



Civil Society Budget Advocacy Group

CITIZENS' BUDGET FY 2016/17

**An issue Brief on what citizens
want Government to focus on in
the National Budget FY 2016/17**

November 2015

1.0 Introduction

This is a Position Paper on the Citizen's Priorities for the National Budget FY 2016/17. The Position Paper provides key proposals for improving the macro-economy, revenue generation measures and citizen proposals to enhance service delivery and budget accountability.

The continued realization of the role of citizens in the budget formulation and execution processes in Uganda cannot be over emphasized. We commend the government for continued consultation and involvement of various stakeholders including civil society in the budget process. Local Governments (LGs) are required to prepare their budgets and plans in consultation with all stakeholders including community based organizations and citizens, (Ministry of Local Government, 2003) to enable the capturing of the concerns of the communities and incorporation of their priorities in the local plans and budgets. However, this participatory planning is not comprehensively and routinely adhered to by all the stakeholders involved and it is from this point that the Civil Society Budget Advocacy Group (CSBAG) collected views of Ugandans on what Government should prioritise in the National Budget for the financial year 2016/17. These views were informed by the past experiences communities, institutions and individuals had with service delivery in their localities.

2.0 Commendable Government Initiatives

Uganda is ranked third (3rd) in budget transparency on the African continent. Despite the score falling from 65 in 2012 (hence slipping from 2nd to 3rd), the survey¹ report attributes this to a lack of further improvement as opposed to a decline from the previous transparency conditions. Uganda is among the 24 countries with acceptable levels of Budget Transparency scoring highly on providing up to date central and local government budget information which is crucial in enhancing citizen participation in the budget process. CSBAG would like to commend Government on critical reforms that have contributed to improvement in fiscal management detailed below:

Upgrade from Output Based Budgeting to Programme Based Budgeting. This will led to government agencies submitting detailed work plans and budgets clearly showing how resources are generated and utilized. But more importantly the focus will be raised beyond outputs to programmes hence focusing on the outcomes of the allocated budget.

Direct Transfer of Funds to Service Delivery Units and the consistent dissemination of what has been transferred by MoFPED. This has led to reduced leakages in the transfer system and service delivery units being more accountable.

Strengthening of the Integrated Financial Management System (IFMS) through upgrading with inbuilt additional security

features has fixed potential areas of leakage.

Additional features such as the commitment control which restrict entities to commit Government only up to the level of the appropriated funds; Operations have also been extended to cover all donor funded projects and other remaining Government agencies like Referral Hospitals and local governments commencing FY 2014/15. This has obvious merits for budget discipline which should improve as a result.

3.0 MACROECONOMIC ANALYSIS

3.1 Enhance Uganda's Economic Growth

Uganda's annual Gross Domestic Product (GDP) growth has since the FY 2010/11 (9.8percent) declined with the least growth being recorded in the FY 2012/13 at 3.6percent. There was a 1percent improvement in the FY 2013/14 where the economy grew at 4.6percent but this was still below the projection for that FY which was 6percent according to the budget speech for the FY 2013/14. According to the Uganda Bureau of Statistics (UBOS), the economy slumped during the Quarter 1 of the FY 2014/15 recording a -1.1percent growth rate but it later spiked to a 7.1 percent growth rate in Quarter 2.

The Quarter 1 slump was on account of the poor performance of the Agriculture sector and services with recorded a -7.6percent and -1.1percent growths respectively. Considering only 3 quarters of the FY 2014/15, the economy grew at 3.6percent on average. The Budget speech for the FY 2015/16 put the GDP growth projection for the FY 2014/15 at 5.3percent but this is yet to be realised since the Budget Performance report FY 2014/15 puts the preliminary growth at 5percent for the FY 2014/15. With the tight Monetary Policy stance by BoU, since April in 2015,

the forecasts for improved growth of Uganda's economy remain dampened.

Recommendation(s)

- **Invest in improving agriculture production, productivity and Value addition initiatives to foster growth in the agriculture**
- **Ease access to credit by business communities and individuals by relaxing the Monetary Policy stance; as this will improve production and consumption of goods and services hence enhancing economic growth.**

3.2 Clearance of Domestic Arrears

Domestic Arrears are payables to Government suppliers, employees and service providers which have remained outstanding at the end of every financial year. These arrears imply that government departments delay payments for goods supplied, services rendered. These are implicit claims on government (borrowings) which have to be honored at some unspecified future date. According to the Ministry of Finance, Planning and Economic Development (MFPED) government had accumulated arrears worth UGX 1,037,262,640,671 as at 30th June 2015. This was drastic increase from the UGX 583.59bn that was recorded in the FY 2013/14.

