ECONOMIC RECOVERY AND RE-IGNITING ECONOMIC GROWTH

A Synthesis Report of the 12th Annual High-Level Policy Dialogue on the National Budget for the FY 2022/23

ACODE Policy Dialogues Paper Series No.38, 2022

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Acronyms and Abbreviations

ACODE	Advocates Coalition for Development and Environment
BOU	Bank Of Uganda
CBEG	Centre for Budget and Economic Governance
CBOs	Community-Based Organisations
CBR	Central Bank Rate
CSBAG	Civil Society for Budget Advocacy Group
CSOs	Civil Society Organisations
DRC	Democratic Republic of Congo
EAC	East African Community
EFRIS	Electronic Fiscal Receipting and Invoicing System
FSMEs	Federation of Small and Medium Enterprises
FY	Financial Year
GDP	Gross Domestic Product
HLPD	High-Level Policy Dialogue
KACITA	Kampala Capital City Traders Association
MDAs	Ministries Departments and Agencies
MoES	Ministry of Education and Sports
MoFPED	Ministry of Finance, Planning, and Economic Development
MSMEs	Medium and Small Enterprises
NBS	National Broadcasting Services
NDP	National Development Plan
NPA	National Planning Authority
PAYE	Pay As You Earn
PDM	Parish Development Model
PWDs	Persons With Disabilities
SACCOs	Savings and Credit Cooperative Organisations
SDGs	Sustainable Development Goals

UBOS	Uganda Bureau of Statistics
UDB	Uganda Development Bank
UGX	Ugandan Shillings
VSLAs	Village Savings and Loans Associations

Summary of Key Issues

On February 17, 2022, the Advocates Coalition for Development and Environment (ACODE) together with its partners organised the 12th Annual High-Level Policy Dialogue (HLPD) on the Financial Year (FY) 2022/23 National Budget at the Kampala Serena Hotel in Kampala. The theme of the HLPD was "Economic Recovery and Re-igniting Economic Growth." The Advocates Coalition Development and Environment (ACODE) convened the dialogue with the Ministry of Finance, Planning and Economic Development (MoFPED) and the Civil Society Budget Advocacy Group (CSBAG) .

The Ugandan economy before the COVID-19 outbreak had gathered momentum. The economy registered a real GDP growth rate of 6.3 percent in FY 2017/18, accelerating to 6.4 percent in FY 2018/19. Unfortunately, the COVID-19 pandemic triggered an economic slowdown and Uganda recorded real GDP growth of 3.0 percent in FY 2019/20. This was the slowest rate in almost three decades, and the pace of expansion only picked up marginally to 3.3 percent in FY 2020/21. The COVID-19 pandemic severely affected businesses. Major disruptions occurred in the education, construction, hospitality, tourism, transport, food services, arts, entertainment, and recreation sectors.

The following key highlighted issues following the presentations and discussions include:

- The COVID-19 pandemic had led to a reduction in aggregate demand and domestic consumption. that the economic strategy for FY 2022/23 and the medium-term is premised on the following objectives: a) Restore economic activity to pre-pandemic levels and subsequently accelerate the pace of socio-economic transformation through boosting aggregate demand and restoring domestic consumption and b) Renew private and public sector investment and enhance export promotion.
- The first wave of the COVID-19 pandemic in 2020 led to a decline in Uganda's economic activity as denoted by a decline in the Business Tendency Index and the Purchasing Money Index, and Composite Indicator for Economic Activity (CIEA).
- The negative implications of the compulsory use of the Electronic Fiscal Receipting and Invoicing System (EFRIS) system on the Operations and supply chain of MSMEs.

Key Policy recommendations that emerged during the discussions include:

i. The government should harness regional trade and exploit the benefits of market expansion and movement of labour that resulted from regional integration.

ii. The need to reach a balance between tax exemptions and revenue collection since offering so many tax exemptions has adverse effects on the country's domestic resource mobilization.

iii. The need to reduce overdependence on foreign aid and debt by scaling-up domestic resource mobilisation. The fact that Uganda's debt has already accumulated to approximately 13 percent of the total budget calls for increased government efforts toward reduced Debt contraction and effective debt management.

iv. Renew private and public sector investment geared towards boosting aggregate demand and restoring domestic consumption with the sole aim of restoring economic activity to pre-pandemic levels and accelerating the pace of socio-economic transformation.

v. Boost aggregate demand through reopening of the economy, payment of domestic arrears, and implementation of the PDM. Furthermore, increase funding and support to SACCOs and VSLAs to enable them to obtain seed capital for small businesses including special interest enterprising groups.

vi. There is a need to revitalize business activity through the business recovery fund to enable small businesses to access low-cost capital, Utilize the Uganda Development Bank (UDB) capitalization, and other financing schemes such as the Agricultural credit facility.

vii. Strengthen private sector institutions and organizational capacity by focusing on the establishment of functioning business support services centers regionally.

viii. There is a need to enhance public investment by having a legal framework and an implementation strategy for the budget with a focus on infrastructure and services such as water, and markets at the household level.

ix. The need to strengthen regulation by BoU to increase the number of service providers in FINTECH to improve efficiency and provide competition in the banking sector.

x. Revamping the health sector and enforcing massive vaccination drives against the COVID-19 pandemic.

xi. The need to support SMEs as well as encourage them to pay taxes to boost domestic resource mobilisation. This would also require the creation of a desk to increase tax compliance amongst SMEs.

xii. Ministry of Education and Sports should provide psychosocial support to learners and teachers who were affected by the COVID-19 pandemic.

1.0 Background and Rationale

1.1 Introduction

Advocates Coalition for Development and Environment (ACODE) in collaboration with the Ministry of Finance, Planning and Economic Development (MoFPED) and Civil Society Budget Advocacy Group (CSBAG) organized the 12th Annual High-Level Policy Dialogue on the National Budget for Financial Year (FY) 2022/23 on February 17, 2022, at the Kampala Serena Hotel in Kampala, Uganda. The dialogue encompassed a keynote presentation, a panel of eminent professionals, and plenary discussions. The presenters and panelists were drawn from an entire spectrum of stakeholders including Government Ministries, Departments and Agencies (MDAs), Parliament, Development Partners, Academia, the Private sector, Civil Society, and the General Public. Participation in the dialogue included physical attendance as well as teleconferencing via Zoom and the proceedings were broadcast live on NBS television and ACODE's social media channels (Facebook and YouTube) to widen the participation. The Dialogue had both physical attendance and virtual via teleconferencing on Zoom. A total number of 74 people (18 females and 56 males) physically attended the dialogue.

