

Civil Society Statement on the Budget Strategy for FY 2007/08 and the Medium Term

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

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The Rt. Hon. First Prime Minister
Hon. Minister of Finance Planning and Economic Development
Hon. Ministers Present
Hon. Members of Parliament Present
The Development Partners
The Civil Society Representatives
Distinguished Participants
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 Budget Strategy for FY 2007/08 and Medium Term. We wish to thank the Minister of Finance, Planning and Economic Development for the clear presentation on the Budget Strategy for FY 2007/08 and the Medium Term.
2. The national budget needs to be re-oriented towards releasing funds for the more pragmatic and direct poverty reduction and growth strategies as captured in the PEAP 2004/06-2007/08, Rural Development Strategy and the NRM Manifesto. As CSO we strongly believe that Uganda's financial challenges do not emanate from the lack of resources as such, but rather the expenditure priorities coupled with budgetary indiscipline. In order to release funds for key national development priorities the following areas need urgent attention and rationalization.

Real GDP Growth

3. The budget strategy for FY 2007/08 has targeted GDP growth of 6.2% based on improvement in Agriculture; yet Agriculture's contribution to GDP growth has been experiencing a declining trend from 1.6% in 2000/01 to 0.1% in 2005/6 (Background to the Budget 2006/07). It is unrealistic for government to project growth of 6.2% considering that the Agriculture sector is still experiencing productivity constraints (high vulnerability to extreme weather and climate variation) and limited funding (only 3.5% of the national budget).

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, Forum for Women in Democracy, Environmental Alert, Oxfam GB, Uganda Coalition for Sustainable Development, Action Aid International Uganda, Uganda National NGO Forum, African Centre for Trade and Development (ACTADE), Uganda National Health Consumer's Organisation, Caritas Uganda, World Vision International, Africa Leadership Institute, CEEWA, Mbarara NGO Forum, Forum for Education NGOs in Uganda, Gulu NGO Forum and Apac Anti Corruption Coalition.

4. The widening gap between the rich and the poor as measured by the Gini coefficient² currently stands at 0.43. This means that the benefits of growth and income distribution have continued to be in the hands of the richest 20%. The continued decline in agricultural growth has compounded the problem of income inequality. Unfortunately, the Agriculture sector is continuing to get a lip service from government in form of funding and strategic policy intervention.

Inflation

5. We appreciate that low inflation rates are conducive to private sector growth and investment. However, we are concerned that the stringent measures in controlling inflation are an impediment on increasing government spending on poverty reduction programmes i.e. in health and water. According to the UNDP (International Poverty Centre), the IMF concerns about safeguarding macroeconomic stability in Africa prevented governments from spending over 70 per cent of the Official Development Assistance that they received during 1999-2005³. We believe that increased aid flows would enable fiscal policies to become more expansionary and monetary policies should support such fiscal expansion. Otherwise, Government will have little chance of undertaking the public investment needed to reduce abject poverty levels in the country and indeed the achievement of the Millennium Development Goals.

Competitiveness and Private Sector Growth

6. In order to enhance competitiveness and private sector growth, government needs to revise the 1991 Investment Code and develop a clear competition policy that will encompass the interests of potential investors, both local and foreign.
7. In addition, there is need to harmonize or merge and empower the institutions such as Uganda Investment Authority (UIA), AGOA Secretariat, Uganda Export Promotion Board, Public-Private Partnership Unit, Department of Investment in MFPED that work towards the promotion of investment in the country. This will reduce investors' transaction costs (time and resources) spent in undertaking investment in Uganda. The harmonization will reduce expenditure pressures and free money for other development programmes.
8. There is also need to classify and Prioritize investment sectors in line with the country's needs so as to find the badly needed investors for instance trends continue to indicate that Uganda needs job creation and export promoting investments. This will help in increasing incomes and revenue inflow from exports.
9. Furthermore, there is need to improve investor confidence through fighting corruption, improving governance and timely clearance of government arrears to the private sector.

Employment and Pension Reforms

10. With annual growth in labour force of 3.5%, it is pertinent that government invests more in sectors that have a direct impact on employment creation such as agriculture (agro-processing, value addition). In addition, government should provide a conducive environment (access to farm inputs, credit, market information, etc) and legislation that can support the development and strengthening of farmer's cooperatives and saving associations to protect the members. Government should expedite the process of implementing the National Employment Policy with special emphasis on youth employment and investment in employment generating sectors.