Although these arrears are not normally included in the Public debt stock figures, they represent a future liability to government. The constant annual variations in domestic arrears are a cause of concern which if not contained can cause significant challenges to government budgets.

Recommendation(s)

- **There is need for the MFPED, in liaison with Ministries, Departments and Agencies (MDAs) Accounting Officers, to come up with a strategy or framework within which liabilities such as domestic arrears can be verified, authenticated, reported and paid off to avoid accumulation and future strain on government budgets.**

3.3 Alignment of Government Fiscal and Monetary Policy

The UGX 23.9 trillion budget was an ambitious effort by GoU to implement a number of programs and projects. With annual headline inflation since the beginning of the FY 2015/16 averaging at 5.1percent, it is hard to perceive that the exchange rate depreciation substantive enough to project the inflation outlook to be so negative that Monetary Policy had to get more tight.

Food prices which have a substantive bearing on inflation in Uganda do not project hostile forecast and the world fuel prices which had previously exerted upwards pressure on inflation in Uganda are still relatively low.

The pressure is on to have the revenue mobilized for the implementation of the FY 2015/16 budget and so there is a

concerted effort to use the Monetary Policy to manipulate the financial markets so that they provide the anticipated UGX 1.3 trillion in domestic financing. However, the increase of the Central Bank Rate (CBR) to 17percent is signaling CBs to increase lending rates and thus mopping out liquidity from the market and ultimately crowding out the private sector in the financial market. Government expenditure which contributes just below 10percent of GDP should not be prioritized over HH consumption expenditure which contributes over 70percent to Uganda's GDP.

Recommendation(s)

- **Regulate the Forex Market with a goal to stop the dollarization of the Ugandan Economy**
- **As such to better manage the Exchange rate and possible impact on inflation in Uganda, more structured interventions that will even call for change in ideology about the notion of free market.**

CSBAG proposes, in cognizance of the potential economy of Uganda and its citizens, the following taxation measures that should be explored in FY 2016/17 so as to bolster our revenue generation and increase the tax base are suggested ;

4.0 PROPOSED REVENUE MEASURES

4.1 Reintroduction of Graduated Tax:

Locally raised revenue supports districts, town and municipal councils to facilitate councilors in conducting their work and running administrative costs of Council. However, since the suspension of Graduated tax (effective July 1 2005), the volume of local revenue for districts and municipalities has plummeted. In FY 2012/13, the Auditor General's review of revenue performance of 138 local councils indicated that only UGX 38.1 Billion was realized out of the budgeted UGX 50.6 Billion, resulting into a 24percent underperformance (OAG, 2014). This has been exacerbated by creation of new districts which has further fragmented this revenue source.

Recommendation (s)

- **There is need to support LGs to survey properties and bring them into the property tax bracket. With surveyors in short supply, this effort should be driven by URA.**
- **Districts that perform best or show innovation in local revenue collection should be recognized with national awards and their experience shared with other rural and urban authorities.**
- **Re – introduce the Graduated Tax (GT) and improve its collection mechanisms so as to improve local revenue collections but also reduce pressure on the central government for financing the LGs. Local Governments can partner with Uganda Revenue Authority to**

collect this tax through assignment of a Tax Identification Number to protect the process from abuse as was the case.

4.2 Taxing cash withdrawals above UGX 5 million:

For purposes of fighting money laundering, encouraging financial inclusion, promoting a cash less economy and reducing costs of printing money, we propose that a 1percent tax for any cash withdrawal above UGX 5 million. Already Standard Chartered Bank and others do charge savings account holders who withdraw money over the counter over and above UGX 5 Million shillings 0.25percent of the total value of the withdrawal. A tax of a similar nature would help generate reasonable amounts of revenue on top of encouraging cashless transactions.

4.3 Introduce Tobin tax:

Foreign exchange traders are making high profit margins arising out of the recent volatile market. Due to the high level of speculation that underlines this trade, currencies can suffer a depreciation or an appreciation. In the case of Uganda is a depreciation. Besides discouraging speculation, this Tax can help redistribute income from developed world to the developing world. We propose a 1percent on all currency trades.

