of mining companies; government system inefficiencies that lead to failures to collect revenues; a lack of independent verification; understaffing and consequent poor inspection of mining operations; poor weighbridge infrastructure; difficulties in identifying price points for calculating commodity values; and poor coordination between state ministries, departments and agencies. The government also fails to collect taxes, fees and royalties from the largely informal artisanal and small-scale mining (ASM) sector, with more than 90% of all national mineral production reportedly being generated by ASM miners.

Inappropriate the tax exemption in the extractives sector: Extractive resources have the potential and are expected to raise revenue for financing development. However, the current fiscal regime does not facilitate that potential. There are a lot of tax exemptions which undermine the sectors' ability to raise the required venue.

Recommendations

- Resources should therefore be allocated by the government to facilitate the implementation of EITI. Currently, the implementation EITI is largely financed by development partners and the support has dwindled.
- There should be measures to improve the capacity, coordination, formalisation of procedures and accountability of the government at all levels. Additionally, verification and auditing of company disclosures and reporting on earnings and volumes of minerals should be more frequent and comprehensive.
- Therefore, there is a need to review the fiscal regime and limit unproductive and ineffective tax exemptions.

12. Inadequate Funding for Essential Medicines and Health Supplies

In January 2022, the Government of Uganda launched the 10-year National Health Supply Chain Roadmap 2021/2022-2031/2032. The roadmap articulates Uganda's national health supply chain strategic plan and transition strategy from a predominantly donor-dependent supply chain to a Government of Uganda's self-reliant one. The roadmap seeks to strengthen the capacity of the ministries, departments, agencies (MDAs), and local governments to plan, finance, and effectively manage the national health commodities supply chain priorities independent of donor support. At the launch ceremony, various ministries pronounced their commitments to support the implementation of the 10-year roadmap on the basis of a *"One-Government"* approach through inter-ministerial and/ or multi-programme integrated planning

Governance: The case of Mozambique, Tanzania and Uganda. Kampala, Uganda. https://www.pwyp.org/wp-content/uploads/2021/08/PETT-GENDER-SYNTHESIS-REPORT-1.pdf

17 Ibid

and budgeting framework.

The roadmap aspires to reverse the financing trend of Uganda's health supply chain characterized by donor dependency to realize an increasing role undertaken by the Government of Uganda. Overall, more than 70% of public sector funding for essential medicines and health supplies (EMHS) is by donors. For disease program commodities such as HIV, TB and Reproductive health, donor funding is almost 90%. Interventions have been developed under the roadmap which seeks to address the efficient use of health commodities and other resources and increase the Government of Uganda's budget allocation to the procurement of EMHS. The overall investment needed for implementing the roadmap in the next ten years is USD 7,850,674 Billion. The key cost driver is the availability of health commodities which requires an investment of USD 7,805,814 Billion (99.4%). The remaining are investments in the operational costs of the roadmap thematic areas which total USD 44.860 Billion (0.6%).

Recommendations

- The MoFPED should include the health commodities supply chain roadmap priority areas in the budget call circular for FY 2023/2024 and advise the MDAs, local governments, and hospitals to include health commodities supply chain priority areas in their budgets consistent with their statutory mandates, as a way of implementing the 10-year HSC roadmap through multi-program integrated planning and budgeting. Key priorities are (i) Resource mobilization and financing of the HSC particularly procurement of sufficient health commodities; (ii) Health supply chain human resources; (iii) Digitization of health supply chain information system which requires electricity and internet connections to hospitals and lower level health facilities; (iv) health commodities' infrastructure, warehousing, storage, and distribution; (v) Quality, pharmacovigilance, and waste management; (vi) Public-Private Partnerships for HSC; (vii) Health Supply Chain policy, leadership and governance.
- The Government of Uganda (MoFPED) should increase its contribution to the procurement of health commodities from the current 37% to about 90% by the end of the ten years. This is expected to be achieved through a gradual annual increase from the current UGX 464 billion in the FY 2022/23 to:
  - UGX 664 billion for FY 2023/24 and UGX 864 billion for FY 2024/25, an addition of UGX 200 billion for the FYs mentioned (short-term).
  - UGX 1164 billion for FY 2025/26 and UGX 1464 billion for FY 2026/27, an addition of UGX 300 billion for the FYs mentioned (medium-term).
- The mid-term review of the 10-Year roadmap implementation will inform the country's health commodity need at the time and the corresponding investment need for the next five years (long-term).

Conclusion

We commend Government for the continued engagement of different stakeholders among which include CSOs to participate in the planning and budgeting processes. This partnership has improved citizens' participation in the planning and budgeting process. The different issues facing Ugandans enable us to realize that for short and long-term planning purposes we need to focus more efforts on investing in our people specifically emphasizing social welfare programs, increasing capacities to produce for export including import substitution strategies, strengthening climate change interventions, and strengthening institutional oversight roles to improve service delivery. We are not where we should be, but great strides have been made and we can leverage these to attain the change we desire.