Civil Society Budget Advocacy Group

CIVIL SOCIETY STATEMENT ON THE FY 2018/19 NATIONAL BUDGET STRATEGY

THEME: "Stimulating the Economy and Addressing Inequality"

Presented by CSOs at the National Budget Conference, 7th September, 2017

The Civil Society Statement on the National Budget Strategy FY 2018/19 was produced by the CSOs under their umbrella Civil Society Budget Advocacy Group (CSBAG) with support from Democratic Governance Facility, OXFAM Uganda, and USAID Uganda and UKAID Uganda Governance, Accountability, Participationa and Performance (GAPP) Program. The contents of this publication are the responsibility of CSBAG and not of our development partners.

Civil Society Budget Advocacy Group (CSBAG)
P.O. Box 660, Ntinda
Plot 11 Vubya Close, Ntinda Nakawa Rd
Fixed Line: +256-755-202-154
E-mail: csbag@csbag.org
Web www.csbag.org

| @CSBAGUGANDA CSBAG/Facebook.com

with support from:

Governance, Accountability, Participation and Performance (GAPP) Program

01 Introduction

1. On behalf of Civil Society Organizations (CSOs) working under the Civil Society Budget Advocacy Group[1] (CSBAG), and the wider Civil Society, we present CSO perspectives on the budget strategy and priorities for FY 2018/19. We commend Government for continued consultation and involvement of various stakeholders including Civil Society in the budget process both at local and national levels.

2. We submit the following proposals on macro-economic management and structural concerns and recommendations.

02 Background

3. As the nation discusses the public expenditure strategies for FY 2018/19, it is important that these are set in the prevailing context. The Budget strategy for FY 2017/18 was mainly predicated on increasing production and productivity among the primary growth sectors, supporting private sector development, enhancing infrastructure development and economic management (MoFPED, 2016)[1]. The FY 2017/18 strategy was consistent with of the strategies of the financial years preceding; thereby prioritizing long term infrastructure investment in both roads and energy.

4. Under the overarching planning framework of Vision 2040, Uganda embarked on a course to transform its economy in order to move from being "a Peasant to a Modern and Prosperous Country within 30 years". Financial Year 2017/18 marked the 8th year of implementing the vision with a lot of progress having been registered. Financial year 2018/19 marks the penultimate year of implementing Uganda's second National Development Plan (NDP II, FY 2015/16 – 2019/20), under Vision 2040. This suggests that only those NDP II targets that are realistically achievable in FY 2018/19 are likely to be attained by 2020.

5. In line with the aim of transforming the country, Uganda set out to become a mid-income economy by the year 2020. It remains highly unlikely that this target will be met. Owing to both external shocks and several internal factors, the economy has over the last three financial years failed to meet the set growth targets.

6. The economy is estimated to have grown at a rate 3.9 percent during the FY 2016/17 which was slower than the 4.7 percent recorded in the previous year. The slower growth recorded during FY 2016/17 was attributed to the sustained decline in the performance of agriculture sector (due to prolonged drought) and delays in public development investment Growth is projected to rise again in FY 2017/18 based on "improved implementation of public infrastructure investments, higher private sector investments in the oil sector and improvement in agricultural production and consumption growth" (BoU, 2017)[2].

7. Since the turn of 2017, the economy has been on a path to recovery albeit a slow one going by quarterly Composite Index of Economic Activity (CIEA) data from Bank of Uganda (BoU) and Gross Domestic Product (GDP) data from the Uganda Bureau of Statistics (UBoS). The slow pace of the recovery is depicted by the low rate of change between the quarterly CIEA values that are graphically illustrated in Figure 1. The CIEA first declined by one percentage point between the first and second quarters of FY 2016/17 before growing by one and a half percentage points between the third and fourth quarters – the highest rate of the entire financial year.

1 CSBAG is coalition formed in 2004 to bring together CSOs at national and district level to influence government decisions on resource mobilisation and utilisation for equitable and sustainable development.

Figure 1: Percentage Changes in GDP and the CIEA- FY 2016/17

Source: Computations from BoU and UBoS Data

8. A negative rate of growth in the value of economic activity is also reflected in the GDP (at market prices) yielded over Q1 and Q3 FY 2016/17. The second and third quarters registered negative growth levels of -2.3% and -4.9% respectively, this indicates that for we had our economy in recession for Q1 & Q2 FY 2016/17.

