

Civil Society Statement on the Economic and Budget Strategy for FY 2006/07

**Delivered by Uganda Debt Network (UDN) at the Public Expenditure Review
(PER) Workshop**

Tuesday, 9th May 2006; Speak Resort Munyonyo

H.E. The President of the Republic of Uganda
The Rt. Hon. Prime Minister
Hon. Minister of Finance Planning and Economic Development
Hon. Ministers Present
Hon. Members of Parliament
The Development Partners
Distinguished Participant
Ladies and Gentlemen

Introduction

1. On behalf of Civil Society Organisations (CSOs) working under the Civil Society Budget Advocacy Group (CSBAG)¹ framework of which Uganda Debt Network (UDN) is member, we would like to appreciate the invitation extended to us to participate in this important meeting and especially for the opportunity to make a statement on the National Budget Framework Paper 2006/07. We wish to thank the Minister of Finance, Planning and Economic Development for the clear presentation of the Economic and Budget Strategy for FY 2006/07. We recognize that the coming FY presents a major challenge both to the budget execution and to the management of the economy.
2. We appreciate the various budget consultations that have taken place over the past months and in the previous years. We note that when such important meetings as the Public Expenditure Review have been held in the past, CSOs, the Private Sector, Local Government, the public and the media have raised pertinent issues in the hope of improving public expenditure management in Uganda. Many of the issues, however, have not been dealt with decisively and they remain outstanding challenges year in, year out. We have mentioned in several PER meetings issues regarding the need to deliver value for money, eradicate corruption, reduce wasteful expenditures in public administration, reduce duplication of service provision by various parallel commissions and numerous secretariats, and increase funding to the productive and agricultural sectors, among others. We call upon government to take up our concerns seriously.

Revenue Generation

3. We take note of the shortfall in domestic revenue in the coming FY 2006/7 projected at Shs. 2,536 billion, being attributed to shortfalls in both tax and non-tax revenues. And with

¹ CSBAG is a loose coalition of CSOs in Uganda working to ensure that national and local budgets are pro-poor. Members of the Group include: Uganda Debt Network, Uganda National NGO Forum, World Vision International, Uganda Coalition for Sustainable Development, Oxfam GB, CEEWA, Environmental Alert, Mbarara NGO Forum, Forum for Women in Democracy, Caritas Uganda, FENU, Uganda Land Alliance, ACODE, UCRNN, CDRN, UNHCO, Gulu NGO Forum, Apac Anti Corruption Coalition and NUDIPU.

increasing reduction in donor funding and slow growth of the economy (projected GDP growth of 4.9%) the situation might worsen. We suggest that beyond strengthening the efficiency of tax administration, and devising new ways of raising more revenue, there is need to improve budget efficiency through spending on key critical priority programmes that have a direct impact on the poor.

4. Government needs to critically review the likely impact of any new tax proposals on the poor, before instituting such measures to avoid “milking a starving cow”. Though most of the poor are shelved from paying income tax, they still have to absorb tax incidences of VAT, import duties and excise tax. Evidence from household surveys indicates that the poor are increasingly paying more VAT since they consume more of VAT-related products with higher rates of inflation due to scarcity of small denominations (coins of Ug Shs 200 and below).

Pro-poor spending

5. We acknowledge the increase in government spending on the Poverty Action Fund (PAF) from 25 percent of the Discretionary GoU Budget in 1998/99 to about 38 percent in 2006/07. However, we are angst-ridden at the increasing levels of poverty in the country, where over 37 percent of the population is living below the poverty line. We believe that rampant corruption and mismanagement of funds, coupled with civil conflict and military response- (especially in Northern Uganda), and anti-poor policies continue to barricade pro-poor spending in the country.
6. We feel that the current policy design and programme interventions do not effectively address the needs of a certain category of the poor (especially the non-active poor). Findings from Chronic Poverty Report (2005) reveal an estimate that 26 percent of the total population (over 7 million) live in chronic poverty. Government, through the budget needs to pay more attention to the needs of this group who form the majority of the poor in the lowest quintile. More resources should be focused on increasing spending on social protection, enhancing access to assets for chronically poor people (education and women’s land rights), and investing in the agricultural sector (especially revisiting the provision of free extension services to the farmers) and finding a peaceful resolution to the conflict in the North.
7. It has been widely acknowledged that, in a country characterized by a high incidence of poverty, if a few people can find themselves in positions where they can defraud poverty-sensitive budgetary allocations, the distributional consequences can be very serious. Embezzlement of public funds and thefts have been rampant and are partly responsible for the worsening income distribution in the country. Government must prosecute and ensure that lost monies in the hands of public servants are recovered. It is only when drastic and even demeaning acts against this vice are taken that there will be a disincentive for corruption.

Energy Crisis

8. The draft Poverty Status Report (PSR) 2005 very ably summarizes the problem that the nation is facing and will continue to face as the energy problem deepens. We consider this a priority action area that Government must come out boldly to resolve. While we acknowledge government efforts to address the problem through, among other things, increased investment in thermal generators and hydro-power at Karuma and Bujagali dams, we consider the response inadequate, both in the short term and long term. The current energy crisis is part of a bigger challenge of insufficient planning and support for the productive sectors of this economy including power generation and agriculture which are key to the country’s growth and development.

