CSBAG VISION

A Uganda with a people centered budget that dignifies humanity

CSBAG 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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CSO assessment of the Accountability Sector Performance FY 2016/17

Presented at the Accountability Sector Joint Annual Review 2017

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Failure to Operationalization of the Contingencies Fund

30. Section 26 (1) of the PFMA, 2015 (as amended), establishes a Contingencies Fund which shall, every financial year, be replenished with an amount equivalent to a half percent (0.5%) of the appropriated annual budget of Government of the previous financial year. However, we have observed that there were no funds allocated for the contingency fund in the FY 2016/17 and FY 2017/18. Failure to operationalize the Contingencies Fund is irregular and undermines the purpose for which it was created. Furthermore, there is a risk that Government may fail to respond to contingencies/emergency situations as and when they occur.

Recommendation

- As custodians of prudent public finance management, the Ministry of Finance should endeavor to allocate funds to the contingency fund rather than continue seek supplementary budgets for expenditure that could have been covered by the fund.

Comparison of IPPS data with National ID Data (Identity Theft)

31. The Ministry of Public Service initiated a comparison of the biometric data from the National Identification System and the Government of Uganda Integrated Personnel Payment system (IPPS) that revealed 1,629 cases in which the facial image and finger prints of employees were matching but other details like names and date of birth were grossly different.

32. This is an indicator of identity theft and creates suspicion on the authenticity of the documents used by these personnel to acquire employment in the Civil Service.

Recommendation

- Ministry of Public Service needs to undertake decisive action to terminate contracts of all public servants who IPPS and National ID data conflict. This will be an important step among many to signal "Kisanja Akuna Mchezo".

Failure to collect royalties from gold exports

33. During the financial year 2015/16, the OAG noted that the Ministry of Energy and Mineral Development assessed royalty and awarded export permits for only 93kgs of gold worth UGX.11.822Bn thereby realizing UGX. 0.365Bn in revenues. However, collaborative reports from the Customs and Excise Department of Uganda Revenue Authority indicated that 5,316 kgs of gold had been exported with a total value of UGX.698Bn. Accordingly, Government should have collected between UGX.6.98Bn and UGX.34.9Bn in royalties using the applicable rates of 1% and 5% for the imported or locally mined gold respectively.

Recommendations

- Accountability institutions like URA and IG should take keen interest in the matter as this clear leakage public resources but also a signal of corruption in the Ministry of Energy.

Conclusion

34. Civil Society Organizations are hopeful that in the National Budget for the FY 2017/18, if existing uncertainties related to fiscal management and key growth bottlenecks are addressed, Uganda's projected rate of economic growth is attainable. The Accountability Sector is key in driving management of public funds for better growth realities for Uganda. Therefore, the Accountability Sector should emphasize growth enhancing measures including boosting revenue mobilization, targeting public spending towards carefully sequenced infrastructure investment in various sectors including Agricultural sector- to better manage headline inflation form the supply side. These measures should safe guard social safety nets to ensure inclusive growth and improving the business climate.

CSO assessment of the Accountability Sector performance FY 2016/17, was produced by the Civil Society Budget Advocacy Group (CSBAG) with support from OXFAM. The contents of this publication are the responsibility of CSBAG and not our development partners.

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Ministry of Education and sports transferred a total of UGX.2.192Bn[4] to various private Universities in partial fulfillment of presidential pledges. However, there was no accountability framework for the disbursements.

Recommendation:

- The Accountability Sector should take the centre stage in ensuring that we minimise leakage of resources since all the responsible institutions are in the sector framework (FIA, IG, OAG)
- There is need to strengthen Horizontal Accountability to ensure that internal controls and checks are effective in preventing loss of public funds.

Increased risk profile financial subsector

25. The regulation of the financial sector is on the right course with strengthened oversight by the Bank of Uganda (BOU); tightening its regulations and adherence thereto of commercial institutions to the capital requirements. However, there are signs that the sector is still relatively unstable. Total taxes paid by banks in 2016 were UGX 176 Billion compared to 165 Billion in 2015. While this implies a 7% nominal increase in taxes from banks, this performance is considered sub-optimal when compared to the nominal GDP growth of over 10%. In addition, considering the inflation rate of 5.5% in 2016, in real terms, the tax (by banks) grew by 1.5% which is lower than the real growth rate of 5.5%. Thus, as a share of bank taxes to GDP, the ration reduced.