03 Prevailing Context

9. Taking the above background into consideration, the FY 2018/19 budget strategy is set against a background of a slowly recovering economy – unlike this same point in 2016, where Uganda was dealing with a slowdown in the growth of its economy. Financial year 2018/19 is also likely to be set against a background of an adequate stock of infrastructure necessary to propel Uganda's economy further down the path of transformation.

10. A number of NDP II core projects such as the construction of Karuma and Isimba Hydro Electric Power dams are expected to be completed in FY 2017/18. In addition, the stock of paved roads which at the end of FY 2016/17 had increased to 4,919km was only 1,081Km short of the 2020 NDP II target of 6,000km. It is expected that at the end of FY 2017/18, the stock of paved roads will have increased further making the NDP II target realistically achievable in 2018/19. Thus FY 2018/19 should be about fast tracking the implementation of the core projects that are lagging behind.

11. This prevailing context however continues to have challenges that are constraining growth in the economy. Key among these is the limited growth in private sector credit, youth unemployment, poor agricultural sector growth as well as the limited inclusiveness of Uganda's growth. These present critical areas for the FY 2018/19 National Budget Strategy to consider.

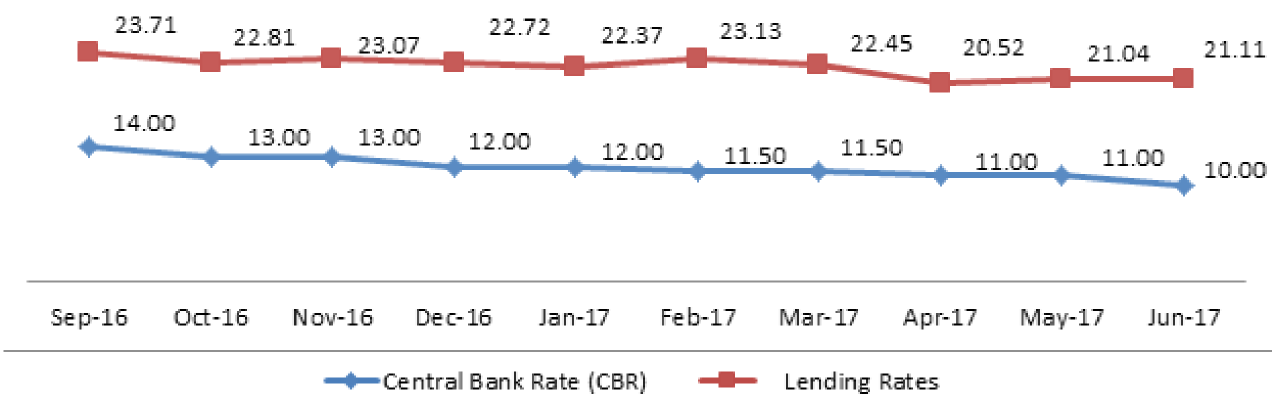
3.1. Limited Growth and Access to Private Sector Credit

11. Growth Private Sector Credit is a major indicator of the financial sector's contribution to an economy's growth. In addition, access to private sector credit is also a major determinant of private sector growth and development. The year-on-year growth in private sector credit (adjusted for exchange rate changes), averaged 3.7 per cent in the second quarter of FY 2016/17, compared to 2.8 per cent in the first quarter of the same year.

12. However, the growth in Private Sector Credit has been slowing down since October 2015. The year-on-year growth in Private sector credit averaged 6.5 in the second quarter of FY 2016/17, down from 15.6 per cent in second quarter of the previous year mostly due to bad loans. The low growth in private sector credit could also be attributed to tight access to credit standards. The March 2017 BoU State of Economy report indicates that while the demand for credit has remained relatively robust, the supply of credit (depicted by the number of loans approved) has remained relatively low.

13. Growth of Private sector credit also continues to be constrained by the high nature of the lending rates. Despite BoU's continued monetary policy easing stance which has seen the Central Bank Rate (CBR) consistently reduced, the lending rates have not responded proportionately. During this period, the CBR reduced by 400 basis points while the lending rate reduced by 260 basis points. Figure 2 illustrates the trends between the CBR and the lending rates since September 2016.