1.2 Background and Rationale

The annual budget for FY 2022/23 is the third in the implementation of the third National Development Plan. It was situated in uncertain times mostly due to the multiplicity of COVID-19 variants that prolonged the pandemic and remain to be an issue of concern. To deal with the first and second waves of the COVID-19 pandemic, the Government of Uganda instituted several containment measures including total and later partial lockdowns of the economy. Subsequently, schools and several businesses were either closed and/or opened with constraints, all geared toward managing the spread of COVID-19. The pandemic notwithstanding, there are still commitments by the Government to the people of Uganda around industrialization, enhancing the wellbeing, and improving maintenance, availability, and affordability of productive infrastructure while pursuing public sector effectiveness and efficiency.

1.3 Objectives of the HLPD on the National Budget

Generally, the 12th High-Level Policy Dialogue on the budget aimed at situating the FY 2022/23 budget in Uganda's economic recovery. The specific objectives of the dialogue were:

To discuss possible means of sustainable economic recovery from the COVID-19 pandemic with annual budgets as a conduit.

a. To present critical issues for consideration and dialogue on Uganda's economic recovery amidst the COVID-19 pandemic.
b. To present critical issues for consideration and dialogue on Uganda's economic recovery amidst the COVID-19 pandemic.

2.0 Dialogue Proceedings

2.1 Welcome Remarks

Dr. Arthur Bainomugisha – Executive Director, ACODE

Dr. Arthur Bainomugisha kicked off his address by reflecting on the performance of the economy. He noted that before the COVID-19 pandemic and containment measures were executed, the economy was at an average growth rate of 6.3 percent. He said that since the pandemic, the Ugandan economy had gone crushing witnessing a growth of 0.3 percent in the FY 2017/18 and 3.3 percent Gross Domestic Product (GDP) growth in the FY 2018/19. He further noted that for a growing country like Uganda, this percentage growth was minimal, and the economy had been left ravaged by the pandemic.

Dr. Bainomugisha giving welcoming remarks at the Dialogue

Dr. Bainomugisha explained that the pandemic had led to a reduction in aggregate demand and domestic consumption. He added that the pandemic slowed down private and public investment and lowered Uganda's exports in regional and international markets. He also noted the reduction in cotton, maize, rice, and fish exports had drastically reduced foreign exchange earnings, and coupled with this; the decline in foreign direct investment inflows due to the disruptions in the global markets had happened. He further stated that the full and partial lockdowns over the two years had caused reductions in trade and constrained labour mobility and other factors of production, which further dampened the economic prospects.

Dr. Bainomugisha recommended critical areas of intervention to the regional governments and development partners such as the World Bank and IMF. He emphasized the following:

- The need to harness regional trade and exploit the benefits of the market expansion and movement of labour that resulted from regional integration.
- The need to reduce overdependence on foreign aid and debt by scaling-up domestic resource mobilisation. He underscored the fact that Uganda's debt had already accumulated to approximately 13 percent of the budget that had been allocated to servicing debt.
- The need to deal with the widespread corruption that was detrimental to economic growth and recovery. He noted that ACODE together with other Budget Transparency Initiative partners including MoFPED and CSBAG sought to ensure budget transparency and budget accountability.
- The need for efforts geared toward reduced Debt contraction and effective debt management. He pointed out that it was wasteful to obtain debt when the projects are not ready for implementation.

In his concluding remarks, Dr. Bainomugisha encouraged the participants never to bequeath generations to come with debt but bequeath them with capital.

Mr. Julius Mukunda – Executive Director, CSBAG

Mr. Mukunda started his address by informing the participants that this partnership sought to create spaces for honest discussion aimed at transforming Uganda through fostering debate on the different approaches that would lead actors and citizens to transformation. He noted the common discussion on how the COVID-19 pandemic affected the country and called on the participants to discuss lessons learned from the pandemic period.

Mr. Mukunda emphasized that prudent financial management was critical for every good economy to thrive. He noted that the COVID-19 pandemic had taught people to rationalize their expenses through the reduction in expenditure for example travels abroad. Mr. Mukunda noted with enthusiasm that the private sector could reignite the economy. However, the private sector would not function in an environment where the government was taking all the domestic loans; thereby making domestic borrowing costly with high-interest rates of 20 percent. He commended that the government ideas, which included recapitalization of the Uganda Development Cooperation (UDC) and Uganda Development Bank (UDB) and the UGX 200 Billion SME fund, were worthwhile and needed to be actualized.

He noted with concern that Government was poor at paying debts and therefore the domestic arrears were key to the increasing absence of cheaper money for the private sector. According to the Auditor General's 2021 report, the government had approximately UGX 3.8 Trillion to pay back on what had been consumed.

Mr. Julius Mukunda - Executive Director, CSBAG

Mr. Mukunda commended the Parish Development Model (PDM) idea that would lead to the trickling down of money to the ordinary person in the village. He however cautioned that if not well developed and set up to function, the PDM would not see its 'first birthday' and funds would be lost in the process. He recommended progressive recruitment of Parish Chiefs – region by region – to all for testing out the model and documenting lessons learned. He noted with concern that only a few funds such as PRDP, Luweero, and UWEP were being amalgamated into the PDM leaving out Emyooga and the Village Model projects. He called for uniformity as a way of rationalizing resources to have enough funds for the PDM. Mr. Mukunda reminded the audience that funds were only allocated to one pillar of the PDM noting that there are other pillars essential for its success. The biggest challenge foreseen was the ability of MDAs to plan and budget at the parish level for services such as education, health centers, and good road infrastructure.

