Civil Society Budget Advocacy Group

Civil Society Statement on the FY 2019/20 National Budget strategy

Industrialization for Job Creation and Shared Prosperity

Presented by CSOs at the National Budget Conference and Economic Growth Forum FY 2019/20

Background

1. In 2007, Government adopted the Comprehensive National Development Planning Framework with three, ten - year Development Plans, six five - year National Development Plans starting with NDP I (2010/11 to 2014/15) and NDP II (2015/16 to 2019/2020). These National Development Plans are aimed at transforming the Ugandan society from a peasant to modern and prosperous country within 30 years as envisioned in Uganda's aspirations contained in Vision 2040.

2. To operationalize this, Government under the auspices of the Ministry of Finance, Planning and Economic Development annually presents the National Budget. As part of the budget preparation process, Section 9 (3) of the PFM Act, 2015 requires the Hon. Minister of Finance Planning and Economic Development to prepare a Budget Framework Paper for each financial year in consistence with National Development Plan and the Charter of Fiscal Responsibility.

3. Government under the coordination of the Office of Prime Minister and the Ministry of Finance, Planning and Economic Development annually holds a budget Conference to review its performance aimed at identifying opportunities for growth, barriers to progress and the required remedies in the preceding year and build consensus on the budget priorities and strategies for the proceeding financial year.

4. This year's consultative meeting held on 13th September 2018 at Serena International Conference Centre will be land mark since it is spells out the strategies for the last year of the NDP II (FY 2019/2020). Inspite of the timing of this budget strategy, it is glaring evident to Government and its stakeholders that the performance of the economy in the last three financial years has been low and as such impeded attainment of the objectives of NDP II and consequently middle-income economy status is ultimately unattainable by 2020.

Economic outlook

1. On a good note though, the economy is on recovery following a period of slow growth as evidenced by GDP growth of 5.8%, 3.9% and 4.6% for the financial years ending June 2018, 2016 and 2017 respectively. This is largely because of the growth in services sector from 5.4% to 7.3%, industrial sector, which grew from 3.4% to 6.3% and the agriculture sector from 1.6% to 3.2%. It should be noted that the agriculture sector largely because of improved weather conditions, improved control of pests and diseases, seed distribution and provision of extension services, improvements in the public investment management.

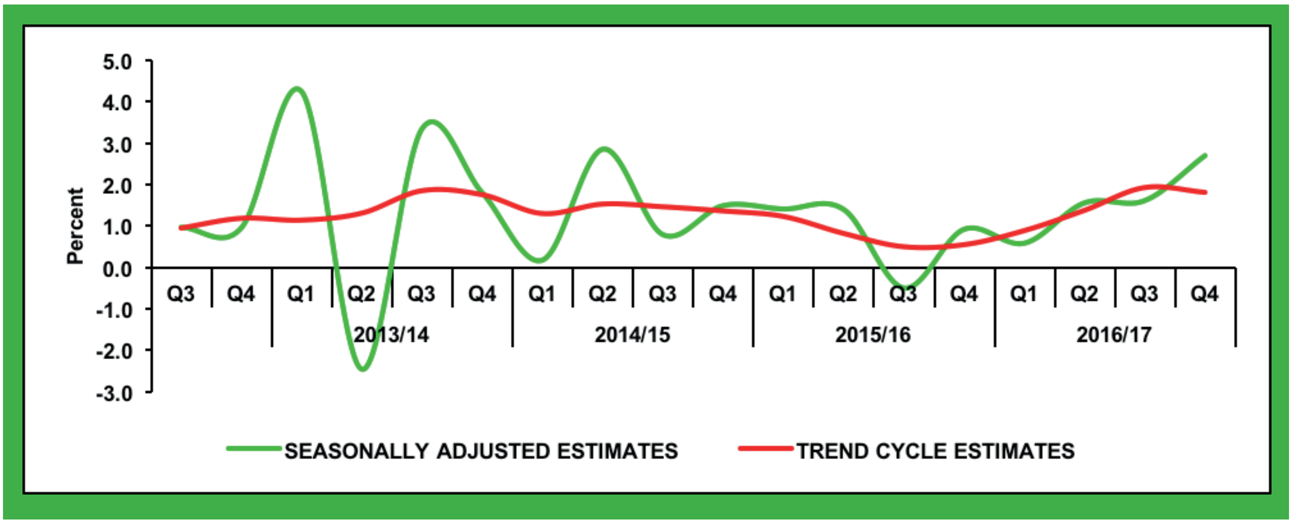
2. Global economy showed trends of improvement with growth increasing from 3.2% in 2016 to 3.9% in 2017. This has resulted from recovery of advanced economies in Europe and the US, increased commodity prices including crude oil, increased international trade volumes among others. Regionally, while trade volumes have reduced between South Sudan – initially Uganda's largest regional trade partner Kenya emerged the country's leading regional trade partner with increase in imports accounting for 15% of Uganda's trade volume against 10% exports.