4.4 Imposition of an environmental tax on the firms and companies that have a carbon foot print on the environment:

An environmental tax is that which is levied for purposes of correcting the environmental damage caused by pollution from manufacturers and users of old engines. Whereas this tax is being imposed by the URA on importation of used vehicles, local manufacturers who pollute the environment are not contributing to cleaning it. These funds can be used to mitigate environmental degradation through investing in forestation and clean energy, and management of wet lands.

4.5 Re-introduction of road tolls on the new infrastructure transport projects especially express ways that are outside the normal public road networks:

Road toll is a special tax that is levied on selected highways for purposes of controlling usage of the selected high way. This will not only provide resources for maintenance of roads, both at national and local level, but also reduce pressure on the national budget concerning fixing the road network.

4.6 Imposition of special taxes for infrastructure projects:

We call upon government to interest the current generation in financing infrastructure projects for which they are immediate beneficiaries. For example, imposing a tax for construction of Karuma dam would greatly relieve government pressure to borrow money and will increase citizen ownership of public projects. If we have a total population of 34.9 million people of which 12.9 million constitute the working population and we ask the working population to contribute a special tax

for an infrastructure project, we can ably contribute to the total cost. If each contributed UGX 100,000 per year for five years, UGX 6.45 trillion will be contributed to this cause. And the obvious benefit of saved funds from interest paid if the funds are borrowed.

4.7 Taxation of unprocessed exports:

In order to promote local industrialization, government needs to tax exports of any unprocessed raw materials. This will not only create employment but also promote value addition and subsequent taxes paid at various levels in the different value chains.

4.8 Tax on companies that perpetually declare losses:

Many firms manipulate their books of accounts and declare losses to URA in order to avoid payment of corporation tax. We propose that any company that reports losses for three consecutive years should pay a turn over tax as is done in some EAC countries like Tanzania.

4.9 Reforming Non Tax Revenues:

Government should initiate reforms aimed at enhancing NTR with a view to revising the respective rates upwards to match the current economic circumstances. For example application fees at Courts of Judicature is at UGX 1500= and yet one requires about UGX 2200= as bank charges which doesn't make economic sense.

4.10 Introduce "Ad Valorem" Tax on Idle Lands in the city and other urban centres:

We propose levying of a 1percent tax annually on the total /assessed value of the land that remains uncultivated and unimproved by a property owner. This tax could also extend to idle farm lands in the country side in which 0.2percent is proposed. This tax can help bolster revenue collections for Local Governments.

5.0 KEY CITIZEN PROPOSALS FOR THE BUDGET FY 2016/17

5.1 Improve accuracy of the UPE enrolment figures

During its monitoring of Quarter 1 FY 2015/16 budget implementation, civil society organizations observed discrepancies in pupil enrolment, yet it is a critical determinant of Universal Primary Education (UPE) School budget allocations. The discrepancies were between the pupil enrolment numbers that Ministry of Education, Sports and Technology and Science (MEST&S used to allocate funds to the schools and the numbers that were collected during the monitoring exercise. From the figure used by MEST&S to allocate funds to the monitored schools, we observed that 6,257 pupils that were not budgeted for. From our monitoring, the 60 schools had a total enrollment of 40,828 pupils while the figures used to allocated funds to the schools added up to 34,571 pupils. Using the per capita

allocation of UGX 10,000 UGX annual budget for schools had a funds shortage of UGX 62,570,000.

Specific examples of gross discrepancy in allocation include, Tubur Primary School in Tubur Sub County in Soroti district. From our monitoring this school has an enrolment of 837 (394 boys and 443 girls) pupils yet the government used an enrolment figure of 63 to allocate funds to the school hence allocating and transferring only UGX 604,365 for Term III.

Recommendation (s)

- The LGs Accounting Officers should be held accountable for the accuracy of the UPE school enrolment reported and subsequently used for allocation of Capitation Grant.

5.2 Fast track clearance of pension payment dues.

Outstanding Pension liabilities under the Ministry of Public Service (MPS) increased by UGX.81, 245,706,749 (326.2percent) during the FY 2013/14. This is an indication that the ministry's rate of accumulation of pension arrears is significantly high, which might not be sustained by Government. Further, it was noted that a total of 19,135 pensioners who had attained the maximum pensionable period of 15 years were still on the ministry's payroll and earning monthly pension yet they had not furnished the ministry with life certificates. As such, a total of UGX.12, 727,686,849 paid in respect of their monthly pensions during the year under review could not be supported in the absence of life certificates.

