



BUDGET TRENDS

CIVIL SOCIETY BUDGET ADVOCACY GROUP | APRIL 2020 EDITION | VOLUME 23

ECONOMIC
HIGHLIGHTS
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**Refocus FY2020/21
budget to address
UGANDA'S SERVICE
DELIVERY GAPS, COVID 19**

EDITORIAL

Greetings from the Civil Society Budget Advocacy Group (CSBAG). Welcome to our latest issue of the Budget Trends Magazine. We hope the month of April was productive and progressive.

The budget for FY2020/21 increased from UGX41Trillion in FY2019/20 to UGX 45.5Trillion and we are cognizant of the fact that the FY 2020/21 shall be implemented at the time when Uganda is grappling COVID 19 pandemic.

Currently, Uganda has a total of 97 confirmed COVID 19 cases, 55 recoveries and no deaths reported. On continental level, there are now more than over 42,500 confirmed cases of coronavirus across the continent.

Critical areas of focus in FY2020/21 should among others include, investing in health systems strengthening to guarantee Ugandans equal access to affordable and quality health services for all, increasing access to clean and safe water, sanitation and hygiene, investing in agriculture production and productivity for income generation and guaranteeing food security, boosting investment and trade among others.

Also, the Ministerial Policy Statements FY2020/21 were tabled by different sectoral Committees of Parliament and approved. In our April 2020 Budget Trends Magazine, we bring you CSOs response to Ministerial Policy Statements, with our comments and expenditure options to improve service delivery.

We also bring you the economic highlights for April 2020 and key policy developments.

Good reading!

Julius Mukunda

CSBAG Executive Director



ECONOMIC HIGHLIGHTS

Bank of Uganda (BoU) on April 6th, 2020, in the April 2020 Monetary Policy Committee (MPC) meeting reduced the Central Bank Rate (CBR) by 1 percentage point to 8 percent.

The CBR has been at 9% since October 2019.

This is the lowest-ever rate since the CBR was introduced as a monetary policy tool, back in July 2011, then at 13%.

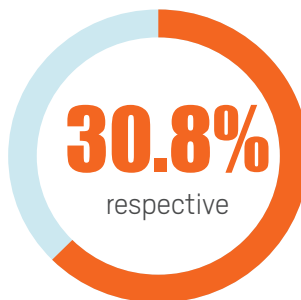
The highest it has ever risen is 23%, at the height of one of Uganda's worst inflationary spells. At the time, inflation annual headline and core inflation was 30.5% and 30.8% respective

In a statement signed by the Bank of Uganda Governor, Prof. Tumusiime Emmanuel Mutebile, he said that "the Covid-19 pandemic has led to a severe contraction in economic activity due to a combination of global supply chain disruptions, travel restrictions, measures to limit contact between persons, and the sudden decline in demand." **Source: <https://www.bou.or.ug/>**

BoU announces loan restructuring to ease pressure from loan holders

Bank of Uganda orders a year-long loan repayment BoU in its statement dated 13th April 2020 made reference to credit relief measures to mitigate the adverse effects of the Covid-19 pandemic, ensuring financial sector stability, and facilitating the financial intermediation process. The Central Bank statement spelled out the allowable credit relief measures and terms including; repayment holidays for a maximum of 12 months, loan tenor extensions,

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and any other forms of debt restructuring covered in existing regulations. **Source: <https://www.bou.or.ug/>**

Inflation rises

The Annual Headline Inflation for the year ending April 2020 is recorded at 3.2 percent compared to the 3.0 percent recorded for the year ended March 2020. The increase in Annual Headline inflation is largely attributed to the Annual Core Inflation that is registered at 3.4 percent for the year ending April 2020 compared to the 2.5 percent registered for the year ended March 2020.

Source: https://www.ubos.org/wp-content/uploads/publications/04_2020CPI_Publication_for_April_2020.pdf

Uganda's exports, imports decline

Our exports declined from US\$ 383.62 million in January 2020 to US\$ 352.91 million in February 2020. Imports have declined from US\$ 711.99 million in January 2020 to US\$701.34 million in February 2020 and US\$ 593.79 million in March 2020.