Figure 2: Trends in the CBR and Lending Rates since September 2016



Source: Computations from BoU Data

14. BoU[3] attributes the stickiness of the lending rates to structural rigidities in the financial sector, and provisioning for bad debts due to the high levels of non-performing loans. However, BoU also emphasises that the operational inefficiencies within the commercial banks has further exacerbated the challenges.

3.2. Unemployment

15. According to Uganda National Household Survey (UNHS) 2012/13, the total employed population was estimated at 7.9 million people while 13.9 million were working population. The difference of about 6.0 million persons depicts existence of a high number of persons as subsistence farmers in the Ugandan economy, who can simply be categorized as unemployed. As such the unemployment rate is 43.2% however according to UBOS the overall Unemployment Rate (UR) was 9.4% in 2012/13 with the females experiencing higher unemployment rates (11%) than males (8%).

16. The time related underemployment rate was about 8.9%, skill related inadequate employment was 5.6 percent and the income related inadequate employment was 12.9 percent. The education level of the persons in employment was low with less than one third of the employed persons (30%) having attained either secondary education or specialized training. Uganda is one of the countries that do not track the unemployment statistics annually and as such it only left to periodic Household surveys. Making budget

policies to stimulate employment is very hard and where they are made, the impact created cannot easily be teased out.

17. Furthermore, there remains a mismatch between the sectoral structure of Uganda's GDP and that of its employment. While the service and industry sectors account for over three-quarters of Uganda's GDP, about three-quarters of Ugandans are employed in the agricultural sector. With agriculture remaining largely subsistence in nature, the structural challenges of Uganda's employment are likely to continue curtailing the structural transformation process of the economy.

3.3 Limited Agricultural Production

18. With about three-quarters of Uganda's population employed in Agriculture, the sector is a major contributor to the livelihoods of many Ugandans. Uganda's agriculture sector has seen its budget more than double over the recent past – rising from UGX 422 Bn in FY 2013/14 to UGX 901.68 Bn in FY 2017/18. The budget increment notwithstanding, the sector experienced negative growth in the second and third quarters of FY 2016/17. As a result, the sector's contribution to GDP has relatively stagnated.

19. Much of the sector's budget has been spent on provision of agricultural inputs in a bid to enhance the modernisation and commercialisation of agriculture in Uganda. The provided agricultural inputs have however been characterised by mis-matches between the inputs provided and the needs of the farmers and the soils in different parts of the country – an issue emphasised by the report of the parliamentary Committee on Agriculture, Animal, Industry and Fisheries on the implementation of the OWC program. As a result, the rate of return (germination and maturing) of the supplied planting material was low – consequently limiting the level of production.

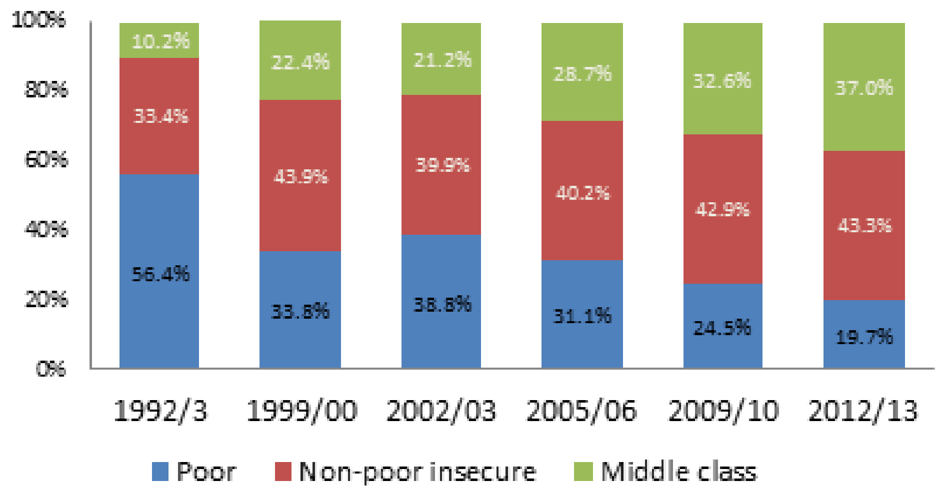
3.4. Limited Inclusiveness of Growth

20. While growth of Uganda's economy has slowdown, what is more concerning is that the growth has not been inclusive. Many categories of Ugandans such as the women, the elderly and more generally the poor have not shared in the benefits of Uganda's growth. The 2012/13 Uganda National Household Survey results indicated that more than half of the Ugandans (63%) are either poor or vulnerable to poverty. The high levels of vulnerability threaten to erode the gains Uganda has made in reducing poverty from 56% in 1992 to 19.7% in 2012/13.