3. Inflation remained relatively stable at a single digit in line with government targets. Annual headline inflation averaged at 3.6% because of increased agriculture output following favorable weather condition which characterized most the planting season in 2017 and 2018.

4. Inspite of the above, the rate of economic recovery is less that the NDP II target of 6.3% with an average of 4.7% for the last three financial years. This slow growth is largely attri buted to decline in agriculture production and productivity in the first two years of the NDP II due to unfavorable weather conditions characterized by long drought spells, erratic rainfalls, low quality seeds, slow economic activity, constraints to the private sector leading to high costs of doing business, high stock of domestic arrears, relatively high interest rate and limited options for finance among others.

5. Similarly, there has been an upward reversal of the poverty reduction levels as shown by the increase in poverty levels from 19.7% in FY 2013/14 to 21.4% in FY 2017/18. This trend is attributed to reduced social sector spending given Government policy on prioritization of

Figure 1: Quarter to Quarter percentage change in QGDP estimates



Source: UBOS 2018

infrastructure spending and key growth opportunities of tourism, mineral development, oil and gas, and agro industrialization, processing and value addition. This coupled with, inadequate social safety nets required to shield the vulnerable groups and poor from economic shocks bad weather, disasters and natural causes. Thus, vulnerable households easily slide back below the poverty line.

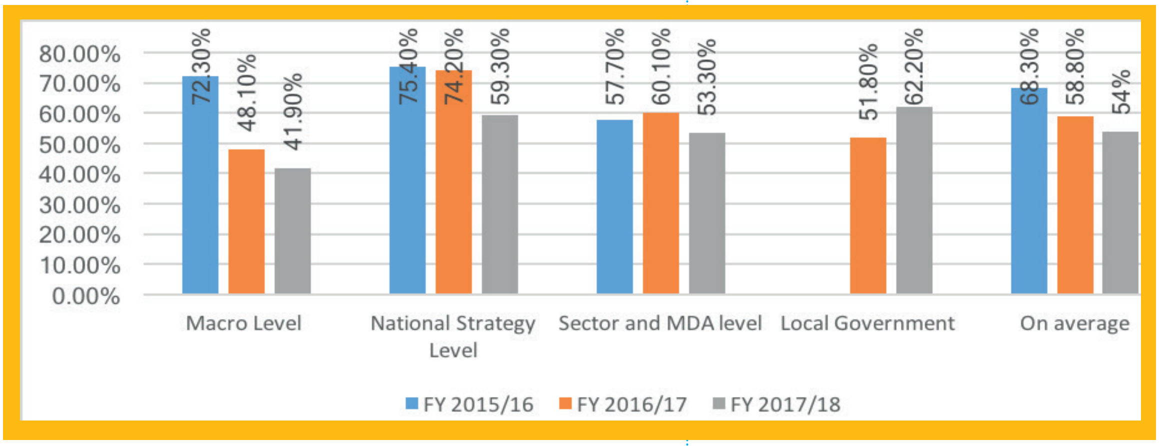
Table 1: Assessment of NDP II financing FY 2015/16 - FY 2018/19

