

Review of the 2003/04 Uganda Budget and its Relationship to the Poverty Situation in Uganda

In spite the Uganda government's commitments to poverty eradication as stated in the budget speeches and Poverty Reduction Strategy Papers (PRSPs) seem not to correspond with the adequacy of committed resources for the same critical areas or for taking a skewed view of funding within the same critical areas.

Uganda Debt Network (UDN) carried out a review to assess the relevance and effectiveness of 2003/04 Uganda national budget to poverty reduction. The objective of the study was to comprehensively review and analyse the prioritization in budget allocation to critical poverty reduction areas and to determine its relevance and effectiveness to poverty reduction.

The paper analyses the current budget policies conform to the poverty eradication policies as enshrined in the revised Poverty Eradication Action Plan (PEAP); identifies divergences in the intended budget proposals as contained in the Budget speech, the background to the budget and the Medium Term Expenditure framework (MTEF); outlines the deficiencies in the budget proposals in view of the government's declared policy of operating Performance Oriented Budget.

Despite the government's stated macroeconomic achievements household incomes have remained low. Though there was a reduction in levels of absolute poverty from 46% in 1996/97 to 34% in 2000, the recent trends indicate deepening poverty with 38% of the population leaving below the poverty line in 2003 with 90% of the poverty being contributed by rural households. Other worsening indicators show that 62% of the poor are; HIV/AIDS and malaria remain the most serious health hazards. This is serious challenge for Uganda with respect to PEAP targets and Millennium Development Goals (MDGs).

Ugandan government has undertaken various bold steps to deepen the budget preparation process and improve the level of participation of various stakeholders through the Sector Working Groups (SWGs), Public Expenditure Reviews and Local Government Budget Consultations. However, the participation has not reflected prudent management of the national resources.

The domestic revenue to GDP ratio for 2001/02 increased to 11.8 percent, from 10.8 percent in 2000/01. Non-tax revenue remains below 0.5 percent of GDP compared to Kenya 11% and Tanzania 9%. This is inconsistent with the growth rates in revenue in terms of GDP experienced in the mid-1990s. The shortfalls in revenue collection have been attributed to the poor tax administration, corruption, non-compliance, un taxed informal sector, granting of value added tax (VAT) exemptions, and the lowering of import duty rates.

Due to low domestic revenue, Government has been supporting public expenditure by attracting substantial aid inflows. Donor support accounts for about 55% of the total national budget and more than 85% of the Development Budget. The failure to increase enough revenue has always necessitated corresponding reduction in government expenditures in key poverty reducing sectors.

Uganda prepared its first PRSP or Poverty Eradication Action Plan (PEAP) in 1997, which was revised in 2000 and under revision now. The PEAP is widely praised as a comprehensive yet realistic poverty reduction strategy grounded in a Medium-Term Expenditure Framework (MTEF). Spending on key poverty-reducing activities, such as Primary Health Care, is protected through the Poverty Action Fund (PAF), ensuring that policy promises are backed up with financial resources. This year's budget theme of "increased production for increased exports and the eradication of absolute poverty" can not be achieved with the current rates of growth. For Uganda to reach its poverty targets, the economy will need to grow by 7% per annum; at present, the growth rate is 4.5%.

The trend of the sectoral budget for key poverty reducing sectors indicates allocation shares that have not been improving that much. Further analysis of government recurrent budget shows a resource allocation ranking that puts public administration and defense on top. The implication is that public administration and defense top the priority listing in budget allocations.

The performance of individual sectors varies significantly, with some sectors consistently diverging from their pro-rata budgets. In particular, the security sector and public administration always perform above their sector ceilings. The budget is not fully implemented as planned, due to requests for supplementary expenditures, most notably by the security and public administration sectors, and higher than budgeted domestic interest payments.

The Poverty Action Fund (PAF) was established in 1998 as a response to concerns over accountability and reorientation of the budget, given additional resources from HIPC and other donors, toward pro-poor expenditures. PAF expenditures constitute over 36% of the discretionary budget expenditure. The PAF has been instrumental in introducing mechanisms for promoting budget allocations to sectors with strong pro-poor perspectives.

In addition to growth of budget allocations, there is significant evidence of lack of budget discipline as the spending on public administration has consistently exceeded its budget allocation over the past five years. The operation of a hard budget constraint by the government means that overspending by the public administration sector has direct negative effects on other sectors.

An additional objective of MTEFs is to deliver greater budget predictability in terms of the match between budget execution results and approved budgets and MTEF projections. Uganda's budget tends to be unpredictable due to the existence of budgetary overruns and reallocations after the budget has been passed.

Given that there is no standard process for costing interventions included in PEAP, it may be difficult to monitor outcomes and impact. Therefore, there is need for CSOs to actively participate in the SWGs and budget consultative meetings. CSOs need to increase their advocacy on linking budgets with PEAP priorities and ensuring value for money in provision of public services.

Inclusion, Uganda's budget tends to be unpredictable due to the existence of budgetary overruns and reallocations. This phenomenon undermines the credibility of the budgetary process and budget discipline.