Mr. Mukunda emphasized the importance of regulating Domestic

Revenue Mobilization performance, noting that it was critical to create a conducive environment for the Uganda Revenue Authority to collect taxes. He commended the implementation of an automated system as a great start. However, with so many tax exemptions; he noted that there would be less collection of money. He added that some tax exemptions for investors had not realized the promised growth (built factories and increased employment). He applauded the Uganda Investment Authority on its stand to cancel land titles of investors that had promised to construct the industrial parks and did not.

In conclusion, Mr. Mukunda noted that corruption had been normalized and should be called out for what it was – theft of public resources. He noted that it was unfortunate that the theft of public resources in Uganda had been legalized in that it was planned for, budgeted for, taken to Parliament for appropriation, and thereafter, it was being executed – with inflated prices. It is important to get a grip on these things to be addressed and then, the economy could be reignited; explained Mr. Mukunda.

2.2 Key Note Address

Interventions for Economic Recovery and Growth that Government is Undertaking: Mr. Joseph Enyimu – Commissioner Economic Development, MoFPED.

Mr. Enyimu recognized the partnership with the Civil Society fraternity to advance collective ownership and citizen leadership of the national development process. He commended ACODE and CSBAG for organizing the HLPD, noting that such spaces for ideas were important for our country. He emphasized that Government appreciates the opportunity to increase transparency in budget preparation, execution, and evidence-based

Mr. Joseph Enyimu presenting the Key Note Address policymaking that was drawn from the extensive research and budget advocacy work that ACODE and CSBAG have championed over the years.

Mr. Enyimu highlighted the recent achievements in the efforts to recover the economy from the negative impacts of the COVID-19 pandemic. He noted that despite the negative impacts of the pandemic, the economy realized a positive and increased growth of 3.5 percent in FY 2020/21 as compared to 3 percent in FY 2019/20. He stated that in terms of incomes, this translated into a GDP Per Capita of US$ 954 (equivalent to UGX. 3,587,301.40) in the FY 2020/21, an increase from US$ 916 (equivalent to UGX. 3,444,410.98) in the FY 2019/20. He added that this growth was an indication of progress towards the medium target to transition into middle-income status as a country.

Mr. Enyimu explained that economic recovery was reinforced by the measures put in place by the government and supported by some of the development partners to mitigate the impact of the pandemic on businesses and households. He mentioned that all sectors of the economy registered positive rates of growth during the FY 2020/21. He stated the services, industrial, and agricultural sectors gradually recovered and achieved growth rates of nearly 2.7 percent, 3.4 percent, and 3.8 percent respectively during the same period. He noted that the economic strategy for FY 2022/23 and the medium-term was premised on the following objectives:

- Restoration of economic activity to pre-pandemic levels and subsequently accelerating the pace of socio-economic transformation through boosting aggregate demand and restoring domestic consumption.
- Renewal of private and public sector investment to enhance export promotion.

Mr. Enyimu further explained that the key to economic recovery is the mitigation of the COVID-19 pandemic by vaccinating the remaining target population of Ugandans and strengthening the health system. He stated that it was critical to increase the wealth of households and eliminate poverty, particularly using the PDM as the key engine for socio-economic transformation, especially in the medium term. He noted that diversifying Uganda's economy and the export basket was key to rebounding to the planned economic growth trajectory. He pointed out that the economic growth strategy expected to yield an economic recovery and growth rate of nearly 6 or 7 percent for the FY 2022/23 will focus on three broad areas:

a) Ensure peace and stability through enhanced security and macroeconomic stability as the key foundations for growth and development.

b) Mitigate the impact of the COVID-19 pandemic through widespread vaccination, support to businesses, and full reopening of the economy to enable all sectors to function optimally.

c) Enhance socio-economic transformation by redirecting budgetary resources towards wealth and job creation, industrialization, export promotion, and other areas with high returns on investment.

Mr. Enyimu highlighted several critical interventions for economic growth and recovery that underpin the above projections including:

a) Boost aggregate demand through reopening of the economy, payment of domestic arrears, and implementation of the PDM.

b) Enhance public and private investment including the investments necessary for the full activation of the oil and gas sector.

c) Promote and invest in interventions that will create more jobs and wealth.

d) Focus on export promotion and import substitution strategies.

e) Revitalize business activity through the business recovery fund to enable small businesses to access low-cost capital.

f) Continue with Emyooga funding and support to SACCOs to provide seed capital for small businesses including special interest enterprising groups.

g) Implement the financial inclusion pillar of the PDM.

h) Utilize the Uganda Development Bank (UDB) capitalization and other financing schemes such as the Agricultural credit facility.

i) Strengthen private sector institutions and organizational capacity by focusing on the establishment of functioning business support services centers regionally.

In line with the budget theme for the FY 2022/23 – 'Full monetization of the Uganda economy through commercial agriculture Industrialization, Increased taxes, and digitization', Mr. Enyimu highlighted the following priorities:

a) Improve security and governance.

b) Recover the economy through measures such as revitalizing business activities and implementing fiscal and monetary measures to boost aggregate demand.

c) Enhance Agro-industrialization by sustaining the resilience of agriculture along commodity value chains.

d) Support Agro-processing and light manufacturing Industries.

e) Enhance the quality and stock of productive infrastructure by constructing and maintaining a good road network system, completing existing contractual obligations, rehabilitation of the railway line (meter-gauge railway), electricity transmission to industrial parks, and undertaking studies to acquire infrastructure corridors for future investment.

f) Commercialize minerals and petroleum production specifically oil and gas, and reboot tourism development.

g) Initiate Human capital development measures covering education, health, and water for human consumption.

h) Rationalize and automate government processes to promote efficiency and effectiveness.

Mr. Enyimu articulated that the NDP III was finalized before the onset of COVID-19 and the government has been undergoing a process to reprioritize to fit for purpose in the current context. He emphasized that in the FY 2022/23, the government would ensure that the budget is redistributed by freeing resources from areas that have minimum impact to those of high impact capable of accelerating the economy to the attainment of the projected 7 percent growth for the medium term.