3.5. Debt management (domestic and external)

21. Although government reports that debt is still sustainable (at 34% NPV) and low risk, the process of acquiring the loans, the structure of the loans, the rate of accumulation and utilization is still an area of concern. The total debt stock has drastically increased from UGX 33.133 trillion to UGX 46.27 trillion between FY 2014/15 and 2015/16[5]. This is amidst the Office of the Auditor General (OAG) audit reports for the last 5 years consistently highlighting low debt absorption and non-performance of loans, the recent report being that of December 2016.

Figure 3: Changing Aspects of Poverty in Uganda



Source: Computations based on MoFPED, 20144

Low absorption of debt culminates into payment of commitment charges/fees and reflects ineffective implementation of project programs. In addition, by end of June 2016, the committed but un-disbursed debt stood at UGX 18.1trillion with commitment charges of UGX 20.9bn to be paid, hence resulting in increased debt servicing.

22. Domestic borrowing by government is on non-concessional terms and we note with concern a 79%% increase from UGX 603bn 2016/17 to UGX 1,079bn in FY 2017/18, with the total amount of money government cannot pay back to the domestic market which should increase to UGX 7,955.42bn (26.3% of the total budget) in the FY 2017/18. Yet, an amount of UGX 2,635.4bn will be spent on interest payment compared to UGX 2022.91Bn in 2016/17. This shows an increase of 30.2%, amidst stagnation in the revenue-to-GDP ratio at 13% for the past 3 years, arising from limited revenue base and costly infrastructural development.

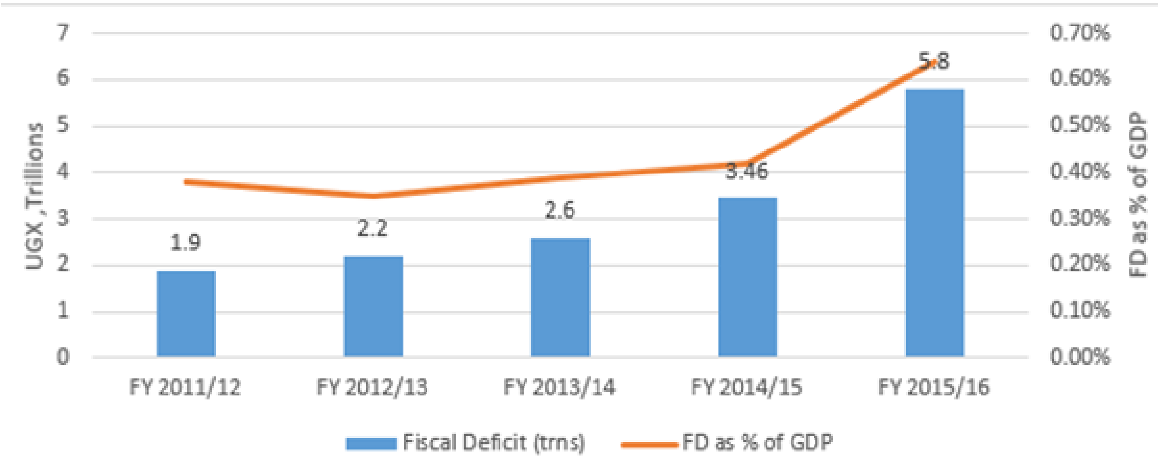
3.6 Domestic Arrears

23. The reconciled stock of arrears was 13% (UGX 2.7 trillion[7]) of the 2016/17 approved budget beyond the maximum acceptable level of 3% of the budget. According the 2nd Budget Call Circular (BCC) FY 2017/18, the stock of domestic arrears as compiled by the Ag. Director Internal Audit reflected a position of UGX 2,700bn but the budget for the FY 2017/18 has budgeted for only UGX 300.85bn (which also contrasts the total provision of UGX 311.1bn in the 2nd BCC). As such, the ratio of public domestic debt to private sector credit is currently over 100% compared to 75% set out in the Public Debt Management Framework (2013). In addition, 50% of the nominal outstanding domestic debt – that is UGX 6,258billion will be rolled over in FY 2017/18, thus carrying a debt burden[8].