² The Gini Coefficient measures inequality and take the values 0 if everyone has the same income and 1 if one household has all the income. Puts Uganda in the relatively high-inequality group among African countries (PEAP 2004)

³ Why Is Africa Constrained from Spending ODA (<http://www.undp-povertycentre.org/pub/IPCOnePager34.pdf>)

11. We are concerned about the slow pace of reforming the NSSF and Government Pension Schemes. The reforms are vital in creating efficiency and freeing money for national development, considering the fact that life expectancy in Uganda drastically oscillates between 40 to 45 years government policy should not be blind to this glaring reality the relevant laws should be amended to take care of short life of the country's labour force. Pension funds should be prudently invested in development projects that benefit low-income earners through employment and investment opportunities.

Resource Projections over the MTEF 2007/08

12. We are apprehensive that the development of the MTEF has continued to be a preserve of the macroeconomists in the MFPED with diminutive input of other stakeholders such as Parliament, research and academic institutions and CSOs. Government should ensure that the MTEF is more needs-based rather than entirely macro-economic-based and its development should involve broad discussion and consensus.
13. We are concerned that there are increasing project loans over the MTEF (on average 76% of external financing is project loans BFP 2007/08) which is in contradiction to the Donor-Government commitment to aid harmonization and effectiveness under Paris Declaration, which also aims at reorienting the national budget to the country's priorities.
14. We would like to know from the relevant Ministry and Government Departments why Government is continuing to pay large sums of money on amortization of external debt in a range of \$80 million year; yet Uganda benefited from the Multi-lateral Debt Relief Initiative (MDRI) in 2005 and is borrowing on concessional terms from the World Bank and IMF. Government should publicly declare how much the country is receiving from debt relief and what impact it is making on the overall budget or resource envelope.
15. We welcome the new proposal towards improving management of external loans and grants through Parliamentary approval and legal opinion of the Attorney General. Nevertheless, Government needs to develop a comprehensive legal framework (law) on loan contraction processes and debt management. The process of acquiring loans and grants should be open and transparent and the MoUs signed between Government and donors should be made public.

Revenue Generation

16. We recognize with caution government's efforts to increase domestic revenue from 13.9% in 2006/07 to 14.1% of GDP in 2007/08. However, we are concerned that the projected growth in tax revenue of 0.2% is too small compared to the projected growth in GDP of 6.2%. We would have expected the growth in domestic revenue to be commensurate with the growth in GDP. Questions that merit asking here are how feasible are these projections and what are the implications on the overall resource envelope.
17. We are concerned that the inefficiencies in tax administration such as tax avoidance and evasion, corruption and leakages in tax management and lack of a clear policy framework on tax incentives to investors have continued to hamper the growth the country's tax revenues. Unfortunately, the National Budget Framework Paper does not provide adequate proposals to comprehensively address these loopholes.
18. Given the poor performance in sectors on which tax increments were levied in the last FY (such as excise duty on beer, cement, soft drinks and sugar), government should ensure that adjustments in taxes rates or new tax proposals do not stifle some sections of the already over burdened formal sector, but should explore other sources in the informal sector.
19. The poor still absorb high tax incidences of VAT, import duties and excise tax which will most probably face increased attention of government in an effort to raise more domestic revenue.

Evidence from the Household Survey indicates that the poor increasingly pay more VAT as percentage of their total income. This is further compounded by the continued scarcity of small denominations (100, 50, 20, 10, 5) which increase the magnitude of price movements in low priced commodities such that the poor pay an increasing share of the consumption taxes. For example, a bar of washing soap and a small piece (*Ekitole*) that would have cost 850/= and 133/= are often rounded off to shs 900/= and shs 200/= respectively.

20. We are cognizant of the fact that the urge to increase the PAYE threshold from 130,000/= will lead to revenue loss amounting to about Shs. 90 billion shillings. However, we believe that the current threshold is too low to accord the poor income earners (especially those in formal employment) a minimum level of livelihood and disposable income, for instance the monthly consumption expenditure per household in Kampala stands at around 320,000/=. Government should seriously consider raising the threshold to at least 200,000/= and subsequently making its more progressive as one's income increases.
21. We are concerned that the Non Tax Revenue (NTR) has continued to be so low approximately 0.5% of GDP in comparison with 11% and 9% in Kenya and Tanzania respectively (ADB, 2004). Government should address the inefficiencies in agencies that collect and remit Non Tax Revenue. Furthermore, the dividends from public companies and proceeds of privatized companies should be audited by the Auditor General and reflected in the national budget.