In conclusion, Mr. Enyimu emphasized that the growth strategy presented above will facilitate economic recovery and re-engineer economic growth. He further noted that MoFPED welcomes any ideas to improve efficiency in planning, budgeting, spending, prioritization of intervention, and generation of more resources that are domestic as well as accountability for public resources.

2.3 Official Opening

Situating the FY 2022/23 Budget in Uganda's Economic Recovery: Hon. Henry Musasizi – Minister of State General Duties, Ministry of Finance, Planning and Economic Development

Hon. Musasizi commenced his address by commending ACODE and CSBAG for their strong partnership in promoting budget transparency and accountability in Uganda. He noted that this relationship had created a strong working nexus between the Government and Civil Society. He said that these annual interactions had played an important role in fostering budget transparency and accountability. He noted that such dialogues create public awareness of the national budget and provide an opportunity for the citizens to engage in the budget process.

Hon. Musasizi reiterated that the COVID-19 Pandemic had affected the global economy and Uganda's economy. However, he noted that the economy was on a recovery path from the negative impact of the COVID-19 pandemic experienced over the past two years. He emphasized that looking at the FY 2020/21; Uganda experienced an increase in GDP to UGX. 147,962 Billion (Equivalent to US$ 40.4 Billion) from UGX. 139,687 Billion (equivalent to US$. 37.6 Billion) in the FY 2019/20. This signified a 3.4 percent annual increase in GDP compared to an increase of 3 percent in the FY 2019/20, He expounded that this translated into GDP Per Capita of US$ 954 (Equivalent to UGX. 3,492.247) in the FY 2020/21, for a population of 42,369,000. By the end of the current FY 2021/22, Hon. Musasizi explained that the growth was projected at 3.8 percent (UGX. 159,160 Billion, equivalent to US$ 43.92 Billion) and will further rise to 6 percent (UGX. 175,247 Billion, equivalent to US$ 49.2 Billion) in the FY 2022/23. He hinted that the full opening of the economy would enable it to recover in due time.

Hon. Henry Musasizi – Minister of State General Duties (MoFPED)

Hon. Musasizi commended that this dialogue was timely as Government was in the process of finalizing the budget estimates for the FY 2022/23 under the theme "Full Monetization of the Economy through Commercial Agriculture, Industrialization, Market Access, and Digital Transformation." He enlightened that among the broad objectives of the Budget Strategy for the FY 2022/23 was to speed up socio-economic transformation through re-prioritizing the budget and re-directing resources towards wealth creation, industrialization, export promotion, and other areas with high returns. Hon. Musasizi further accentuated that this High-Level Policy Dialogue provided the opportunity to have a candid discussion on the strategies for economic recovery and re-igniting economic growth. He noted that amidst the current conditions, exploring synergies with CSOs was paramount.

2.4 Key Note Discussant – Prof. Ezra Suruma

Prof. Suruma commenced his discussion by questioning the strategy of the budget and sought to understand the changes that promise better performance in the current fiscal year compared to the past years. He acknowledged that the rest of the countries in the world also experienced the Covid-19 pandemic that had slowed down the economy. He stressed that the discussion on transformation was not new, but rather the content of the strategy proposed by the government was critical.

In his opinion, Prof. Suruma noted that the Parish Development Model was new and important in the context of prioritization. Beyond sharing statistics, he added, it was rather beneficial to present an agenda that was strategically important and would cause the country to advance better than it had in the past.

Prof. Ezra Suruma giving remarks and recommendations

He accentuated that the discussions emphasizing the Parish Development Model were important in boosting of aggregate demand of households presuming they had something to sell.

In the context of the Parish Development Model, Prof. Suruma noted that there was an emphasis to increase production as the first pillar and reaching many more people in terms of improving incomes through improved production as the model's fundamental strategy. He, therefore, suggested that the government needed to inform the people deliberately and precisely on which resources they are putting in place to increase production and to ensure the availability of markets for increased production. He noted that there was a difference between the plan and its execution; therefore, such dialogues were an important space to present and discuss the implementation strategy. He cautioned on the lack of prioritization, which could lead to failure in implementation. In his opinion, Prof. Suruma commended that the PDM was the priority, hence the efforts to create a roadmap and a clear mechanism of consensus on how to achieve the targets of the objectives. He noted with criticism that few of the officials speak about employment yet it was critical (whether self-employment or jobs) that measures were put in place for every adult to access income.

Prof. Suruma affirmed that peace and security played an important role in economic development. He noted that infrastructural development was the role of the government yet even today, many people had no access to clean drinking water as a basic good before electricity and roads. He explained that Universal Primary Education (UPE) was available though there was still a struggle with its delivery and health care service delivery. He added that with so many competing needs, it was critical for the government to prioritize and report on progress and results achieved. He cautioned against the 'politics of promises', especially during election season.

As he concluded, Prof. Suruma emphasized that it was important for the government to recognise its role in providing public goods, infrastructure, peace, and security. He expounded that there was a need for a prioritization implementation strategy with an emphasis on employment, and social security so that every citizen can live like a human being with a life worthy of respect. He commended that the PDM would provide information on what was happening to every individual and facilitate planning and budgeting based on real numbers.

Responses – Joseph Enyimu- MoFPED

Mr. Enyimu acknowledged Prof. Suruma's address and the attention given to Uganda's economy. He noted that the vision of the MoFPED was a competitive economy for National development. As rightly said he reiterated that the capital to drive development in Uganda did not lie with the public sector but rather with the citizens and other global citizens and was subject to global. He highlighted that Ten years ago, Uganda's savings on GDP ratio was in the margins of 14-15 percent but the latest International Monetary Fund (IMF) figures show an increment to 21 percent above the Sub-Saharan African average of 20 percent. He stated that Ugandans have gained the confidence to save, and it was important to narrow down the savings-investment gap towards the reduction of reliance on competing for global capital.

Mr. Enyimu recognized that it was not realistic to say that Ugandans can collectively generate adequate demand to be able to accelerate social-economic transformation. He noted it was critical to gain access to regional and global markets, and there was a need to address the issues that affect Uganda's competitiveness in those markets. He recalled that the President of Uganda had commented on lowering the cost of production, energy, and transport to ensure that the labour force could compete to produce these goods at cheaper rates.