Sector	FY 2015/16		FY 2016/17		FY 2017/18		FY 2018/19		FY 2019/20	
	Approved budget	NDP II projection	Approved budget	NDP II projection	Approved budget	NDP II projection	Approved budget	NDP II projection	Approved budget	NDP II projection
Agriculture	510.49	480.0	854.47	782.5	828.51	875.7	944.71	1,080.0		1,408.3
Lands, Housing & Urban Development	169.82	164.8	150.05	117.8	139.87	126.4	232.76	144.2		150.8
Energy & Mineral Development	2,858.44	2,826.4	2,418.13	2,969.1	2,319.80	3,602.3	2,485.07	3,467.1		2,283.6
Works & Transport	3,332.95	3,328.8	3,827.55	5,044.8	4,587.27	5,019.7	4,793.89	4,856.3		2,996.9
ICT & NG	96.27	66.7	80.00	33.7	104.34	45.1	181.07	61.2		93.9
Tourism, Trade and Industry	158.52	81.2	188.79	210.6	116.59	235.3	281.6	269.2		222.3
Education & Sports	2,321.24	2,029.1	2,745.76	2,789.3	2,573.03	3,105.7	3,351.63	3,711.8		5,150.5
Health	1,301.01	1,270.8	1,854.28	1,945.6	1,824.08	2,221.0	2,367.76	2,712.5		3,836.0
Water & Environment	576.82	547.3	736.41	592.7	632.03	287.8	1,318.68	321.7		327.8
Social Development	93.37	90.2	194.48	67.3	175.81	72.2	218.22	81.6		107.3
Defence & Security	1,650.92	1,632.9	1,588.02	1,413.5	1,472.76	1,516.7	2,136.16	1,713.1		2,253.3
Justice, Law and Order	1,096.34	1,051.4	1,159.77	976.8	1,119.66	1,065.3	1,447.47	1,272.4		1,318.8
Public Sector Management	1,017.60	948.3	1,384.42	1,455.6	1,450.05	1,543.8	1,863.55	1,723.3		2,239.9
Legislature & Accountability	1,408	1,377.0	1,466.9	742.6	1,459.99	840.3	1,764.35	862.0		767.6
Public Administration	765.20	760.8	541.64	631.0	563.40	677.1	642.30	764.8		1,006.0
Interest Payments Due	6,615.72	1,656.2	7,169.77	1,743.6	8,583.68	1,734.5	8,679.65	1,734.5		1,908.0

Source: NDP II FY 2015/16 – 2019/20 and Approved Budget Estimates FY 2015/16, 2016/17, 2017/18 & 2018/19

6. In regards the alignment of the released funds to the NDP II, there is a consistent worrying decline as illustrated by the decline from 68.3% in the FY 2015/16 to now 54% in the FY 2017/18. According to figure 2 below, we note that all areas of assessment have consistently declined. This is all despite the articulate budget strategies that have been read out to Ugandans in each of these FYs. The risks of not realizing the NDP II objectives is alive and even the budget strategies, since the annual budgets are consistently not aligned to the NDP II.

Figure 2: Performance trend by Annual Budget Compliance to the NDP II



Source: NPA Certificates of Compliance for the Annual Budgets for FY 2015/16, 2016/17, 2017/18

7. Therefore, the budget priorities and strategies should comprehensively focus on addressing the challenges that faced the first three years of the implementation of NDP II while building on the socio-economic development gains over the same period. To contribute to the debate and discussions for budget strategy for FY 2019/2020, we take an in-depth analysis of the key sectors of the economy in relation to the budget strategies over the last three years, their performance, challenges identified to impede growth and proposals for consideration;

Performance of the key sectors of the economy

a) International trade

1. The total value of goods imported increased by 16.8 percent to US$5,224.7 million during the 12 months ended February 2018, from US$ 4,473.6 million in the previous period ending February 2017. This increase was mainly due to higher private sector imports during the 12 months under review and increase in Government imports increased by US$91.3 million to US$ 457.3 million, driven by higher project imports related to the major infrastructure projects government is presently implementing. The trend is worryingly, increasing despite Government local content policy. This therefore, exerts pressure on the Uganda shilling as evidenced in the exchange rate losses on the shilling and upwards fluctuations on the exchange rate against the other currencies. Government policies on import substitution and foreign exports should comprehensively reviewed to factor in these issues.