Resource Allocation over the MTEF 2007/08

22. We are concerned that Government is not setting her budget priorities clearly and in relation to the PEAP objectives. The majority of the additional funding as presented in the BFP (page 148) is being allocated to sectors which have little direct impact on poverty reduction. For instance, while public administration takes 23% (55.5bn) human capital only takes 15% (37bn). Worse still, there is no allocation to essential drugs which require an additional 29 billion, while the Parliamentary Commission has been allocated all the additional 17.52 billion required (as shown in Table 1).

Table 1: Proposed Budget Allocations of Additional Resources FY 2007/08 (Shs Bn)

Sector	Additional Requirements	Total Proposed Additional Allocations FY 2007/08	Funding Gap	Percentage Funding Gap
Infrastructure	293.5	91.0	202.5	69.0%
Human Capital	192.2	37.0	155.2	80.7%
o/w Essential Drugs	29.0	0.0	29.0	100.0%
Rural Dev't	174.0	70.2	103.8	59.6%
o/w N. Uganda Reconstruction	0.0	0.0	0.0	0.0%
Public Administration	129.5	55.5	74.0	57.1%
o/w Parliamentary Commission	17.5	17.5	0.0	0.1%
o/w G-Tax Compensation	20.0	8.0	12.0	60.0%
Total	789.24	253.7	535.54	67.9%

Source: National Budget Framework Paper for FYs 2007/08- 2009/10

23. In addition, a large portion of the budget is allocated to the central government programmes rather than local government programmes where actual service delivery is taking place. For instance, over the MTEF, 77% of the proposed budget projects will be spent at the centre and only 23% for Local Government Programmes (conditional, non-conditional and equalization grants). This contradicts the decentralization policy and effective service delivery demands. There should be a progressive increase in projected spending on Local Government programmes over the MTEF.

Northern Uganda

24. While we do appreciate all the efforts being made to resolve the conflict in Northern and North Eastern Uganda, CSOs believe that 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.
25. We are concerned that the BFP neither reflects additional funding requirements nor proposes additional funding for the FY 2007/08. This contradicts the current social economic crisis in the region characterized by high poverty and illiteracy levels, high infant and maternal mortality rates, dilapidated infrastructure and insecurity. Government should provide additional budgetary resources that are commensurate with the magnitude of the challenges in the region.

Agriculture

26. We are concerned that the agricultural sector has continued to be ignored in terms of strategic policy intervention and funding. Allocating only 4.1 percent of the national budget to Agriculture does not only defeats the Government's commitment to poverty reduction and improved incomes for the poor but a breach of the MDGs commitment for 2015. Government needs to show commitment beyond mere rhetoric with concrete increased funding to the sector.
27. The agriculture sector has continued to face severe productivity constraints as shown by the declining contribution of the sector to GDP growth from 1.6% in 2000/01 to 0.1% in 2005/6. Some of the constraints such as limited research and development; pest and disease control cannot be addressed by the private-sector-driven conceptual framework as indicated in the PMA. Unfortunately, the NAADS model is failing to address these constraints, for instance, 14 percent of the households in Uganda have access to extension services. Government should consider reviewing the conceptual framework of PMA and her sister programme NAADS towards making concrete public interventions to support subsistence farmers in the country. Government needs to directly intervene through investment in research and development, pest and disease control, farmer education and price stability.
28. We are cognizant of the fact that the NAADS programme has so far covered 47 percent of the 595 sub-counties in 29 districts. However, we are concerned that the programme is thin on the ground even in the districts of current operation. We therefore propose that NAADS first fully covers and consolidates its work in the current districts of operation before expending to new ones.

Housing

29. We are aware of the fact that without adequate housing, employment is difficult to secure and maintain, physical and mental health is threatened, education is impeded, violence is more easily perpetrated, privacy is impaired and relationships are strained. Poor housing conditions are associated with pests and diseases that are a menace to the health of the people. Inadequate sanitation and hygiene arising out of poor housing and sanitary facilities are major causes of poor health and poverty.
30. We are concerned that the National Budget Framework Paper only focuses on housing for the President and cultural leaders and no resources are allocated for the poor, especially slum dwellers. According to international standards, housing should be accessible to all, including the poor, and priority should be given to the most vulnerable, especially given the fact that 81 percent of households in Uganda live in temporary houses.