9. We also recognize government's efforts to invest more Shs. 90 billion and Shs. 20 billion on power generation and rural electrification respectively. We feel that the allocations in this sector are inadequate to address the crisis the economy is facing. More emphasis should be put towards increasing generation capacity to meet the current demand. More funds should be allocated to the energy sector as a matter of urgency, even if it means cutting funding to some sectors.
10. We agree that there is need to invest in alternative sources of energy, such as thermal, solar among others. However, government needs to review their sustainability especially with the rising world oil prices and long-term implications on costs of production and people's living standards. We propose that government provides subsidies (waiving of duty on fuel used by industrial generators) to not only large-scale producers, but also small-scale manufacturers and producers. Given the fact that the majority of Ugandans are employed by Small Scale and Medium Scale enterprises- many of which are informal- and over 85 percent are self-employed, government needs to develop strategic policy intervention to protect them.

Agriculture

11. We have to accept the fact that agriculture is a major contributor to the national income, and that supporting agriculture development is key to poverty reduction. The GDP share of agriculture has declined from 51% in 1991/92 to 38% in 2002/03, reflecting productivity constraints in the sector given its declining rate of growth. With over 68 percent of the population employed in agriculture, improvements in the sector would be of great significance to poverty eradication in the country.
12. We are concerned that resource allocation to the agricultural sector has continued to be dismal, and in most cases suffer from budget cuts. For instance, the agriculture budget is projected at 3.5 % of the total 2006/07 budget as compared to 4.0 % in 2005/06. This contradicts government's claim that agriculture is among its major priorities, through which to eradicate poverty. With increasing poverty among households engaged in crop agriculture, from 39 percent in 1999/2000 to 50 percent in 2002/3, we would have expected more emphasis in terms of resource allocation towards the sector. The public good aspect of agriculture should be emphasised much more than the business arm, at least under the present circumstances where more financing is required to make strategies such as PMA and the RDS work. As long as the budget does not lead to sufficient growth in the agricultural sector, there is no way any level of general economic growth will generate and sustain poverty-reducing impacts.

Cost of Public Administration

13. We are concerned about the increasing cost of public administration in Uganda especially under Economic Functions and Social Services, Public Sector Management and Public Administration. The three above-mentioned sectors are taking close to 29 percent of the total 2006/07 budget. The large numbers of public office holders, new districts, MPs, and multiple layers of bureaucracy are expensive to finance. We request government to take serious measures, for instance a) by not creating new districts that are not economically viable b) reducing the size of parliament and not accepting to pay them pension and gratuity at the same time c) reducing statutory commissions and authorities that drain the public expenditure d) reducing the number of Presidential Advisors.
14. We are also concerned about the increasing wage bill that stands at over 33 percent of the 2006/07 total Discretionary GoU budget as compared to 31 percent in 2005/06. This is actually higher than the development budget that stands at 22 percent of the 2006/07 total discretionary

GoU budget. In spite of the high wage bill, public servants suffer low morale which diminishes their performance. At the same time, government should harmonise pay for public servants and eliminate wage differentials between those in mainstream public service and those working on projects.

15. We are also concerned about the over US\$ 50 million (as reported in the media) for financing the Commonwealth Heads of Government Meeting (CHOGM). Given that the economy is constrained by a limited resource envelope, we would expect only a minimal financial contribution by government and the bulk of the investments and expenses are met by the private sector and the foreign governments.

Supplementary Expenditures

16. We have realised that there have been a very big deviation between approved budget figures and actual releases in some government agencies over time. Supplementary expenditures usually favour certain sectors at the expense of others, and thus grossly counteract the original objective of budgeting by skewing the actual spending to sectors that may not have much direct impact on poverty such as public administration. For instance, public administration has continued to take over 50 percent of supplementary expenditures. We request government to deal with supplementary expenditures at both the technical and political levels very seriously.

Northern Uganda Reconstruction

17. While we do appreciate all the efforts being made to resolve the conflict in Northern and North Eastern Uganda, CSOs believe in addition to extending immediate relief to the people for resettlement purposes, a more protracted strategy which takes in account the need to develop social and economic infrastructure must be adopted. For this purpose, Northern Uganda will need more than the Shs 19 billion resettlement kits for IDPs. We are of the view that the current 16 percent of the total Central Government transfers to Local Governments that goes to Northern Uganda should be increased given the alarming levels of poverty and lack of social services in the region.

Government Civil Society Relationship

18. We appreciate government's commitment to involve CSOs in policy and development processes. However, we are concerned about the legal framework and narrowing space for civil society participation. We are particularly worried about the passing by Parliament on 7th April 2006 of the NGO Registration (Amendment) Act, 2006, which if enforced in the manner with which it was passed will greatly undermine the partnership hitherto enjoyed between Government and NGOs. We are committed to working with the appropriate Government departments to ensure that our concerns with the impending legislation are addressed before the Act is assented to by H.E The President of the Republic of Uganda.
19. We request for active involvement in the budgeting and budget execution processes given the current weaknesses in horizontal and downward accountability. CSOs present the most viable option for ensuring the emergence of public institutions and processes that promote pro-poor spending.

Thank you.