2. On the other hand, total export earnings for the period March 2017 to February 2018 were estimated at US$ 3,435.1 million, an increase of 15.3 percent compared to the similar period ending February 2017. This is largely attributed to increased export receipts from coffee, beans, maize, tea electricity and industrial products. Coffee export receipts during the 12 months to February 2018 increased by 31.9 percent to US$ 543.1 million, compared to the previous 12-month period's performance of US $411.9 million.

3. Critical to note is the glaring disparity between the export and import volumes, which essentially have weakened the shilling as traders seek more dollars to facilitate imports. In addition, the exports reveal largely agriculture output, with most of it being raw material thus fetching unfavorable prices in the international market.

b) Revenue performance

The performance of domestic revenue has been growing at a slow pace with Ushs 14.5 Trillion collected against a target of Ushs 15,064 in FY 2017/18 translating into 14.2% of GDP, which is less than NDP II target of 16% and the EAC convergence average of 20%. While in FY 2016/17 Ushs 12.789 Trillion was collected against a target of Ushs 13.261 Trillion was collected. It should be noted that over the last three financial years, Uganda Revenue Authority posted shortfalls of Ushs 556 Trillion and Ushs 471.9 billion respectively. This was due to slow economic growth registered in the period under review. Regrettably, it is observed that Government resorted to domestic financing through market operations of the Central Bank to fund these shortfalls.

c) Public Debt

1. Uganda`s nominal public debt stock was US$ 10.3 billion as at 31st December 2017. Of this, external debt was US$ 6.9 billion while domestic debt was US$ 3.4 billion. This translates to 38.1percent of GDP. However, when future debt payment obligations are discounted to today's value, our Public Debt to GDP ratio stands at 28percent. This is much lower than the threshold of 50percent beyond which public debt becomes unsustainable. Uganda's public debt therefore, is sustainable over the medium to long term.

2. Of great concern however, is the increase in Uganda's public debt without a matched increase in economic growth or delivery of public investments. Between FY 2016/17 and FY 2017/18, public debt grew from USD 8.7 billion to USD 10.3 billion. Domestic debt has also been increased from USD 3.2 billion in FY 20116/17 to USD 3.4 billion. Inspite of this growth, absorption of externally funded projects stood at 75% thus indicating challenges or constraints to ongoing projects.

d) Infrastructure (Transport, Energy, ICT)

1. Government efforts towards development of the core infrastructure of the country are evident with the distance of 5,350km of paved roads constructed. Similar efforts have been observed in the energy sector with the construction of Isimba and Karuma Hydro Power Plants and several smaller plants across the country – all expected to generate electricity to meet its target of 2,500 MW by end of 2018. In addition, the laying of the national backbone for ICT is at phase four, which aims at covering the whole country. Construction of irrigation schemes to provide water for production is ongoing with Mubuku, Doho, Kibuku and Wadelai schemes complete and second phases commenced.

2. It is however, noted that while the paved road network has increased, the quality and life span of average roads has severely depreciated because of shoddy civil works, low contractor capacity, collusion and corruptions, low government capacity to monitor works and overloading of cargo freight. Equally, the national backbone infrastructure implementation has slowed as evidenced by non-coverage of most of the far to reach districts. While irrigation schemes have been constructed, the small holder farmers who comprise the majority of the farmer households do not have access to the schemes. Maintenance of delivered schemes and dams is also inadequate. Under energy, while the generation question is being addressed, the transmission and evacuation of the power is slow because of delays in acquisition of land. This is likely to result in a situation of redundant power.

e) Agriculture

1. Agriculture is one of Uganda's most crucial sectors of the economy employing over 72 percent of the population majority of them women and youth and contributing over 23.5 percent of GDP over the years. The NDP II aims to increase sustainable production, productivity value addition and Labour Productivity (GDP per Worker - USD) from $581 in 2012/13 to $ 977.77 in 2019/20.