3.7 Fiscal Deficit

24. Over the past three years, the fiscal deficit has widened from UGX 2.6 trillion, UGX 3.46 trillion and 5.8 trillion in the FYs 2013/14, 2014/15 and 2015/16 respectively. The fiscal deficit as a percentage of GDP widened from 4.2% to 6.4% in the FY 2014/15 and 2015/16 respectively. The financing of the budget deficit through domestic borrowing via commercial banks increased from UGX 224bn to UGX 674bn in the FY 2014/15 and 2015/16 respectively.

Figure 4: Widening fiscal deficit



Source: CSBAG Computations 2016

25. This development has had a negative impact on the real economy as the key indicators like lending rates have also increased in the same time from 21.58% to 23.97%. This is one of the reasons why there was a 0.4% Output Gap in the FY 2015/16 as a growth of 4.6% was realized against a target of 5.0%. This continues to crowd out the private sector making it harder to access credit for the growth of business and its even more difficult for the women who comprise largest population of our country. In addition, this means that the Government of Uganda is increasingly failing to sustainably finance its budget hence the service delivery intervention for the people of Uganda.

04 Proposed Strategies for FY 2018/19

26. Set against a background of a slowly recovering economy, a stock of adequate infrastructure facilitate growth as well as some of the prevailing constraints above, this paper proposes a few strategies to be considered while developing the FY 2018/19 national budget. The proposed strategies include;

a) Supporting growth and access to private sector credit: Private sector credit is essential to economic growth as already discussed in the preceding sections of this paper. In order to boost growth of private sector credit the emphasis should be placed on two things;

- Supporting reduction in the cost of doing business for financial institutions. In addition to investing in transport and energy infrastructure, government should consider additional investment in ICT infrastructure in order to lower financial institutions' costs of doing business. Given the stickiness of commercial banking rates despite the reductions in the CBR, investing in transport, energy and ICT infrastructure especially in peri-urban and rural areas will potentially enable other financial institutions to thrive. These other financial institutions such as SACCOs and micro-finance institutions generally tend to have lower lending rates.

  In addition, a stronger emphasis on the promotion of Financial Consumer Protection is proposed in order to limit the extremes in the financial market such as poor financial products. As BoU has already proven and pointed out, this will deepen the financial sector and contribute to supporting inclusive growth.

  This could be complemented with favourable tax measures aimed at lowering the cost of doing business. The FY 2016/17 waiver on all tax arrears owed by savings and credit co-operative organisations (SACCOs) is one of the measures instituted in the past that have potential for boosting the growth of private sector credit.

b) Enhancing agricultural production and productivity: The Agriculture sector has continued to underperform. In order to improve agricultural production and productivity emphasis should be placed on two things;

- Promoting effective access to improved agricultural inputs. With the sector spending over 40% of its budget on provision of agricultural inputs, the supply of inputs should be informed by the production zones elaborated in the 2016 Agricultural Sector Strategic Plan. Additional emphasis should be placed ensuring affordable and quality agro-chemicals on the market. This will require addition regulation.

- This should be complemented with improved provision of extension (advisory) services in order to reduce the farmer to extension worker ratios which currently stand at 1:1800 down to the desired 1:500.

- Strengthen the provision of Agricultural Insurance in order to enhance access to agricultural credit. This could take the shape of subsidies to select insurance companies in order to lower the associated premiums.

c) Promoting inclusiveness of growth in order to ensure equitable distribution of growth across geographical, gender and welfare divides. To promote inclusive growth, the following is proposed

- A balanced growth approach that reconciles infrastructure development with giving the economy is a stimulus is proposed. On the part of government, ensuring that all arrears owed to the private sector are paid is crucial to private sector development. In addition, fully recapitalising Uganda Development Bank to improve on the availability of credit to the private sector is also proposed.