On the role of macroeconomic stability, he noted that domestic revenue would finance the development priorities. Mr. Enyimu explained that Uganda had a very large housing deficit, agriculture needs to be financed and according to the latest agriculture statistics yearbook, private sector credit towards agriculture financing had risen from 10 percent about 5-6 years ago to 13 percent, which meant that there were certain signals that the system was picking and beginning to redirect. In non-bank financing, he highlighted the developments in Uganda's financial and/or capital markets and stated that it was important to understand that assets under management by collective investment schemes have grown three-fold from about 300 billion shillings 5 years ago to 1 trillion shillings.

3.0 Session 1: Macroeconomic Responses to COVID 19

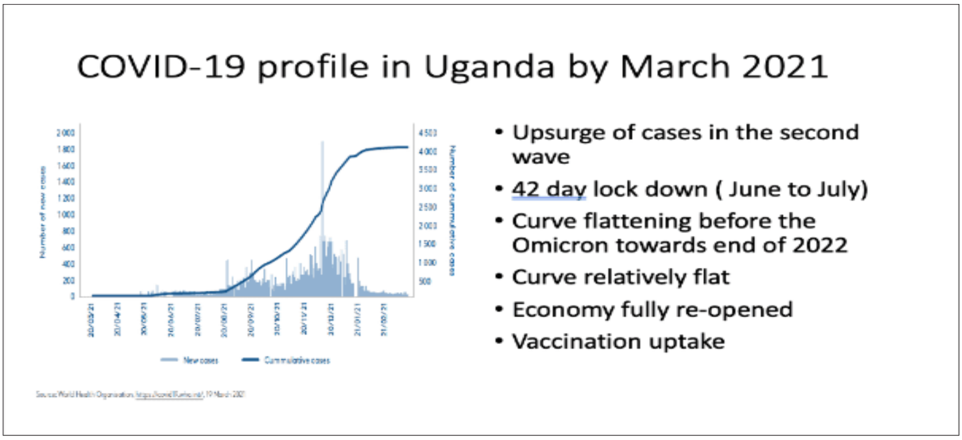
3.1 Presentation: Efficacy of COVID-19 Macroeconomic Policy Responses in Uganda – Dr. Enock Twinoburyo.

Dr. Twinoburyo presented the findings of the study undertaken by Dr. Okumu Ibrahim, Dr. Susan Kavuma, and Mr. George Bogere. He highlighted that from March 2020 to March 2021 Uganda had a steep curve in the number of COVID-19 cases. He hinted that the 60 days of lockdown had adverse implications on the economy, with production reduced to half capacity.

Dr. Enock Twinoburyo Presenting Research Findings

Having noted the

effects of the pandemic on the economy, Dr. Twinoburyo explained that the financial sector remained resilient because of the provisions by the central bank to allow banks to restructure provisions for non-performing loans, which would have affected their financial soundness. He noted that there was reduced demand for credit, but the recent numbers show that there was an increased recovery at a rate of 11 percent growth for 2020/21.



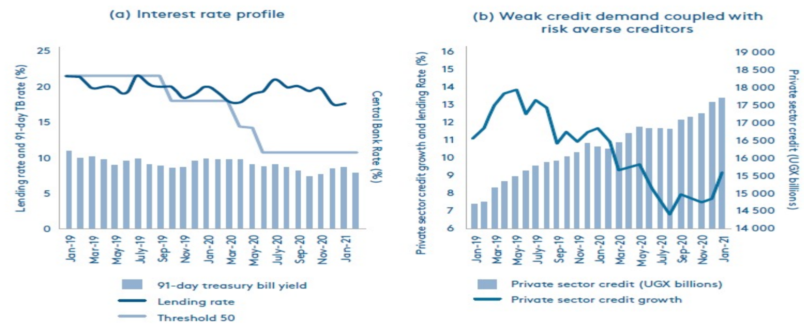
He further explained that there was an increased in appetite for public debt to compensate for the revenue losses and distortions in the current capital and financial accounts. He highlighted that during the first wave of the COVID-19 pandemic in 2020, there was a decline in economic activity as denoted by a reduction in the Business Tendency Index (computed by the Bank of Uganda)[1],[2]. He also noted a similar downside trend in the Composite Indicator for Economic Activity (CIEA)[3].

Concerning household incomes, Dr. Twinoburyo explained that there was a decline in aggregate demand, which meant that incomes had damped. He expounded that at least 20 percent of the firms in the informal sector were likely to close. He highlighted that the other issue revealed in the numbers was that before COVID-19, the poverty rate was 18.7 percent but later increased by 3 percent (I.e., 3 percent of 40 million is 1.2 million people).

1 The Business Tendency Index measures the level of optimism that executives have about the current and expected outlook for production, order levels, employment, prices, and access to credit. The Index covers the major sectors of the economy, namely construction, manufacturing, wholesale trade, agriculture, and other services.
2 The Purchasing Managers Index (PMI) is a composite index that gives an indication of business operating conditions in the economy
3 which is constructed using seven variables, that is; private consumption estimated by VAT, a private investment estimated by gross extension of private sector credit, government consumption estimated by its current expenditure, government investment estimated by its development expenditure, excise duty, exports, and imports.

He further added that in terms of employment, the PAYE register from the Ministry of Finance was rotating between UGX 600,000/= and 750,000/=. He explained that this was relatively less compared to the previous tax register with figures close to UGX 1.100.000/=. Dr. Twinoburyo elaborated that the tax register of 1,100,000/= with a labor force of approximately 10 million meant that the formal sector was just 10 percent of the entire labor force. Additionally, he noted that there was quite a sizeable number in the subsistence sector of about 6-7 million which was not included in the labor force and that needed to be targeted by PDM.

Financial sector remains solid but…



Spread between lending rate and CBR widened

Declining growth in private sector credit coinciding with growth in public debt?