Essential supplies are coming in, and border Agencies remain available to facilitate faster clearance of both exports and imports. Similar, domestic production for a number of products such as hand sanitizers, face masks is being stepped up.

Source: <http://www.mtic.go.ug/wp-content/uploads/2020/04/Progression-Implementation-of-Trade-SOPs-22nd-April-2020.pdf>

Parliament passes sh45.5 trillion budget for financial year 2020/21

The budget which saw an increment of over shs6 trillion from the 2019/2020 budget was passed Friday, 24 April 2020 at a sitting chaired by Speaker Rebecca Kadaga following debate on the budgetary allocations where MPs called for interventions in the health sector amid the current corona virus pandemic.

The debate following the adoption of the Budget Committee report which recommended that government revises and reviews the Budget after the full effect of Covid-19 on the economy is ascertained.

According to the sector allocations, Works and Transport takes an allocation of shs5.84 trillion followed by Security with an allocation of shs4.504 trillion.

Source: <https://www.parliament.go.ug/news/4612/parliament-passes-shs45-trillion-budget>

CIVIL SOCIETY BUDGET ADVOCACY GROUP

P.O. Box 660, Ntinda Plot 11 Vubyairengye Close, Ntinda Nakawa Rd Fixed Line: Mob: +256-755-202-154

E-mail: csbag@csbag.org Web: www.csbag.org twitter: @CSBAGUGANDA facebook: CSBAG/Facebook.com

Refocus FY2020/21 budget to address UGANDA'S SERVICE DELIVERY GAPS, COVID 19 EFFECTS

Cognizant of the fact that FY2020/21 budget will be implemented when the country and the globe are dealing with the devastating effects of the COVID-19 pandemic, especially on the economy, it is prudent for Government to adopt austerity measures to effectively utilize the limited public resources, with major focus productive sectors of the economy such as agriculture, trade and Industry, tourism, health, education and social development that will help in revamping the economy and the lives of citizens.

The budget for FY2020/21 increased from UGX41Trillion in FY2019/20 to UGX 45.5Trillion in FY2020/21. As CSOs, we would like to commend Government for some notable achievements as highlighted below:

a) The combative Government efforts so far exhibited in the COVID-19

Launching the Domestic Revenue Mobilisation Strategy 2019/20-2023/24, in February 2020, which targets to raise the ratio of revenue to GDP to



response and the efforts to curb further spread. We hope this continues along the way.

b) Approval of the 3rd National Development Plan (NDP) 2020/21

– 2024/25, an anomaly we highlighted in January 2020, that Government had tabled the National Budget Framework FY2020/21 without an approved NDPIII, which is the planning and expenditure framework for each financial year.

c) Launching the Domestic Revenue Mobilisation Strategy 2019/20-2023/24, in February 2020, which targets to raise the ratio of revenue to GDP to 18-20%

d) Increment in budget allocation for social sectors from the National Budget Framework Paper FY2020/21 proposals. Specifically, the budget for Health Sector increased by UGX1,1992.83 (76.9%), Water and Environment increased by UGX 339.70Bn (25.14%), Education Sector increased by UGX 228 (6.9%), Agriculture sector by 367.07Bn (38.87%)

We also commend Parliament for adopting of 19 citizens' alternative budget proposals as contained in the Parliament Budget Committee Report on the National Budget Framework Paper for FY2020/21. This is a good step in ensuring that citizens expenditure priorities are financed in national budget. It is our hope that these policy proposals transition into the draft budget FY2020/21.

CSO Concerns

Despite the positive elements, we have several concerns to highlight on the Ministerial Policy Statements FY2020/21. It is not clear how Government is set to address aspirations under NDPIII and effects of the COVID19 pandemic as a review of the FY2020/21 Ministerial Policy Statements, reveals the budget structure has remained virtually the same only reflecting increases for the usual budget items despite



the country planning to shift from NDPII to NDPIII and to address effects of the COVID19 pandemic. Furthermore, the expenditures on consumptive Items are just increasing despite Government resolve to cut wasteful expenditures.

