CSO STATEMENT AT THE NATIONAL BUDGET CONFERENCE ON THE FY2024/25

SEPTEMBER 14, 2023

1. Introduction

Uganda's economy has demonstrated resilience to external shocks, with a consistent upward growth trajectory in its Gross Domestic Product (GDP). For this fiscal year 2023/24, Uganda anticipates an impressive GDP growth rate of 6 per cent, compared to the previous fiscal year's 5.3%, showcasing the resilience of the nation's economy[1]. This positive momentum is further evidenced by Uganda's strengthening trade balance within the East African Community, resulting in a trade surplus of $114.54 million (approximately Shs418.337 billion), reflecting substantial growth from the previous year. Notably, a significant reduction in core inflation from 9% in January 2023 to 3.5 per cent in August 2023 has been achieved[2], attributing this accomplishment to coordinated fiscal and monetary policies and increased food production. These achievements collectively demonstrate the nation's commitment to economic stability and sustainable growth.

In addition to economic progress, Uganda has made commendable strides in enhancing budget transparency and accountability. Timely reports and adherence to financial regulations have characterised the government's commitment to fiscal responsibility. The Ministry of Finance's consistent release of funds by the 10th of the first month of each quarter has ensured smooth operations across various sectors, with a release of Ugx 4.833 trillion, representing 16 per cent of the discretionary budget. Furthermore, the government's investment in Local Governments, with an increased budget allocation from UGX 5.04 trillion to UGX 5.39 trillion[3] for FY 2023/24, is poised to enhance connectivity, trade opportunities, and revenue collection at the grassroots level. This fiscal year, Local Governments are projected to collect revenue worth UGX. 287 billion, marking a substantial increase of Ugx 48.5

1 Background to the Budget Fiscal Year 2023/24, MoFPED

2 Monetary Policy Statement August 2023, BOU

3 BUDGET SPEECH - Financial Year 2023/2024, MoFPED

billion from the previous year, thereby fostering economic growth and development at the local level.

The FY 2024–2025 is anticipated to build upon and consolidate the progress made thus far. For this to happen, at the FY 2024/25 budget meeting, civil society organisations ACODE and CSBAG—leading the way in promoting sustainable, gender-responsive, and equitable development in Uganda—raised concerns that need attention. The two organisations work to ensure that the opinions of the disadvantaged and marginalised are heard during the national budgetary processes. As a result, ACODE and CSBAG presented issues for consideration at the budget conference that kickstarted the FY 2024–2025 budgeting process, as illustrated below.

2. Concerns that await the FY2024/25 Budget Design and Implementation

2.1 Rising Public Debt Stock

Uganda's national budget has significantly increased from UGX 32.702 trillion in FY 2018/19 to UGX 52.73 trillion in FY 2023/24, representing a 61% growth. According to the parliamentary report on the Annual Budget estimates for FY 2023/24, the country's debt stock has increased from UGX 78.7981 trillion recorded in FY 2021/22 to UGX 80.774 trillion in the first half of FY 2022/23, representing a 2.5% increase[4]. Out of this, UGX 47.764 trillion (59.1%) is external, while UGX 33.0146 trillion (40.9 %) is internal debt. In this FY2023/24, external debt repayments amount to UGX 2.6 trillion and Interest Payments of Ugx. 6.1 trillion will be made. Domestic debt financing amounts to Ugx. 8.4 trillion. In summary, the rising debt burden in Uganda can strain the country's finances, limit its ability to provide essential services and pose risks to its economic stability and development. Governments should manage debt carefully and ensure that borrowing is used for investments to generate long-term economic growth.

2.2 The Inadequate Coordination Mechanisms among MDAs at the Program Level

Coordination among MDAs, including government implementing agencies, has remained a big problem. In summary, inadequate coordination mechanisms among MDAs and at the program level have resulted in various challenges, including inefficiencies, resource misallocation, service delivery gaps, and reduced accountability. Addressing these coordination issues is crucial for effective governance and the successful implementation of government initiatives. According to the Audit report-2022[5], the Government has lost a total of UGX.19,026,546,948 due to the payment of salaries to ineligible persons/individuals in 129 LGs. A review of the progress reports and interviews with the DRDIP liaison officer revealed that 182 subprojects that received UGX.135,411,714,542 in 15 districts had not commenced construction activities for which they were funded by the end of the financial year.

4 Final Draft Budget Estimates FY 2023-24 _ Volume 1, MoFPED

5 Report of the Auditor General to Parliament for the Financial Year ended 30th June 2022

Only four sub-projects received UGX. 1,400,664,349 in Arua and Koboko DLGs were ongoing as of the close of the financial year. Six subprojects that received UGX.6,054,500,000 in Kamwenge and Koboko DLGs had fully implemented the planned activities as at the close of the financial year.