26. However Non-performing loans as at December 2016 were 10.47% of total Gross Loan portfolio, the highest the country has seen since September 2000 at 13.57% and there is sluggish growth of the Private sector credit[5]. The highlight of the failure was the closure of Crane Bank that had in the recent past been declaring profits and winning accolades from the industry as a credible banker.

Recommendation

- As already alluded to, we believe that for NPLs to reduce and the Private Sector Credit growth to improve government must; (i) Clear domestic arrears and (ii) stop borrowing domestically to avoid crowding out the private sector and distorting the operations of the MP by BoU.
- Bank of Uganda should fast track the internal and external play out of events that lead to the closure of crane bank as this is an indictment to BoUs credibility as a supervisor of the financial subsector.

High Interest on Domestic Borrowing and frustrated DRM efforts

27. Government has strengthened tax administrative efforts through the Taxpayer Registration Expansion Project (TREP)[6], as a measure to improve DRM. However, according to the OAG, in the FY 2015/16, 13 MDAs did not comply with The Income Tax Act 1997 (as amended) in respect to taxes amounting to UGX. 27,665,025,642. The noncompliance was due to non-deduction of taxes worth UGX. 5,741,031,745 and non-remittance of tax worth UGX. 21,923,993,897. This frustrates DRM efforts. As such government continues to borrow to cover for such gaps.

28. The increased domestic borrowing by Government of Uganda has not only increased beyond some benchmarks set out in the in the 2013 Public Debt Management Framework, but has also in part limited the scope of private sector to borrow (also known as crowding out). Private sector credit growth, a leading indicator of the financial sector's contribution to economic activity, has slowed- registering a 1% reduction between September 2015 and September 2016 - and at end of October was UGX 11,739.2 billion.

29. Analysis of the trend of interest rates for domestic borrowing revealed a significant increment over the last four years (2013: 13.1% and 2016: 19.1%). Accordingly, the differential in interest rates (risk premium) between commercial lending rates and Treasury bill rates is getting smaller each year.

Recommendation:

- Government should reduce domestic borrowing because as it has increasingly become clear, domestic debt is very expensive.

4 Annual Auditor General's Report FY 2015/16

5 Year on year analysis between Feb 2016 to Feb 2017 indicated a sluggish growth with a coefficient of 0.0009 to the credit value.

6 This is a joint operation of the Uganda Revenue Authority, Kampala City Council Authority, Uganda Registration Services Bureau to widen the tax base, increase revenue collection and improve tax compliance. See https://www.ura.go.ug/download/CGMS/URA%20JOINT%20OPERATIONS%20WITH%20KCCA%20n%20URSB.pdf

1.0 Background

1. On behalf of Civil Society Organizations (CSOs) working under the Civil Society Budget Advocacy Group1 (CSBAG), and the wider Civil Society, we present CSO perspectives on the Accountability Sector performance for the financial year 2016/17. This paper was jointly prepared by CSOs under the CSBAG Accountability Thematic Working Group including Advocates Coalition for Development and Environment (ACODE), Uganda Debt Network and the Uganda National NGO Forum Uganda.

2.0 Introduction

2. The accountability sector contributes to the strengthening of mechanisms for quality, effective and efficient service delivery among the NDP II objectives. The sector is composed of the audit sub-sector as well as economic and financial management services sub-sector.

3. According to the Accountability Sector Strategic Investment Plan (ASSP) 2017/18-2019/20, the sector is comprised of the following institutions: Ministry of Finance, Planning and Economic Development (MFPED); Inspectorate of Government (IG); Directorate for Ethics and Integrity (DEI); Office of the Auditor General (OAG); Financial Intelligence Authority (FIA); Uganda Bureau of Statistics (UBOS); Uganda Revenue Authority (URA); Public Procurement and Disposal of Assets Authority (PPDA); Ministry of Public Service – Inspection; Ministry of Local Government – Inspectorate; and Kampala Capital City Authority and Bank of Uganda.