He elaborated that the financial sector remained solid however; the monetary transmission mechanism was not necessarily effective because the curve revealed that the Central Bank Rate (CBR) declined yet the interest rate remained high. Regarding Uganda's relationship with the rest of the world, Dr. Twinoburyo noted that the country's trade deficits were narrowing in the broader perspective of the current account. Further still, the financial flows and the current account deficit size reduced in 2021, Bank of Uganda reported more inflows of over 440 million in the balance of payment.

Dr. Twinoburyo emphasized that domestic borrowing remained the least targeted at one percent of the GDP. He noted that domestic refinancing risk had been present for quite a long time, and it was critical to discussing how the government would address it in the medium term. He added that the domestic interest to domestic revenue was over 12.5 percent, which was in the debt projections. He explained that the public domestic debt stock to private sector credit remained over 105 percent, with the government being the highest borrower. In conclusion, he acknowledged the underspending on many government projects, with recent news updates showing that UGX 20 trillion of the debt contracted was not utilized while the government continues to pay commitment fees on these projects.

3.2 Regional Experiences and Lessons for COVID 19 Macroeconomic Policy Responses - Mr. Conrad van Gass – Senior Research Fellow South African Institute of International affairs – Principal Investigating Office (CoMPRA project)

Dr. Van Gass presented a summarized view country-by-country impact of COVID-19 and some of the measures that governments could adopt to be resilient in the future. He noted that the project was a comparative study of six (6) Sub-Saharan African countries, with the two largest being Nigeria and South Africa both of which have been growing rather slowly over the past decade. He added that the study included the two fast-growing members of the East African Community - Tanzania and Uganda and the other two fast small-growing economies of the West Africa Economic Monetary Union, Senegal, and Benin.

Dr. Van Gass explained that the first impact was the trade shocks, which were outside the government's control. He noted that domestic lockdowns exuberated domestic trade and domestic employment shocks. He expounded that South Africa was hard hit in the terms of trade, whereas Uganda, Senegal, and Nigeria were shocked into recession in 2020. He noted that growth decelerated in Benin and Tanzania but the two countries did not go into a recession. In terms government's capacity to counteract these shocks, Dr. Van Gass elaborated on two factors.

In his concluding remarks, Dr. Van Gass highlighted that Tanzania had been a fast-growing economy with an annual growth ranging between 6 percent and 7 percent over the past 10 years. He accentuated that the restrictions in international trade severely affected its export trade. He emphasized that Tanzania did not impose lockdowns yet growth decelerated, and formal employment levels were sustained as the government took on more additional debt. Dr. Van Gass added that South Africa was the richest of the six case study countries. However, he stressed that it had the lowest investment rate and its growth had not yet paced with the population rise. Dr. Van Gass noted that there was an increment in unemployment and a significant decline in the labour force participation rate fell.

3.3 Global and Regional Economic Outlook – Opportunities for Uganda – Ms. Izabela Karpowicz – IMF Country Representative

Ms. Karpowicz during her discussion noted that there had been an update in the global focus in January 2022 presenting a new projection as compared to the November 2021 regional economic outlook. She noted that the global economy entered 2022 in a weaker position than expected based on the good performance of the last quarter in 2021 when the global growth was at 5.9 percent. She explained that the beginning of the year surprised many actors with the new Omicron variant and new restrictions in many countries. Therefore, she noted that there had been revisions of the focus for 2022 down from 4.9 percent to 4.4 percent.

Ms. Izabela Karpowicz – IMF Country Representative

Ms. Karpowicz highlighted that the projected global economic growth would average 3.8 percent in 2023 which was a downward revision mainly driven by the new developments in the two largest economies, notably the USA and China. She hinted that the United States had revised assumptions around the fiscal stimulus program but also their monetary policy tightening happening earlier than initially envisaged. She explained that the risks to this global Economic outlook not only accrued from COVID-19 but also geopolitical tensions, which strongly affect the fuel prices and the vulnerabilities in the financial market. Additionally, she noted that there were risks related to climate change and the effect of the monetary policy tightening in advanced economies and emerging markets on low-income countries.

In her conclusion, Ms. Karpowicz highlighted that the persistent continued widespread inflation could lead to continued global monetary tightening. She noted that this does not go well for the borrowing costs of the low-income countries and therefore there was a need for continued fiscal consolidation. She emphasized that a contraction in demand affected exporting countries for example tourism was unable to recover fast due to restrictions and an increasingly difficult global environment.

3.4 Monetary Policy Responses to COVID 19 – Dr. Jimmy Apaa, Director of the Economic Research Department (BoU)

Dr. Apaa gave a short background of the conditions created by the COVID-19 pandemic and containment measures. He explained that in 2020, the growth decreased by 2.2 percent from about 5.7 percent before the COVID-19 outbreak. Referring to the EPRC report, he revealed several effects of the pandemic including business closure, employment reduction, and payroll reduction.

Dr. Apaa noted that before the COVID-19 pandemic, the CBR was 9 percent and between April 2020 and June 2020, the Bank of Uganda cut the CBR by 100 basis points. Afterward, the Central Bank further cut the CBR by 150 basis points to 6.5 percent in 2021 until to date. He highlighted several macro-financial measures undertaken by the BoU including;

i. Offering liquidity to commercial banks that were in distress for one year;
ii. Instructing banks to restructure loans, especially to the education and entertainment sectors that bore the protracted lockdown;
iii. Restricting banks from remitting dividends was meant to strengthen capital adequacy so that banks could continue to absorb more shocks.

Dr. Jimmy Apaa - Director of the Economic Research Department (BoU)

Furthermore, Dr. Apaa said that the government financing its deficits through borrowing from the domestic market had led to high costs of doing business in the sector. He continued to add that the Government needs to improve the legal systems and undertake fiscal consolidation - with more revenue, less deficit, less borrowing, and of course less borrowing from the domestic sector. He advised that the banks might have to adopt more financial technology (FINTECH) to improve efficiency. He suggested that the Central Bank strengthen regulations to ensure more providers of FINTECH to improve efficiency in the sector.