2.3 Rationalization of Government Agencies to Achieve Efficiency and Returns to Government Investments

The recurrent costs of running Government operations, including wages, salaries, interest payments and commitment fees, continue to be higher than development expenditure, limiting the resources available for service delivery. This is worsened by the delayed execution of the 2018 plan to rationalise Government Agencies, Commissions and Authorities as one of the measures for reducing expenditure. This will reduce duplication of activities and mandates and save the government a lot of money, given the tight environment in terms of Budget financing.

2.4 Limited Adherence to Climate Financing and Climate Compliance

Despite being a pioneer in Africa by developing and endorsing its Climate Change Plan in June 2018, Uganda has encountered significant challenges in complying with climate financing guidelines and ensuring adherence to climate financing principles across its Ministries, Departments, and Agencies (MDAs). The country has also made significant commitments, including reducing national greenhouse gas emissions by 22% by 2030, reducing climate vulnerability of climate-sensitive sectors, and managing disaster risks. According to the updated NDC[6], Uganda requires USD 28.1 billion to implement both unconditional and conditional adaptation and mitigation actions and targets of the updated NDC and its cross-cutting issues of technology development and transfer, gender, and capacity building across all sectors up to 2030. Across all sectors, the estimated cost for adaptation and mitigation is USD 17.7 billion and 10.3 billion USD, respectively, up to 2030. Of the adaptation and mitigation budget, 85% of the funds are conditional on external support, while only 15% is non-conditional and can be mobilised within government means. There is a failure to adhere to existing planning documents as the standard budgeting tools make it challenging to track and report on progress. According to a Compliance Assessment of the FY 2023/24 Budget to Climate Change by NPA and ACODE, the analysis revealed that the FY2023/24 Annual Budget (AB) to climate change interventions was unsatisfactory at 55.35 per cent, slightly lower than the FY 2022/23 compliance level of 64.7 per cent.

Recommendation: Like Gender and Equity, Climate change should feature prominently among the cross-cutting issues section of the budget framework paper and other programme budget documents. The budget call circulars for FY2025/26 should prioritise climate change interventions/actions as the first call on resources.

2.5 Inadequate Local Government Financing

The increase in the local government budget, such as the rise from UGX 5.04 trillion in FY 2022/23 to UGX 5.39 trillion in FY 2023/24, along with the additional UGX 1 billion allocated to each district for the rehabilitation of access roads and

6 Updated Nationally Determined Contribution (NDC), 2022

the expected revenue collection of UGX 287 billion in FY 2023/24, highlighting the government's commitment to supporting local development and improving services. Although we acknowledge the increase in the budget for the Local Governments from UGX 5.04 trillion in FY 2022/23 to UGX 5.39 trillion in FY 2023/24, funding gaps persist. Key among the unfunded activities is the induction of newly elected local Government leaders and the members of Statutory Boards and Commissions. In many cases, the individuals elected/ nominated to these positions lack the technical capacity, expertise, experience, and knowledge to effectively carry out their roles and responsibilities.

Recommendations: The Ministry of Local Government requires UGX 16 billion to induct all local councils in Uganda. We call upon the MoFPED to consider providing these resources to help improve the quality of these officials and service delivery. The MoFPED should also reallocate resources (UGX. 1.32 trillion) meant for Local Government mandates held by MDAs to Local Governments.

2.6 NDP III Performance and Preparation for NDP IV

The low realisation of NDP III Targets/results. As shown by the NDP III Medium Term Evaluation Report (MTR), by the end of the second year, only 17 per cent of the results outlined in NDP 3 were achieved[7]. While there was a marginal improvement in the proportion of people living on less than a dollar per day (20.3 per cent in FY20219/20 compared to 21.4 per cent in FY2016/17), a considerable portion of the population (41.8 per cent) still lived below the international poverty line of USD 1.9 in FY2019/20. Additionally, a large segment of the population remains vulnerable, with about 56 per cent of the population being moderately food insecure and 15 per cent severely food insecure.

2.7 Enhance Domestic Resource Mobilisation

Uganda's tax-to-GDP ratio has stagnated at less than 13% for several years, well below the Sub-Saharan average of 16%. The International Monetary Fund (IMF) reckons that 25 per cent of revenue gains will come from maximising tax policy and 75 per cent from maximising tax administration[8]. In recognition of the need for more revenue generation, the Government of Uganda (GoU) prepared a Domestic Revenue Mobilization Strategy (DRMS) to strengthen Uganda's capacity to generate sufficient revenues to finance its budget. Several strategies have been implemented; for instance, the Uganda Revenue Authority has redefined its structure and made it more streamlined and efficient. URA created an IT department within URA. Uganda Revenue Authority has improved its audit capacity with complex audits such as telecoms and banks, as well as those who own vast fields of agriculture. However, challenges relating to tax management and administration, leakages, policy implementation, and the capacity of stakeholders remain.