4. Civil Society Organizations (CSOs) are cognizant of the vital role played by the Accountability sector regarding promoting transparency and accountability, which are the kingpin for efficient and effective delivery of public services. Some of the key achievements in the sector include;

- Under the value for money in the management of public resources outcome, the percentage of statutory bodies with unqualified audit opinions raised to 78% in 2015/16 from 61.8% in 2014/15
- Improvement in percentage of Ministries, Departments and Agencies (MDAs) with unqualified audit opinions to 79% in 2015/16 from 70% in 2014/15
- % of Higher Local Governments with unqualified audit opinions also improved to 91% in 2015/16 from 69.38% in 2014/15
- Improvement in central government entities complying with set financial reporting standards from 60% in 2014/15 to 95% in 2015/16
- Improvement in timely release of funds (number of days for approval to be made after institutional submissions) from 2-3 days for Integrated Financial Management System (IFMIS) votes and 5 days for legacy votes in 2014/15 to 48 hours' response; either approval or rejection in 2015/16.
- Percentage of entities with satisfactory rating from procurement audits rose by 50% from 2014/15 to stand at 90% in 2015/16.

3.0 Budget Performance

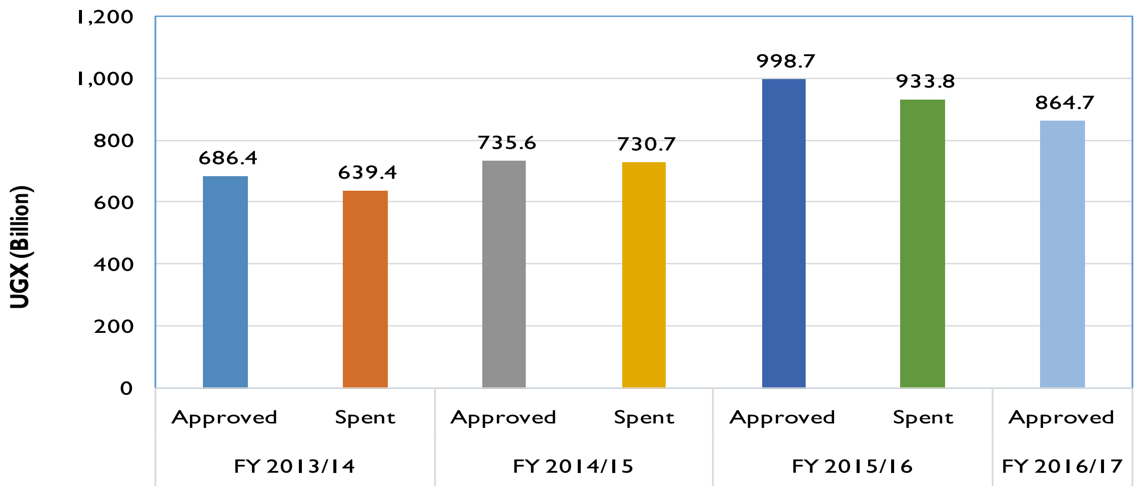
5. An analysis of the financing to the sector indicates an increase in terms of allocations over the last two years and is expected to continue rising in FY 2017/18. This is largely due to the structural adjustments within the Ministry. It's however important to note that while the sector registers increase in allocation, the allocations are meant to finance the introduction of new structures within the ministry to fund the new programs. While new programs like procurement of office equipment, purchase of vehicles and coordination activities among others, within the ministry have taken off and have been allocated resources, we are concerned with the inability to fund the following recurring gaps; expanding audit scope and public demand for value for money audits and capitalization of Uganda Development Bank as a strategy to provide long term financing to ease access to credit aimed at private sector development among others.

6. The accountability sector (excluding Treasury Operations) approved budget in nominal terms increased from UGX 686.4 billion in 2013/14 to UGX 864.7 billion in 2016/17. However, the accountability sector's share of national budget has been reducing. With donor funds included, the share reduced from 5.3% in 2013/14 to 4.2% in 2016/17. It is expected to reduce further to 3.8% in 2017/18. On the other hand, when donor funds are excluded, the share reduced from 6.1% in 2013/14 to 5.5% in 2016/17. It is expected to reduce further to 5.3% in 2017/18. The share is higher when donor funds are excluded, partly because the accountability sector is among a few sectors that receive a limited amount of donor funds[1].