Budget Indiscipline

31. We have realized that there have been very big variations between approved budget figures and actual releases in some government agencies over time. There are persistent and perpetual supplementary expenditures especially by the "so called" powerful ministries, Public

Administration and Security sectors, yet there other pressing development issues. For example, the released budget performance for the Energy sector in FY2005/06 was only 49% compared to State House's 150 % (BFP 2007/08). Supplementary expenditures have continued to favour certain sectors at the expense of others, and thus grossly counteract the original objective of budgeting by skewing the actual spending in favour of sectors that may not have much direct impact on poverty.

32. The budget call circular of 2006/07 and 2007/08 required that all accounting officers must show how they intend to address gender and equity issues in their sectors. We are concerned that the majority of sectors did not attempt to follow these instructions. We therefore call upon the Ministry of Finance to enforce the use of budget call guidelines to ensure that the resource allocation equitably addresses the needs of poor and marginalized groups such as poor women and men and PWDs.

Public Administration

33. We are concerned that the activities in the Budget Framework Paper for the Office of the President and State House are not costed (it is a block budget). For instance, spending priorities of both sectors in the NBFP (2007/8-2009/10) are not clearly stated. We are worried that the lack of budget break down might result into inadequate monitoring and evaluation of activities, encourage misallocation and poor utilisation of public resources.
34. Furthermore, we are concerned that State House and the Office of the President have continued to take a large portion of the Public Administration budget in relation to other government agencies. In addition, the same agencies continue to command a high portion of the supplementary budget expenditures. For instance in 2005/06 State House and the Office of the President received over 35% and 50% above the approved budget respectively. This is an indication that both agencies offices are failing to clearly state their priorities, so that they can be incorporated in the overall resource envelope, so as not encourage budget indiscipline and distortions.
35. We are concerned about the enormous fleet of Government vehicles and subsequent cost incurred on purchases and maintenance. The proposed expenditure of UG shs. 221 billion on purchase of government vehicles during FY 2007/08 is definitely a big and non-priority expenditure considering the need for direct intervention in poverty reduction.
36. Worse still a big government fleet of 12004⁴ (6,571 vehicles and 5,433 motorcycles) by December 2005, excluding all those managed under government projects in the country slaps a hefty burden through buying fuel, oils and lubricants. The bill of over UG shs. 91 billion on fuel, oil and lubricants and repair of the huge Government fleet during FY 2007/08 is irrational.
37. We intend that government exercises restraint on the indiscipline of some civil servants who particularly those who use motor vehicles for personal reasons yet obtain fuel requisitions from the offices they occupy. We demand that such resources like cars should be parked if the officers are on duty or in office.

Accountability and transparency

38. We are concerned about the continued misuse of public resources as reflected in the reports of the Auditor General, Parliamentary Accounts Committee, Commissions of inquiry and the Media. More specifically, we are concerned about the abuse of the Consolidated Fund and flouting the laws and regulations governing public financial discipline in Uganda. For instance, according to the Auditor General's Report 2005, the Bank of Uganda Balance Sheet on domestic borrowing reflected Shs. 981 billion of which up to Shs. 923 billion was overdrawn

⁴ Parliament of Uganda, Annual Expenditure on Government vehicles, Oct. 2005

without authority. The Government should provide a clear explanation on where the money for bailouts of private business people, institutions and other agencies comes from, since it is never reflected in the national budget.

39. The Auditor General's Office has not been given its autonomy and funding to effectively execute its duties. Furthermore, Government has not shown commitment towards implementing the recommendations of the Auditor General and Parliamentary Accounts Committee. Government should expedite the process of enacting the Audit Bill to strengthen accountability and transparency in Uganda.
40. We appreciate Government's efforts in the reporting of budget performance in form of releases and outputs. However, we are concerned that the outcomes of the budget releases are not reflected in the budget. We believe that value for money audits will capture the outcomes of the budget and will facilitate prudent resource allocation, utilization and accountability.
41. We request Government to provide legislation that requires corrupt officials first of all to refund the lost/embezzled funds and or suffer imprisonment for given term and forthwith forfeit office this will serve to deter the practice and enforce zero tolerance to corruption.

Thank you.