Recommendation: In the fiscal year 2024/2025, the government should consolidate the tax policy and administration reforms that were made but continue to focus on the same for increased domestic revenue. Secondly, the government needs to focus and allocate more resources on areas such as communication strategies by URA, taxpayers' education, debt collection and rental income, and

7 Mid-Term Review of the Third National Development Plan(NDPIII) 2020/21-2024/25

8 Current Challenges in Revenue Mobilization: Improving Tax Compliance. IMF 2015

identifying new areas for taxation, such as the informal sector that little is known about. We propose that the government invest in constructing weighbridges along essential routes leading to areas where minerals are being extracted to ascertain with precision the volume of minerals coming out of every mining site. The Uganda Revenue Authority (URA) and the Directorate of Geological Survey and Mines (DGSM) should invest in data and information sharing on revenues generated from the mining sub-sector to enhance transparency and disclosure of the revenue.

2.8 Combating Illicit Financial Flows (IFFs)

According to the Global Financial Integrity report (2023)[9], Uganda loses more than UGX 2 trillion annually due to Illicit Financial Flows (IFFs), encompassing crime, corruption, and commerce activities. Specifically, Trade-Based Money Laundering is characterised by tactics such as manipulating invoices and deceptive descriptions of goods and services. Among Uganda's top 15 exports, which are particularly susceptible to trade mis-invoicing, are gold and gold compounds, petroleum products, other precious metals, sugar and sugar confectionery, coffee, hides and skins, fish and fish products, cobalt, vanilla, tobacco, iron and steel, cement, flowers, plastic products, and animal/vegetable fats and oils.

Recommendation: Increase support and funding to frontline agencies such as the Financial Intelligence Authority, Uganda Registration Services Bureau, Uganda Revenue Authority, Criminal Investigations Directorate of Uganda Police, Inspectorate of Government, and the Directorate of Public Prosecutions to, among others, detect, prevent, and prosecute money laundering cases. There is also an urgent need to initiate awareness campaigns, and training programs focused on TBML for public and private stakeholders. These efforts will empower them with the knowledge and skills necessary to effectively recognise and combat the illicit practice. Also, there is a need to support the Secretariat for Extractive Industries Transparency Initiative (EITI) to improve governance in the extractive sector, mitigate illicit Financial Flows and boost domestic resource mobilisation.

2.9 Inadequate funding for Essential Medicines and Health Supplies

The government of Uganda through MoFPED increases the funding for essential medicines and health supplies for public and not-for-profit health facilities, in line with the aspirations of the 10-year National Health Supply Chain Roadmap (2021/2022-2031/2032)[10]. This is intended to reverse the financing trend of Uganda's health supply chain, characterised by donor dependency, to realise an increasing role being 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%. Despite the government of Uganda (GOU) increased funding commitment by $32M (21.4%) in FY23/24 compared to FY 22/23, there are still considerable gaps to fill. The estimated total health commodity need for FY 2024/25

9 Trade-Based Money Laundering in Uganda. ACODE & GFI, 2023.

10 10-Year Roadmap for Government of Uganda's Health Supply Chain Self-Reliance 2021/2022 – 2031/2032

is $ 1.2M; total procurement need is $1,214,270,564; total commitments from GoU and Donors are $431,202,917. This leaves a funding gap of $783,067. Notably, there has been a significant reduction in funding commitment of 22.4% between FY 22/23 and FY23/24, attributed to decreased donor funding from $642M to $499M.

Recommendation: The Government of Uganda, through the MoFPED, needs to increase its contribution to procuring health commodities to close the existing commodity need funding gap consistent with the 10-year roadmap for GoU's health supply chain self-reliance amidst a significant reduction in donor funding commitments.

3.0 Conclusion

The challenges we face in the next fiscal year 2024/25 are substantial but not insurmountable. We acknowledge the complexities of managing public resources and promoting equitable development. However, the government's dedication, people's resilience, and partnerships with civil society and development partners provide a solid foundation to navigate these challenges. As CSBAG and ACODE, we reiterate our commitment to constructive engagement, transparency, and accountability. To realise Uganda's shared goal "to Increase average household Incomes and improve the quality of life of Ugandans," the government should develop a sustainable debt management plan, bolster revenue mobilisation efforts, allocate adequate resources to address domestic arrears, and seek innovative solutions to mitigate the impact of the World Bank's decision to suspend all new public financing to Uganda over concerns with the country's anti-homosexuality law.