7. With the amount spent (absorbed) being UGX 639.4 billion in 2013/14 and UGX 933.8 billion in 2016/17, it has translated into an average budget performance (absorption rate) of 95% over the last three FYs (2013/14 – 2015/16). The Figure below shows trends in accountability sector financing.

1 Accountability Sector Financing Study Report-CSBAG 2016

Figure 1: Budget Performance in the Accountability Sector for FY 2013-14 to 20115/16



Source: Author's calculations based on approved budget and budget performance reports

programme to build capacities of the implementing agencies.

Demonstrate Value for Money;

21. We appreciate increased sampling efforts by the Accountability sector institutions in carrying out investigations and audit functions, including Forensic audits across MDAs and Local Governments (MDALGs). Such impressive effort has so far not demonstrated desired outcomes, especially recovery of stolen public resources. While the Accountability sector institutions have, overtime attracted even bigger budgets for their operations, this does not match what is recovered. The tax payer remains the net loser every financial year.

Recommendation

- Through quarterly press briefings to the nation, let the Accountability sector institutions as champions of transparency and accountability demonstrate to Ugandans through findings from specific investigations, audits and how much has been recovered back into public coffers.

Lack of Development Plans by spending agencies & poor alignment of the existent one to the NDP II.

22. In accordance to Sec 13 (7) of the PFM Act 2015, the NPA submitted the certificate of compliance to the FY 2016/17 budget for various MDAs. The findings revealed by the NPA were very disturbing. The FY 2016/17 Annual Budget was 58.8% compliant, a decline from the 68.2% compliance in the FY 2015/16. For the 1st time, LGs were assessed and their compliance was only 51.8%.

23. The accountability sector scored only 70% but with budget performance registering a 45% score. The sector has a development plan that is partially aligned to the NDPII in terms of content and not aligned in timeframe.

Recommendation

- Government should not release funds (FY 2018/19) to institutions that do not have plans aligned to the NDP II since their expenditure will not deliver the country into middle income status by 2020.

Inadequate access to budget information and limited open data

We applaud government efforts of making budget information increasingly available to the public, a good indicator for promoting budget transparency and accountability in Uganda. As CSOs, we have witnessed commendable improving efforts by Ministry of Finance in budget transparency and providing up-to-date budget information through the publishing of quarterly releases and updating of the budget website. Further, the launch of the Online Transfer Information Management System (OTIMS) to provide the citizens of Uganda and Civil Society Organizations (CSOs) with information that can be used for purposes of monitoring and enhancing government expenditure tracking and demanding accountability is a major step in improving transparency.

Recommendation

- This can further be improved through the operationalization of the budget call center and timely updates of the information on the budget website. This will ultimately improve public expenditure management further.
- UBOS should increasingly publish open data to allow use of data for analysis and development of policy by stakeholders including the academia, CSOs and Gov't itself

Nugatory/wasteful expenditure

24. The Auditor General's Report notes that various government entities are engaged in wasteful expenditure to the tune of UGX 6,991.5bn,[2] because of interest on late payments, breach of contracts, storage of unwanted items, litigation costs, among others. In FY 2017/18, allowances, workshops and seminars, welfare and entertainment, special meals and drinks, travel abroad, donations, and hire of venue (chairs, projectors, etc) are expected to take UGX 1,400.5bn, which is 6.9% of the total budget. This expenditure is higher than planned expenditure of UGX 1,270.5bn on priority sectors of agriculture, tourism, trade and industry, and social development.[3] This expenditure is detrimental to the overall economic growth and increases inequality. During the FY 2015/16 the

2 Office of the Auditor General, 2015/16 Auditor General's Report
3 2017/18 Draft Budget Estimates

6.0 Sectoral Operational Issues

18. The sector operational issues are mostly characterized by limited financing of the accountability sector. The financing inadequacies have thus limited the effective coordination of accountability work at grassroots level such as the District Integrity Fora (DIF). Many of the actors have as a result not effectively fulfilled their mandate such the IGG to investigate, the OAG to carry out audits, DPACs to receive and analyze audit reports, MoLG to do inspection, PPDA to carry out the Value for Money Audits. Some of these issues are outstanding from last financial year and are detailed below.