2. However, key challenges to the sector persist including; bad weather characterized by erratic rainfall patterns with longer dry spells, pests and diseases, largely subsistence farming with over 43% of farmer households subsistence, and engaging in crop production, poor yielding varieties, inadequate extension services. Noteworthy therefore, is that the rate of government intervention does not match the requirements for attaining the NDP II targets and as such remains a farfetched dream if comprehensive action is not taken.

f) Tourism

1. Tourism was ranked as the leading foreign exchange earner for Uganda in 2016 generating about US$1.4billion annually, which is 26 percent of total foreign exchange and 9.9 percent of the country's GDP. The sector employs 520,000 people directly, and one million more indirectly. Over the last two financial years, the Tourism sector contribution to GDP growth grew from 2.6% to 2.7% in FY 2016/17 and 2017/18 respectively. The growth trends have been attributed to enhanced marketing of the country's tourism potential.

2. However, according to Government pronouncements in the three financial years, emphasis was put on increasing the stock of infrastructure in tourism areas, improve standards in the tourism services and increase the country's tourism visibility to attract national and international tourists. However, to date, many of the tourism sites remain inaccessible, tourism products are limited, and the dependence on foreign tourists.

g) Private sector development

1. Government committed to unlocking constraints to private sector development namely access to quality infrastructure (transport, water, energy and ICT), access to affordable long private sector credit, quality standards, low skills base of the requisite labour force thus low productivity, low creativity and innovation.

2. It is worthwhile to note that intervention efforts towards improving private sector development have been slow as such costs of production (electricity and transport) remain high, there's still Limited access to and options of financing (96% of credit is provided by commercial banks at interest rates above 22% despite the reduction in the bank rate); productivity remains low, labour force still has skills Gaps. In fact, the World Bank Ease of doing business report 2018 ranks Uganda at 122 of 190 countries. In comparative terms, Uganda's ease of doing business deteriorated from 115 in 2016. This is way behind peers like Rwanda at 41 and Kenya at 80.

h) Oil and Gas

Following the discovery of oil reserves in the Albertine Graben in 2006, government has put in place interventions aimed at increasing exploration, development and production of the resources. In the last three financial years efforts have been towards development of the oil infrastructure so as to accelerate the development of oil and gas sector. We however, note that the rate of development of the requisite infrastructure does not match the targets for delivery of the first oil by 2020. For example, of the 10 oil roads, about only half have reached / completed procurement stages, the financing for the airport is still being negotiated among others.

Proposed Budget strategies for FY 2019/2020

i) Priorities for growth

1. **Improve agriculture production and productivity.** As the single most employer of the majority population of the country (with over 75% depending on agriculture), this sector should be improved through an increase in sector funding allocation over and above UGX 681.7431 billion (excluding external financing) provided in the budget for FY 2018/19 to meet the funding requirements of UGX 1,408.32 billion required in the FY 2019/20. These resources should be focused on extension services, distribution of quality seeds, mini irrigation schemes given that most farmer households do not have access to large irrigation schemes, value addition through agro processing, development of cooperatives and provision of agriculture credit to farmer households.

2. **Align the Annual budget to the National Development Plans.** As government continues to make efforts to increase budget allocations to the social sectors of education, health, water and environment and social development, there is need for a deliberate effort to align and implement the sector annual budget in line with the development plans both national and sector. For example, for the FY 2017/18 whereas the education sector budget had an overall compliance of 50.9% to the NDP II, the specifics like project planning was at 33.4% and budget performance was at 45.6%. to put this in perspective is that over the last 3 FYs of the NDP II, UGX 10.9 trillion has been budgeted to the education sector. All this resource will not help achieve the human capital development goals of the country unless expenditure is aligned to annual budgets and the NDP II.