Recommendation (s)

- Whereas we acknowledge government efforts to resolve the matter; through decentralization of pension payments, allocation of funds to settle the arrears and instruction accounting officers need to be prioritized in order to strengthen these efforts.
- MFPED and MPS should hold another verification exercise alongside all LGs, before the beginning of the FY 2016/17, to ensure that all those who need to be paid are paid and those who should not be on pension pay list are removed.

5.3 Continue cleanup of government payroll

According to the Auditor General's report, FY 2013/14, on the request of Accounting Officers, a total of 15,021 records were deleted from the payroll for various reasons which included: death, retirement and/or abscondment. Government incurred a total of UGX.39, 183,937,122 on these employees in respect of the wage bill from July, 2013 up to the respective periods the individual employees were deleted from the payroll in the FY 2013/14 alone. It was also noted that, as a result of the mandatory validation and biometric data capture exercise for government employees, a total of 8,589 employees have not been accounted for by 130 entities/votes, although they remain on the government

payroll. These employees are being paid a monthly total of UGX.4, 563,318,131 which translates into UGX.54, 759,817,572 per annum.

Recommendation (s)

- Specifically, all accounting officers of votes that have continued to pay ghosts should be personally held liable for the financial loss caused.
- Biometric verification of the government employees on the pay roll should be done periodically; every year.

5.4 Strengthen adherence to guidelines on handling of Non Tax Revenue (NTR)

According to section 3 of the Uganda Citizenship and Immigration Control Act, NTR collected by the entity should be retained and treated as appropriation in Aid. To the contrary, in the FY 2013/14 UGX.68, 778,391,313 collected in this respect was automatically remitted to the Consolidated Fund contrary to the UCIC Act. It is noted that due to inadequate funding the entity has not been able to operate as envisaged.

Recommendations (s)

- MFPED should fast track the correction of this anomaly to enable citizens access travel documents on time, especially not that government has opened up to private sector efficiency by creating fast service at an extra cost.

5.5 Set minimum standards for service delivery to strengthen decentralization

Civil society organizations applaud the Government of Uganda for continuing to implement the policy of decentralization since 1992. This policy has enabled local governments and urban authorities to participate in the national budget formulation process through identification and budgeting of their own priorities under fiscal decentralization. However, despite the gradual increase in financing for local governments, the value of this financing has reduced in real terms mainly due to creation of new districts and recently new municipalities were also announced). As a result, the adequacy for financing of Local Governments has been compromised, translating into a low level of the quality and quantity of local service delivery in most sectors. In addition, there are decentralized functions that continue to suffer inadequate resource funding for example public libraries whose allocations have gradually reduced from a high of UGX88m to UGX19m and the public libraries now cannot sustain themselves anymore. Civil Society appreciates the effort made this financial year to consolidate conditional and unconditional grants that increased from 10 to 46 between 2003 and 2013.

Recommendation (s)

- Government should set and adhere to minimum standards for local service delivery per LGs to ascertain the true cost of decentralization based on national quality standards for all sector investments.

5.6 Increase support to LGs in contract enforcement, adherence to minimum standards procurement and implementation monitoring.

Poor procurement and contract management was highlighted as a barrier to timely and quality service delivery at the grassroots due to understaffing and limited financing of the LG Procurement Departments. Additionally, the inability to enforce sector minimum standards is critical due to limited financing a factor that eventually reduced the quality of public investment.

Recommendation (s)

- Developing and dissemination of public reports of service minimum standards for all devolved functions;
- Thorough reviews of procurement contracts with details of awards to various companies by name and ownership should be conducted;
- The next financial year should prioritize boosting the capacity of Procurement Department Units (PDUs) especially in the newly instituted districts and municipalities to ensure compliance with set minimum standards.

5.7 Implement Recommendations of the Government Structure, Staffing and Salaries Review.

A Study conducted by the Ministry of Local Government in 2012 observed that only 56percent of Local Government staff structure is filled. Mainly due to; the inability of LGs to attract staff due to poor incentives especially absence of staff housing, uncompetitive salary scale; and the limitations in career progression in the public sector as compared to the private sector.

CSOs commended government for the plans to recruit additional staff including 3,000 midwives in FY 2016/17 and more teachers to UPE and USE schools. However, there is a concern that poor remuneration is a big contributor to poor staff turnover at the local government level. Finally Civil Society Organizations express concern that while districts are struggling to fill their staff structure, more districts and municipal councils are being created.

Recommendation (s)

- Government should expedite the constitution of the Salary Review Commission so that the public servants have their earnings aligned to expertise,

longevity on job and the contemporary cost of living but also have their earnings consolidated.