Dr. Apaa speaking about credit performance said that a growth of 10 – 11 percent was below the desired 15 percent. He explained the driving factors of low credit extension were related to the COVID-19 lockdown, low economic activity, and banks being cagey to lend because of low payments. According to the quarterly GDP updates from UBOS, he highlighted the last three quarters up to September showed a growth average of 6.6 percent, and using the estimated composite index of economic activity showed strong growth in December of 4.7 percent.

3.5 Situate the FY 2022/23 Budget in the journey to economic recovery – Mr. Charles Oleny Ojok – Deputy ED – National Planning Authority (NPA)

Mr. Ojok started by informing the participants that the National Planning Authority (NPA) encouraged an open-door engagement policy (just like the MoFPED) with various stakeholders to support the implementation of the plan. He explained that the FY 2022/23 budget was developed in the context of the impact of the COVID-19 pandemic.

Mr. Charles Oleny Ojok – Deputy ED - NPA

Mr. Ojok noted that the effect of the pandemic was evident and the government had limited fiscal space left within which to respond and deal with economic recovery. He further emphasized that the assumptions under which the NDP III was issued had drastically been affected and it became very difficult to maintain those targets.

Mr. Ojok explained that the strategy of the budget was in about three key areas:

1. To further, mitigate the impact of the COVID19 pandemic by revamping the health sector, and health infrastructure, and increasing vaccination. Important to note was the need to ensure continued access to education taking into consideration that every young person undergoing education in Uganda already lost two years during the lockdown and this amounts to two years of his or her employment life.
2. To strategize the budget to speed up the recovery of the economy through reprioritizing and delivering impactful investments. The emphasis was to get investments to where value for money can be most realized
3. To sustain the macroeconomic stability, due to its inspiration to investment and triggering of resource redeployment from the private sector.

4.0 Session 2: Enhancing Uganda's Human Capital Development

4.1 Presentation: Estimating learning losses in Uganda Primary Education Sector – Mr. Keith Kisaame – Research Associate ACODE

Mr. Keith Kisaame giving his presentation

Mr. Kisaame presented a study carried out by ACODE on estimating the learning losses in Uganda's Primary Education sector. Referring to Dr. Apaa's discussion, he enlightened that every child had lost two years of learning and potentially two years of employment in terms of income earning. He noted that Uganda's education sector arguably suffered disruptions due to the COVID-19 pandemic and the related containment measures especially the closure of schools. He explained the country had the longest school closures globally, and ACODE recognized there were learning losses but what was not clear was the magnitude of the learning losses.

Mr. Kisaame stated that the study attempted to estimate how much was lost in terms of learning and concentrated on two particular areas, numeracy, and literacy. He expounded that the overall objective of the study was to establish the impact of the COVID-19 pandemic and related containment measures on the learning process of primary school pupils. He explained that the research team undertook an assessment and gave exams to pupils. He noted that without 2019 data to go by and no standardized assessments, the research team administered Primary five level Maths and English tests to Primary 6 pupils based on an assumption that a Primary six pupil was competent to undertake a Primary five exam. Mr. Kisaame added that the exams were standardized and moderated by teachers and based on instruction material used in the system. He highlighted that 300 pupils were sampled (with 56 percent representing girls) across 50 schools (14 private and 36 public– government-aided) in 10 districts of Arua, Gulu, Kabarole, Masindi, Mbale, Mbarara, Moroto, Mpigi, and Wakiso. Furthermore, he noted that the team purposively sampled these to get a regional representation of the key sub-regions in the country and further selected two sub-counties one rural and another urban in each of the districts.

Across gender, Mr. Kisaame highlighted that there were slightly more learning losses among the girls than the boys in math. Additionally, he noted there was a lot more representation of girls in very good and excellent in both Maths and English. While comparing rural and urban areas, he explained that there were significant learning losses from rural households, relative to their urban counterparts. He expounded that the results revealed that 45 percent of pupils from rural sub-counties performed poorly in Maths and worse in English at 59 percent. Additionally, in the comparison between public and private schools, he revealed that there were significant learning losses in public schools relative to those in private schools. He stated that 40 percent of those from public schools performed poorly in Maths and 20 percent in their private counterparts. In English, he highlighted that more than half of those in rural schools performed poorly and 31 percent in private schools performed poorly.

In his conclusion, Mr. Kisaame emphasized that the COVID-19 pandemic had disproportionate effects on Primary six learners. He highlighted that those in low-income, rural, and public schools suffered more learning losses compared to their counterparts. He also noted that this implied the need for targeted initiatives to enhance learning among primary school pupils, many of whom were promoted to Primary seven.

4.2 Panel presentation: Policy Responses to Mitigate Learning Losses in the Education Sector due to COVID 19 – Ms. Elizabeth Mutumba – Principal Education Officer (Ministry of Education and Sports - MoES)

Ms. Mutumba clarified that she would present interventions implemented by the MoES to help rectify the problem at hand as detailed in the presentation. She noted that the MoES had implemented the following interventions:

Ms. Elizabeth Mutumba (MoES) giving her remarks

1. A robust program to re-engage the teachers in the area of pedagogy as far as the content that the learners lost.
2. The abridged curriculum to establish aspects of repetition and redundancy in the curriculum design.
3. The accelerated learning curriculum was conducted in the Nwoya district in Northern Uganda.
4. Summarized key content and concepts of the previous classes to be learned by children in the present class.

Ms. Mutumba noted that MoES has realized the use of technology and E-learning and noted that sensitization has been done for key stakeholders that learning could take place anywhere beyond the four-walled atmosphere. In her conclusion, Ms. Mutumba informed the participants about the automatic promotions and the absence of promotional end-of-year examinations as a strategy to improve the outcomes.

4.3 The role of the private sector in Uganda's economic recovery – Mr. John Walugembe - ED Federation of Micro Small Medium Enterprises (FMSMEs)

Mr. Walugembe noted that from the perspective of small business owners and SMEs, it was critical for all these great macro-economic terms and discussions to be translated into real life – For instance, growth in the markets, businesses, and so on. He acknowledged the resources provided by the government through the small business recovery fund, and he pledged to be supportive of this initiative. Mr. Walugembe noted that the electronic Fiscal Receipting and Invoicing System (EFRIS) had an impact on

Mr. John Walugembe giving his presentation

SMEs, particularly those that were supplying to supermarkets. He explained that if one was not registered on EFRIS, then no supermarket could accept their items. He hinted that an individual would need 150 million shillings to register for EFRIS and this kicked out many SMEs from supplying supermarkets.