3. **Develop the tourism sector.** This sector being one of the fastest growing should be further developed with emphasis on fast tracking tourism infrastructure, support development of the tourism services, deepen tourism products and promoting local tourism. In addition, while efforts have been directed towards promoting Uganda's tourism abroad, similar efforts should be put towards promoting local tourism. This not only diversifies tourism earnings but also reduces the risk of dependence on foreign tourists.

4. **Increase interventions for human development.** Allocations to health, education, water and sanitation should be matched with the current populations in relation to the established facilities. While emphasis on infrastructure development are appreciated, strategies for human development should be emphasized for a healthy and skilled labour force. Therefore, efforts should be geared towards fast tracking National Health Insurance Policy, vocational training, skills development in line with the requirements of the private sector, sanitation campaigns to reduce on the disease burden, and increasing water access to all the population. This can be done through targeting to have the allocations for NDP II Yr5 and the FY 2019/20 budget for health and education synchronized at UGX 5,150.5bn and UGX 3,836.0bn respectively.

5. **Improve efficiency in delivery of public private investments.** Improve delivery of public and private sector

1 Approved budget estimates FY 2018/19
2 National Development Plan II FY 2015/16 – FY 2019/20

investments to realize the envisaged growth dividend. Public investment service programmes and projects should be implemented timely. Therefore, barriers to implementation such as delays in land acquisition, poorly designed projects, inadequate counterpart funding for externally funded projects should be addressed ahead of project implementation. Similarly, resources should be earmarked towards the operation and maintenance of public assets upon delivery to enhance utilization and sustainability of the economic life of the assets. Capacity in Public Investment Management should as well be built throughout government.

6. **Fast track opportunities in oil and gas.** There is need to accelerate the development of the infrastructure for the oil and gas sector if the benefits are to be harnessed. Aware that Uganda has above 6.5 billion barrels of oil with 1.4billion economically recoverable, the need to commence commercial exploration should not be over emphasized. Investments in the oil roads need to be fast tracked, the Hoima Airport, physical planning of the Albertine Graben region should be cascaded to the respective districts for operationalization so to guide urban, industrial, residential and social service facilities development. Deliberate efforts should be put to sensitize the masses to increase investments in the agriculture output to take advantage of the cargo airplanes that will be delivering oil and gas cargo and returning empty. Therefore, development of forward and backward linkages in agriculture should take centre stage to harness the opportunities that the sector presents.

7. **Development of the requisite skills required by the sector is another critical are of intervention.** While government has been encouraging oil as gas training, middle and lower level technical skills necessary for the sector. This will not only create a critical mass of experts required in the industry but also reduce the risk of reliance on externally man power that is usually costly to the economy.

8. **Operationalization and Promotion of the local content policy in the oil and gas sector is critical to ensure shared benefits for all.** Important to note is the need to build capacity of the private sector in relation to the technical, human and financial requirements of the sector

Revenue mobilization and financing

1. Government should diversify interventions in the private sector particularly the informal sector which largely remains untapped. Through tax payer education campaigns registration of new tax payers, enforcement of compliance. Government should also review the taxes that affect the activities and wellbeing of the poor and vulnerable e.g. SACCOs, mobile money, among others.

2. Government should not sign financing agreements for projects which are still under preparation and development to avoid payment of commitment fees, and charges for unutilized resources. Options for local financing of the budget using established funds such as NSSF need to be further explored.

Conclusion

Government efforts towards attainment of its medium term and long-term aspirations are well appreciated. Comprehensive interventions and strategies are required to exhaustively unlock the constraints to growth and development. A broader framework for tracking the progress made over the first three years of the NDP II is required to inform Government of the key implementation challenges, devise remedial action and consolidate the gains made. More importantly, the need to fast track and monitor strategies for social service delivery need not to be over emphasized.

We thank Government of Uganda for recognizing the need for more dialogue and collaborative approaches towards budgeting for socio economic transformation of the country.

VISION:

A Uganda with a people centered budget that dignifies humanity.

MISSION:

CSBAG works towards ensuring that budgets at local and national levels are participatory, pro-people and address the needs and aspirations of all Ugandans especially the poor and voiceless.

CSBAG

Budgeting for equity

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