5.8 Review affirmative action, equalization grant and Hard-to-Reach Policy Initiatives.

Equalization Grants were set up in Uganda as part of the broader Affirmative Action to support districts that are performing poorly on key development indicators, with a unique allocation to specific social sectors. This was complemented by the Hard-to-Reach Policy that placed districts under special grant considerations to recompose for their peculiar disadvantages (high terrain, islands, and distance from Kampala etc.). Another aspect to ensure affirmative action has been extending literacy for those who could not attend school especially the aged – under Functional Adult Literacy (FAL). Currently FAL receives a paltry UGX 400M per year. For over 1,200 sub counties, FAL instructors are receiving a dismal UGX 5,000 per month. CSBAG appreciates these efforts and particularly those aimed at supporting disadvantaged districts however a set of recommendations are set for Government to work to improve in this aspect

Recommendation (s)

- The Ministry responsible should look into re-constituting this FAL so that either resources are availed or the program is implemented only at district than sub-county level in light of the limited resources available.
- The 'Hard-To-Reach' and 'Hard-To-Stay' policy has to be reviewed so that other considerations are incorporated. For example, Gulu and other districts were designated as 'Hard-To-Reach' because the policy was approved by Cabinet at the time of the war in Northern Uganda- which is no longer the case.

5.9 Invest in agriculture sector

Agriculture employs more than 70percent of Uganda's population. Due to the growth in the prominence of the services sector, the contribution of agriculture as a proportion of GDP reduced from 52.7percent in 1986 to 24.5 percent in 2013. The National Development Plan (NDP) II places emphasis on commercialization of agriculture, increasing production and productivity along the value chains. Public investments in the Agriculture Sector has reduced drastically over the last three financial years, and as such, CSBAG is concerned whether Government has instituted any particular compensation schemes to cover the necessary gaps in financing for agriculture at local level. As Government rolls out the Operation Wealth Creation, it is important to focus more on value addition and agriculture extension services. The ongoing Operation Wealth Creation that is charged with providing agricultural inputs lacks well disseminated guidelines to guide its implementation.

Recommendation (s)

- Local Governments should report on agricultural value addition initiatives taken on an annual basis.
- Citizens call upon Government to increase overall funding for the agricultural sector to at least 8 percent of the national budget and consequently increase funding to local governments.
- Guidelines for the ongoing Operation Wealth Creation need to be developed and disseminated

5.10 Enhance Management of Land and Natural Resources for sustainable development

Sustainable development of this country will require prudent land and other natural resources' management and conservation. There was widespread concern over the years climate change has caused losses to farmers due

to its adverse effects manifesting in both heavy rains and prolonged drought for example in the FY 2015/16 Uganda witnessed a resurgence of the drought and hunger that claimed over 20 lives in Karamoja sub-region. Citizens noted that the mandate of land and natural resource management is grossly underfunded as a decentralized function and that this has resulted in few natural resource management zonal officers. There is also concern over delays in the passage of guidelines on carbon-trading and the operationalization modular for LGs to implement this.

Recommendation (s)

- The need to fully operationalize the Land Zonal Officers;
- Fast track passage of carbon-trading guidelines and operationalization modular for LGs to begin implementation.

Conclusion

The concern however that, Whereas Civil Society Organisations under CSBAG commend Government for continued consultation and involvement of various stakeholders including civil society in the budget process and for its efforts in strengthening public financial management reforms there still is exist glaring gaps as regards revenue mobilization, macroeconomic stability and incorporation of citizen concerns that need to be addressed, with close supervision of these institutions. The importance of the timeliness in releasing and accounting for public funds cannot be overemphasized as it has a great bearing to citizens' timely access to quality services. But of course the performance of the URA's domestic taxes collection is as shortfalls in revenue collection translate into budget cuts

CSBAG is grateful to Ministry of Finance, Planning and Economic Development for organising this budget consultation which provides an opportunity for us to provide input into the budget. We are confident that our proposals contained in this Citizens Budget will make meaningful influence on the final budget proposals for the financial year 2016/17.

(Endnotes)

1 International Budget Partnership <http://internationalbudget.org/wp-content/uploads/OBS2015-Report-English.pdf>

VISION

A Uganda with a people centered budget that dignifies humanity

MISSION

Working towards ensuring that budgets at local and national level are financed, designed, implemented and monitored to promote prudent and transparent allocation of national resources for the benefit of marginalized groups.



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