Facilitation for the Accountability Sector institutions

19. Given that money can now easily be transferred anywhere in the world at a click of a button. This also poses an avenue for illicit financial flows/ hemorrhage outside. This requires updating functional capacities of key departments within the Accountability sector institutions like URA, Financial Intelligence Authority (FIA) and police CIID. It is therefore sad that a) an additional UGX 5.1 billion required for full operationalization of the Financial Intelligence Authority (FIA) is part of unfunded priorities, alongside the following requirements b) UGX 6.42billion for Directorate of Cash and Debt c) additional 1.6 billion for Leadership Code Tribunal. A total of UGX 41 billion worth of unfunded yet key priorities poses a serious pretext for Accountability sector MDAs future supplementary requests, thus distorting Parliamentary approvals that will have been earlier based on approved plans, allocation and appropriations.

Recommendation (s)

- Increased resourcing and investment into Uganda Revenue Authority and police CIID capacities. The capacity of the sector to handle Illicit Financial Flows (IFFs), especially, through commercial transactions by Multi-National Corporations should be of attention. Such transactions account for about 75% of IFFs.
- Budget allocation for FY 2018/19 to provide for full operationalization of the Financial Intelligence Authority, as well as additional 1.6 billion towards full operationalization of Leadership Code Tribunal, to give effect to the Anti-corruption (Amendments) law already passed by Parliament in 2015.

Interagency cooperation for improved Strengthening Public Financial Management;

20. As CSOs, we appreciate various Government efforts and successes such as those under the Treasury Single Account (TSA). The implementation of the Integrated Financial Management System so far in at least 23 Donor Funded Projects as well as the IFMS & IPPS Interface payroll rollout to 120 Entities is welcome. We however note that for the reforms to be effective, there is need to have the sector coordinate with the implementing agencies to ensure that service delivery is not interfered with. With the efforts to roll out IFMIS, LGs have experienced delays in receipt of funds for Education and Health due to poor interagency coordination amongst MoFPED, MOES and MoH.

Recommendation

- Based on the learning obtaining so far, Government should roll out the Integrated Financial Management System to all Government projects and programs but there should be a deliberate training

8. Over this period, the Office of the Auditor General (OAG), Ministry of Finance, Planning and Economic Development (MFPED)and DEI registered the highest levels of budget performance. On the other hand, the Public Procurement and Disposal Authority (PPDA) , Uganda Bureau of Statistics (UBOS) and Inspector General of Government (IGG) registered the lowest levels of budget performance. The figure below shows the budget performance of accountability sector institutions over the last three financial years.

9. Despite the above levels of budget performance, the amount of unspent balances vary greatly across the sector MDAs. Over the last three FYs (2013/14 – 2015/16), UBOS, PPDA, and MFPED had the largest unspent balances of released funds.

unspent funds

UBOS UGX 12.7 billion,
PPDA UGX 3.4billion
MFPED UGX 2.2 billion

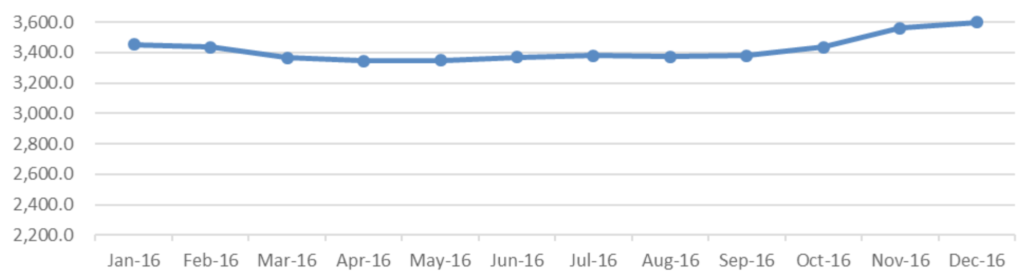
These unspent balances are a challenge for effective service delivery and need to be dealt with.