To ensure that Local Government fully participate in the development agenda, the first and second Budget Call Circulars, tasked Government Ministries, Departments and Agencies (MDAs) with funds for local Governments to budget for them under local Government votes. However, there is no evidence in the Draft Budget that such a policy directive was implemented despite the COVID19 response showing the critical role a strengthened decentralized governance can play. Specifically, we have the following observation and recommendations:

1. Realigning FY2020/21 budget priorities to integrate COVID-19 related effects-

to deal with both short and medium-term negative impacts of COVID 19, We do reiterate our voice, and call on Government Ministries, Departments and Agencies to re-examine their priorities for FY2020/21 budget. This can be achieved by channeling more funding away from consumptive expenditures (See Table 1 Below) to those areas with potential to generate high returns to economic growth and protection of the population.

Critical areas of focus in FY2020/21 should among others include, investing in health systems strengthening to guarantee Ugandans equal access to affordable and quality health services for

Table 1: Allocation of FY2019/20 National Budget to Select Items

Item	Amount UGX FY2020/21 (bn)
Allowances	1,035.95
Advertising & Public Relations	85.8
Workshops and Seminars	219.06
Welfare and Entertainment	101.44
Special Meals and Drinks	317.57
Travel Inland	485.37
Travel Abroad	167.45
Fuel, Lubricants and Oils	235.31
Consultancy Expenses (short and long term)	545.97
Printing, Stationery, photocopying & binding	285.93
Hire of Venue (chairs and projectors etc.)	14.86
Books and Periodicals	86.6
Transport Equipment	164.39
TOTAL	3,745.70



all, increasing access to clean and safe water, sanitation and hygiene, investing in agriculture production and productivity for income generation and guaranteeing food security, boosting investment and trade among others. Specifically:

- Investment in Social Protection;

The total budget for the social development sector is set to reduce by 21% from UGX 219.161 billion in FY2019/2020 to UGX 172.160 billion in FY2020/2021. This reduction will negatively impact on the gains of the sector programs such as social protection of the vulnerable persons. Instead, Government needs to re-consider investing more in prevention, response, and mitigation of Gender Based Violence (GBV) which has escalated during COVID-19 related lockdown. Investment in broader and more comprehensive social protection programs to complement Social Assistance Grant for Empowerment (SAGE), Uganda Women Entrepreneurship Program (UWEP) and Youth Livelihood Program (YLP) cannot

be ignored.

- Limited funds to enhance food security and agriculture production;

The proposed budget allocation for crop production department in the Ministry of Agriculture is set to reduce from UGX1.303Bn to UGX1.141Bn in FY2020/21. Furthermore, whereas a lot of Uganda's food produce is lost due to poor post-harvest handling, the budget for the Directorate of Agricultural Extension and Skills Management is also set to decrease by UGX 0.888 Bn. This is despite the threats caused by the disruption of COVID-19. We call on Government to move away from the rhetoric, to intensify investment in small scale irrigation to enable constant production even during times of drought and set up community silos as a measure of addressing post-harvest losses.

- Education Sector Challenges,

COVID-19 disruptions unearthed the need for Government to intensify investments in the technology and innovation within the Education Sector



to guarantee the right to education for all. Education Sector, besides its usual strategies, should invest more in access to education materials especially for rural schools, community schooling innovations, strengthen collaboration with NITA for cheap and affordable internet, collaboration with the Ministry of Energy for cheap and affordable renewable energy sources for schools in the rural areas that cannot access a central grid. Enhancement of IT Skills training amongst the teachers, among others.

- Promotion of domestic investment and production.

Government gets an estimated 32% of the total tax revenues from manufacturing sector, which has been greatly affected by the COVID-19 disruptions. In FY2020/21, measures such as setting import substitution industries, more common user facilities to promote development of MSMEs need to be adopted to cushion the economy from the current and any future shocks that may disrupt global

TOTAL TAX REVENUES

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trade. Government must recapitalise the Uganda Development Bank and the Microfinance Support Centre to allow local manufacturers access cheap credit needed to establish and boost domestic production. Finally, Uganda National Bureau of Standards must intensify its supervisory role to ensure that domestic products meet the internationally acceptable standards to compete favourably on international

market.