Mr. Walugembe highlighted that the printing and packaging industry was one of the fastest growing in the manufacturing sub-sector. However, he stated that the President had instructed that all printing work be given to only two government entities, which had only invested 45 billion, yet the investments currently in the printing industry are worth USD 138 Million. He stressed that the 38,000 people employed in the printing industry were going to be redundant. On aiding the recovery, he suggested the following:

1. Creation of jobs by establishing an enabling legal framework for MSMEs to work within.
2. Support firms to scale up and innovate through digitalization - gadgets, broadband, and Internet infrastructure.

3. Revenue mobilization – Supporting SMEs to pay tax irrespective of what happened. He recommended having a table where people who had not cleared their taxes go and 'repent' to speed up the processes of tax clearance and tax compliance.
4. Providing support to the education sector (especially the private schools) to ensure that the education lagging outcomes are addressed.

4.4 Mainstreaming Gender in Uganda's Economic Recovery – Sophie Nampewo CSBAG

Ms. Nampewo noted that it was true that women were hard hit during the pandemic but the discussion on gender was not just about the women but also the children, Persons With Disabilities (PWDs), the unemployed, and indigenous people among others. She noted that Uganda enacted a law to mainstream gender and other inclusion elements within the budget.

Ms Sophie Nampewo Discussing Gender mainstreaming in Economic Recovery

She acknowledged that at the start of COVID-19, several materials were not favoring PWDs but with time government considered these issues. She noted that the government planned to spend up to UGX 1.4 trillion under the Human Capital Development program specifically, catering for PWDs by getting wheelchairs for them, training teachers and learners on using sign language, and being able to translate most of these within the schools. She added that there would be the training of teachers on how to handle special needs education because there were not many schools that catered for special needs education. Under gender equality and women empowerment, COVID-19 affected women in several situations such as Gender-Based Violence (GBV), and unemployment, and yet many of them are a source of livelihood for their families. Ms. Nampewo noted that UGX

3.8 trillion would go towards gender equality and women's empowerment and the different packages going to the medium and small enterprises to have businesses developed.

Ms. Nampewo emphasized that the youth who was a big group within the economy play a critical role and therefore empowering them and providing them with employment was critical. She noted that the previous situation increased the number of school dropouts; therefore, it was critical to support adolescents and youth-led groups to increase campaigns for them to go back to school and gain an education. In conclusion, Ms. Nampewo emphasized the need to support teachers and learners by providing psychosocial support for example those struggling after pregnancy and those whose parents are struggling to pay fees. It was critical to support these learners to concentrate amidst all that was happening around them and settle in school.

4.5 Plenary discussions

Dr. Achana noted that most of the discussion had been about implementation and not planning. He emphasized that planning could not be the same everywhere. On the Parish Development Model, he stressed that based on the assumption that all parishes were the same was hypothetical, and noted that households were not the same across the different parishes. He, therefore, suggested the village model ensure equal distribution of resources.

Ms. Izabela Karpowicz commented on the education sector noting that it was a worldwide concern for the IMF. She noted that in developing countries, school closures had been twice as long as in the advanced economies. She acknowledged the government mitigation measures such as the restructuring of loans for private schools by the Central Bank and the provision of the capitation grants for public schools. She also recognized that families had been impoverished and taken steps back during the COVID-19 pandemic. Ms. Karpowicz finally asked whether anything had been done to help families bring back children to school.

Ms. Barbara Ntambirweki (ACODE) highlighted that the green recovery had emerged as a key policy pathway out of the COVID-19 crisis. She noted that the economic policy response offered an opportunity to address the environment and economy together. She directed her question to the MoFPED on what policy interventions the Ministry was proposing to ensure a structural green economic transformation to support the resilience of the economy and livelihoods.

5.0 Conclusion

Mr. Julius Mukunda; Executive Director – CSBAG

Mr. Mukunda presented the key takeaways from the discussion including:

The government needs to prioritize the PDM as one of the ways to boost incomes and aggregate demand.

- The need to enhance public investment by having a legal framework and an implementation strategy for the budget with a focus on infrastructure and services such as water, and markets at the household level.
- The need to strengthen regulation by BoU to increase the number of service providers in FINTECH to improve efficiency and provide competition in the banking sector.
- The need to revamp the health sector and enforce massive vaccination drives against the COVID-19 pandemic.
- The need to support SMEs as well as encourage them to pay taxes to boost domestic resource mobilisation. This would also require the creation of a desk to increase tax compliance amongst SMEs.
- The need for the Ministry of Education and Sports to provide psychosocial support to learners and teachers who were by the COVID-19 pandemic.

Dr. Arthur Bainomugisha; Executive Director - ACODE

Dr. Bainomushiga appreciated all the facilitators who led the discussion, partners including CSBAG, NBS, and MoFPED. He noted that he was convinced that this partnership was going to shape economic recovery in Uganda. Continued to say that these discussions were aimed at diagnosing the problem and proposing interventions. He emphasized the commitment to lifting the country out of poverty and harnessing the 21st century - salvation has to come from within and the COVID-19 pandemic had proven that Africa could survive without other countries. He concluded by saying that several outputs will be produced from the dialogue including a synthesis report on the proceedings and a video proceeding edited and shared on YouTube.

ABOUT ACODE

The Advocates Coalition for Development and Environment (ACODE) is an independent public policy research and advocacy think tank based in Uganda. ACODE's work focuses on four programme areas: Economic Governance; Environment and Natural Resources Governance; Democracy, Peace and Security; Science, Technology and Innovation. For the last eight consecutive years, ACODE has been ranked as the best think tank in Uganda and one of the top 100 think tanks in Sub-Saharan Africa and globally in the Global Think Tanks Index Report published by the University of Pennsylvania Think Tanks and Civil Societies Program (TTCSP).

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