4.0 Macro-economic Performance

10. Overall, the economy has experienced relative stability from FY 2015/16 to date. It is notable that growth slowed marginally to 4.8% in FY 2015/16 compared to the 5% growth rate in FY 2014/15. The performance is reasonable given the uncertain global economy that has a bearing on the Ugandan economy. This period has for instance been characterized by falling commodity prices, geo-political tensions and election uncertainties that have had major influences on the world markets.

11. The tensions in South Sudan are cited as significant contributive factor to the decline in exports and investment. South Sudan's economy represents a major export destination for much of Uganda's exports. This period has also been characterized by a sharp depreciation following on from 2015. Uganda being a net-importing economy, it is very likely that the currency depreciation offset the possible gains that could have been realized from the rapid decline in commodity prices globally. As the shilling regained and stabilized, the economic outlook also began to change. Leading indicators are rebounding such as those on business (manufacturing, construction and wholesale trade) have been rising since December 2015. A relatively stable shilling has also resulted into broadly stable exchange rates.

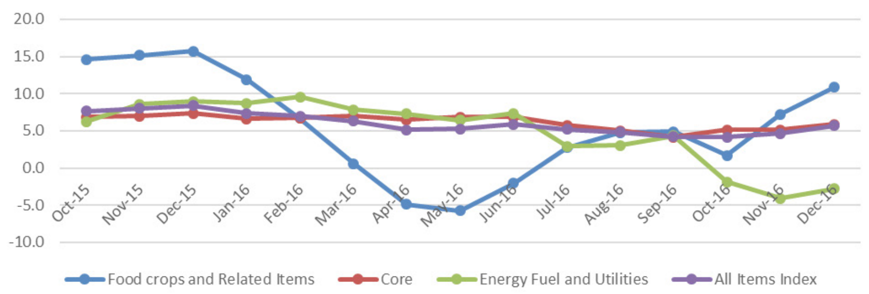
Figure 3: Period (Monthly) Average Exchange Rates



Source: Computations based on Bank of Uganda data

12. Similarly, inflation has remained stable during this period, with the core inflation and headline inflation (all item index in figure 2) remaining steady around 5% and within BoU target range.

Figure 4: Annual Average Inflation Trends between October 2015 and December 2016



Source: Computations from BoU Data

13. Furthermore, in this period, the current account deficit narrowed by one percentage point to 5.9% of GDP in FY 2015/16 mostly due to a significant drop in imports already alluded to. In addition, the capital and financial accounts also declined with lower levels of foreign direct investment as well as project loans and portfolio outflows.

5.0 Debt Sustainability and Management

14. Overall, Uganda's debt levels are considered to have remained within sustainable levels during this period. The December 2016 IMF Debt Sustainability Assessment indicates that Uganda has low levels of risk distress, but increasing vulnerabilities such as export shocks experienced in this period, amplified non-concessional borrowing, weakness in absorption of project loans.

15. It should however be noted that some of the assumptions/considerations used in computing the level of debt sustainability have a more optimistic outlook to certain macroeconomic variables as compared to the actual turn out. For instance, the average level of GDP growth projected over this period is about 6%. However, the levels of GDP growth over financial years 2015/16 and 2016/17 as earlier alluded to have fallen below this projected in the debt sustainability computations. Thus, the economy has to improve its performance for the debt sustainability considerations to hold true.

16. During this period, IMF also noted that Uganda's debt stock as a percentage of GDP has continued to rise from about 34.5% at the end of 2015/16 to a projected 38.6% at the end of FY 2016/17. This however only depicts disbursed debt stock. When considered together with the commitments (undisbursed), the debt stock is projected to be about 52% of GDP by the end of 2016/17. The level of sustainability notwithstanding, it is unhealthy for an economy aspiring to reach mid-income status during this planning period to have a debt stock that is more than half of its GDP.

17. In November 2016, Moody's Investors Service downgraded Uganda's credit rating to B2, from B1, and changed the outlook to stable from negative. The downgrade is attributed to a heightened fiscal deficits and increased interest obligations (16% of domestic revenues). The widening fiscal deficit is attributed to mainly low revenue performance and infrastructure oriented expenditure.

Recommendation

- Improve public investment management and efficiency to harness the dividends and buffers to withstand the shocks.