2. Incoherent tax policy and fiscal measures are hurting revenue mobilisation.

Government targets to collect UGX 21,537.8 billion in FY2020/2021, this is amidst already inherent domestic revenue collection challenges in Uganda and economic destructions caused by COVID-19. Key challenges include costly tax policies like setting ambiguous revenue targets. For example, the former URA Commissioner General told the Parliamentary Committee on Finance in February 2020 that the UGX 20.3 trillion revenue target for FY2019/20 was not in the Medium-term Expenditure Framework (MTEF) projections, it was amended twice and was noted to be UGX 4 trillion over the FY2018/19 and 1.5% of GDP. Some ineffective taxes like the tax imposed on mobile money transaction have performed poorly. According to the former URA Commissioner General, levy on mobile money contributed a deficit of UGX 30.48 billion despite the initial projections. To address some of these challenges, Government needs to effectively implement the Domestic Revenue Mobilization Strategy, 2019/20 – 2023/24 to boost domestic revenue collection. In addition, critical research on new tax policies, their effectiveness and implication on citizens need to be undertaken before a tax is imposed to ensure that the tax base will increase and will be stable.

3. Increasing cost of debt.

In FY2020/21, UGX 4.087trillion is projected for interest payment. This is a 19% increase compared to the UGX 3.4 trillion for FY2019/20. With a 78.4% increase in the external development expenditure, Government is scheduled to borrow more and ultimately pay more interest, potentially at the cost of other essential services. We further observe that the fiscal deficit for FY2020/21 is at 8.4% which is contrary to the fiscal balance objective in the Charter of Fiscal Responsibility, which guided that fiscal deficit including grants should

not be more than 3% by FY2020/21.

We call on Government to consider sequencing or postponing loans to finance high capital-intensive projects, which are causing more debt financing. Overall, Government needs to strengthen its public debt management to ensure that Government's financing needs, and its payment obligations are met at the lowest cost possible over the medium to long run.

4. Accumulation of domestic arrears:

We are concerned that domestic arrears have not been budgeted for in the FY2020/21 National Budget, yet they are accumulating. For instance, Ministry of Local Government (MoLG) has a funding gap of UGX 51.5 Billion needed to settle domestic arrears. Delayed payments of suppliers partly contribute to the high costs paid by Government in obtaining goods and services. Worse still, domestic arrears distort business operations and threatens survival of the private sector which needs to maintain a consistent cash flow to operate effectively. Therefore, we recommend that the MDAs should liaise with the MOFPED to adequately budget for domestic

Out of the proposed Health Sector development budget of UGX 1,387.50 Bn, only 192.161Bn (13.85%) will come from domestic sources, which is 7% of the entire health budget. This raises a lot of questions about the sustainability of the proposed interventions in the health sector since it is left in the hands of donors, whose priorities keep changing and resources are very unpredictable.



arrears in FY2020/21.

5. Poor financing and performance of the health sector:

We are concerned that despite its critical role, Government's commitment to funding the health sector development budget in FY2020/21 is still inadequate. Out of the proposed Health Sector development budget of UGX 1,387.50 Bn, only 192.161Bn (13.85%) will come from domestic sources, which is 7% of the entire health budget. This raises a lot of questions about the sustainability of the proposed interventions in the health sector since it is left in the hands of donors, whose priorities keep changing and resources are very unpredictable.