- In addition emphasis should be placed on designing regional economic stimulus packages. This is in recognition of the fact that the various regions of the country have different growth needs.

- Targeting vulnerability by supporting vulnerable groups (youth, women and the elderly). The strengthening and expansion of existing social safety nets for the vulnerable sections of the population is proposed. For instance, the SAGE grants should be rolled out to the entire country. In addition, the Uganda Women Entrepreneurship Programme and Youth Livelihood Programme should be evaluated and expanded on the basis on the lessons from the evaluations.

d) Promoting job creation: In order to increase employment, emphasis is placed on two sectors of tourism as well as energy (specifically oil and gas).

- Boosting tourism development through rebranding Uganda: Emphasis should be placed on aggressively advertising Uganda's abundant tourism potential. Tapping into this unfulfilled potential will create numerous employment opportunities. Uganda's image across the world has over the years suffered from a limited understanding of the country's rich culture, tourist attractions as well as investment potential. Despite being ranked by the World Travel and Tourism Council (WTTC) among the 10 fastest growing tour and travel destinations globally, Uganda still ranks 108th globally among the top tourism destinations on the Travel and Tourism Competitive Index (TTCI) of 2017, despite being more naturally gifted than majority of the countries ranked higher.

  The image of the country has come to be characterised by unfortunate events ranging from our political history (Idi Amin) to civil strife in the recent past (Joseph Kony). There is an argument that these in themselves present tourism potential. For instance establishing an LRA War memorial museum in Northern Uganda similar to the Rwandese Genocide Museum presents tourism potential. The Uganda Museum itself is in dire need of refurbishment with many of the display shelves even lacking basic lighting.

- Operationalizing the local content policy in the oil and gas sector will also create jobs: In order for this to become a reality, there is need for a continued promotion of skills development in oil and gas. Training programmes through Enterprise Centres should be established across different parts of the country in order to develop skills in the local economy and promote the reputation of local companies. Setting up Enterprise Centres across the country will ensure the widest possible reach in terms of capacity building amongst SMEs and companies, thereby equipping them with the skills and competencies to engage in joint ventures and create more jobs[9].

05 Financing the Strategy

27. Financing of the 2018/19 strategy is equally important. In this section, particular emphasis is placed on the widening of Uganda's revenue base in order to finance the strategy. Two particular alternative measures are presented.

Alternative sources of Revenue

28. As the Uganda Revenue Authority embarks on devising means to collect more revenue from the informal sector, it has always been constrained by the politics of the day. However, as the resource needs of the country grow and are expected to increase further in 2018/19, some potential revenue sources like motor cycle transport providers (boda-bodas) which have previously been politically sensitive should be explored. It is estimated that Kampala alone has 300,000 boda-bodas. With each contributing UGX 10,000 on a monthly basis, these would generate UGX 3 Billion every month and subsequently UGX 36 Billion annually. The boda-bodas already have associations which would make it easier to collect revenue from their membership.

29. In addition, Government should consider utilizing more blended financing options such as those utilized on the Entebbe Express highway and those planned for the additional expressways that have been planned. Here government will provide guarantees to lower the risk of private equity being utilized to finance public goods.

06 Conclusion

30. Financial year 2018/19 is expected to be set against a background of a slowly recovering economy and an adequate stock of infrastructure to facilitate more growth. Being the penultimate year of implementing the NDP II, it is expected to be a year of expediting the completion of many NDP II projects. Thus the strategies proposed herein are in line boosting growth, creating more employment and ensuring that the resultant growth is inclusive.

(Endnotes)

- Ministry of Finance Planning and Economic Development, National Budget Framework Paper, 2017/18
- Bank of Uganda, State of the Economy Report, March 2017
- ibid
- Ministry of Finance, Planning and Economic Development, Poverty Status Report 2014
- World Bank Group. 2015. Leveraging Oil and Gas Industry for the Development of a Competitive Private Sector in Uganda. World Bank, Washington D. C.

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.

Budgeting for equity

Civil Society Budget Advocacy Group (CSBAG)
P.O. Box 660, Ntinda,
Plot 11 Vubyabirenge Rd, Ntinda Nakawa Rd
Fixed Line: +256-755-202-154
E-mail: csbag@csbag.org
Web www.csbag.org
@CSBAGUGANDA
CSBAG/Facebook.com