We also note that, UGX 1,251.45 Bn (46%) of FY2020/21 budget will remain at the Ministry of Health yet key institutions remain underfunded. Uganda Blood Transfusion Service (UBTS) UGX 17.769 Bn will receive (1%), Uganda Virus Research Institute (UVRI) UGX 9.029 (0.3%) Uganda Cancer Institute, UGX 105.848 (4%) and Mulago Hospital Complex UGX 62.974 (2%). Further to this, the Sector

is grappling with poor fund absorption. While only 64.8% of the total approved health budget FY2018/19 was released in FY2018/19, only 79.5% of the released fund was absorbed, which is equivalent to 51.5%. The worst performance was registered in

For instance, Ministry of Local Government (MoLG) has a funding gap of UGX



needed to settle domestic arrears.

the health development budget where, only 74.2% of the development budget from external sources was spent. The situation is worse at LG Level, despite them receiving a small share of the



national budget. In FY2018/19, districts such as Rubirizi failed to utilize up to 36% of the entire health budget, Ntungamo registered 100% unspent funds in the development budget. Others such as Bundibugyo and Kyanwanzi failed to absorb up to 75%, 74% and 66% respectively. The failure of most districts to absorb their health development budgets implies that they are unable to provide essential health services to the communities.

6. Inconsistency in operationalizing the Contingencies Fund.

We wish to reiterate our regular call for Government to effectively operationalize the 'Contingency Fund' as per PFMA, 2015. This allocation should have been UGX 168Bn as per the PFMA, 2015, but only UGX 67Bn was allocated in the FY2019/20. Given the level of panic with the COVID-19 pandemic, we recommend that the Ministry of Finance should comply with the law, to fully operationalize the Contingencies Fund as per section 26, of the PFMA 2015 (as amended). The current practice violates the Act and deprives the country of an appropriate organized mechanism of responding to disasters. This also

PUBLIC DEBT

Overall, Government needs to strengthen its public debt management to ensure that Government's financing needs, and its payment obligations are met at the lowest cost possible cost over the medium to long run.

distorts the budgeting process when special supplementary budgets are issued to Votes rather than released to the Fund.

We applaud the health workers who are at the fore front in the fight against this pandemic and the Government's efforts to cushion the country from the impact of the COVID-19. However, we urge Government to adopt stringent austerity measures especially in the post COVID-19 to fasten the quick recovery of the economy and country at large.

Table 2: Approved budget estimates FY2019/20/ Draft Budget estimates FY2020/21 and percentage share of total allocations

Sectors	FY2019/20 (bn)	Draft Budget Estimate FY2020/21 (bn)	% share	Projected Increase/Decrease (Billion)	% change
Works & Transport	6,425.03	5,885.49	13.2	-539.54	-8.4
ICT & National Guidance	146.22	163.18	0.4	16.96	11.6
Agriculture	1,054.15	1,317.68	2.9	263.53	25
Lands, Housing & Urban Development	227.04	213.68	0.5	-13.36	-5.9
Energy & Mineral Development	3,007.76	2,631.84	5.9	-375.92	-12.5
Trade and Industry	212.75	174.71	0.4	-38.04	-17.9
Education	3,398.52	3,514.47	7.9	115.95	3.4
Health	2,595.38	2,743.69	6.1	148.31	5.7
Water and Environment	1,105.73	1,690.74	3.8	585.01	52.9
Social Development	221.35	172.36	0.4	-48.99	-22.1
Security	3,656.78	4,525.85	10.1	869.07	23.8
Justice, Law and Order	1,782.13	2,098.80	4.7	316.67	17.8
Public Sector Management	2,432.43	672.06	1.5	-1,760.37	-72.4
Accountability	1,798.97	2,156.78	4.8	357.81	19.9
Legislature	687.78	667.78	1.5	-20	-2.9
Public Administration	1,034.29	1,331.71	3.0	297.42	28.8
Interest Payments	10,321.08	12,432.49	27.8	2,111.41	20.5
Science, Technology, and Innovation	186.78	238.11	0.5	51.33	27.5
Tourism	193.73	193.95	0.4	0.22	0.1
Local Government	0	1,868.28	4.2		0
Total	40,487.90	44,693.65	100.00		

Our Vision

A Uganda with a people centered budget.

Our Mission

Working to ensure that resource mobilization, allocation and utilization is inclusive for a transformed Uganda

Civil Society Budget Advocacy Group (CSBAG)
Plot 11 Vubyabirengye Close, Ntinda, Nakawa Road.
P.O.BOX 660, Ntinda
Fixed Line: +256 755 202 154
Email: csbag@csbag.org
Website: www.csbag.org

