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LEADER OF THE OPPOSITION

ALTERNATIVE MINISTERIAL POLICY STATEMENT

FOR FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

FOR FY2022/23

HON. MUWANGA KIVUMBI
SHADOW MINISTER FOR FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

MARCH 2022

EXECUTIVE SUMMARY

This Alternative Policy Statement for Finance, Planning and Economic Development has been developed and presented in accordance with Section 6E (4) of the Administration of Parliament (Amendment) Act (2006), Rules 14(4) and 147 of the Rules of Procedure 2021.

The Finance sector is the lifeblood of Government. Its functioning is critical for the rating of the country, service delivery and quality of life of the citizenry. Depending on the resources mobilized and expenditures prioritized, the health and strength of the sector is an indicator of prosperity.

Unfortunately, the sector is characterized by a number of challenges which this Alternative Policy Statement elaborates and proposes alternative policies.

BUDGETARY ISSUES

Non-Compliance to the Public Finance Management Act

While Parliament approved both the Charter of Fiscal Responsibility and Budget Framework Paper, the Ministry of Finance, Planning and Economic Development has failed to publish them. As regards the former, it is a violation of Section 5(2) of the Public Finance Management Act. It would be prudent for the approved National Budget Framework Paper to be published since it was approved with amendments. Due to the failure to publish the approved Charter of Fiscal Responsibility and Budget Framework Paper, it was not practically possible to ascertain level of consistency of the Ministerial Policy Statements. Also, the laid Policy Statements were not accompanied by a Certificate of Gender and Equity responsiveness. Hence violating Section 13(15)(g) of the Public Finance Management Act.

Risk of Securities

In FY2022/23, Securities i.e. Treasury Bills and Bonds constitute UGX 12.69 trillion. Of this, UGX 8 trillion is domestic refinancing or debt rollover. It should be noted that the securities are the main drivers of domestic debt. Unfortunately, due Section 36(5) of the Public Finance Management Act, these do not require prior Parliamentary approval. Hence, a risk to financial prudence.

Poor Loan Absorption

It has been reported that a debt of UGX 19.58 trillion stands committed but undisbursed. This constitutes unproductive debt and risky projects. The amount far exceeds the stock of risky projects that were declared in the budget framework paper by 86%. It was earlier indicated that Government had identified17 risky projects for which USD 457 million (approximately UGX 1.7 trillion) had been spent and USD 757 million (approximately UGX 2.8 trillion) remained undisbursed.

Abuse of Court Awards

For years, the allocations towards Court awards under Vote 130 – Treasury Operations have been a target for reallocation by Parliament. In FY2022/23, UGX 443 billion will be allocated partly to address Court awards. Almost as a standard, every financial year, UGX 40 billion is reallocated. This is an indication that there are redundant allocations towards court awards within the Vote that are at risk of misuse. It has been established before that court award payments were discretionary made without supporting documents to a knitted clique of law firms.

Non-Budgetary Alignment with NDP

It has been established that while the Ministry of Finance, Planning and Economic Development through the Third National Development Plan was expected to contribute to 13 programmes in FY2022/23, only 4 have been covered. This accounts to 31% budgetary alignment.

Inadequate Capitalisation of UNOC

While the country is grappling with escalating fuel prices prompted by fuel shortages and inadequate fuel stocks, there are no indications that adequate funding has been made towards the stocking of fuel reserves in Jinja. Allocations have been maintained at UGX 48.096 billion which were indicated at the initial budget framework levels. This means that a capitalisation deficit of UGX 77 billion for Uganda National Oil Company (UNOC) is still outstanding. Aware that Kenya will be undertaking general elections in August, it would be prudent that reserves are adequately stocked to mitigate a possibility of fuel shortage and associated economy risks.

EMERGING POLICY ISSUES AND PROPOSED ALTERNATIVES

Inadequate demarcation of Local Revenues

Collections are only reported based on tax heads by Uganda Revenue Authority (URA) and not actual locations of collections. It is this reporting approach that has sustained the misconstruction that local governments collect meagre revenues. This distorts the accountability and transparency on the contributions made by local governments to the national domestic revenue. When collections of all tax heads are disaggregated based on local government, they will far surpass the reported local revenue. Local revenue is collected from levies, licenses, fees or fines as stipulated in Article 191(1) of the Constitution of the Republic of Uganda. Unfortunately, maintenance of the aggregated centre approach entrenches unfairness in budget allocations to local governments.

Proposed Alternative

All levies, licenses, fees or fines collected from local governments should cease being demarcated as local collections or revenue. Rather all collections generated from central government and local governments should universally be treated as domestic revenue. This will ensure availability of sufficient funds for service delivery in local governments. However, it will require amendments to the Constitution, Public Finance Management Act, Local Government Act and any other relevant laws.

Aware that not all local governments or districts have same revenue generation and development potential, Article 178 of the Constitution that provides for creation of regional governments should be operationalised. This will ensure that two or more districts cooperate and complement each other in mobilising revenues as well as delivering public services within their jurisdiction. Additionally, equalisation grants need to be maintained and targeted affirmative programmes could be enrolled to support local governments with inadequate capacity to mobilise revenue.

Foreign Dominated Banking System

The Banking system in Uganda is dominated by foreign owned commercial banks. These hold the greatest portion of domestic debt. As of June 2021, they held UGX 9.89 trillion (38%) of the face value of the treasury securities raised in FY2020/21 amounting to UGX 26.03 trillion. This is largely attributed to the liberalisation of the financial sector. While foreign owned commercial banks are well capitalised and resilient, there is a seemingly a growing risk of capital flight and their dominance crowding out domestic as well as emerging banks. In FY2022/23, it was established that out of projected interest payments amounting to UGX 5.08 trillion, domestic interest payments would amount to UGX 4.05 trillion (80%).

Proposed Alternative

Interventions such as Microfinance Support Centre and Pride Microfinance Limited should be combined to re-establish a domestic cooperative bank. This will contribute to increasing number of domestic banks, reduction of the dominance of foreign owned banks and reduce the cost of credit. Based on the appropriations made in FY2021/22, when combined UGX 246.3 billion (Microfinance Support Centre – UGX 133.29 billion and Pride Microfinance – UGX

113.01 billion) would be raised as bank capital. This is far beyond the advanced UGX 150 billion minimum capital mark. Besides being budget neutral, the proposed cooperative bank would still ably serve the current purposes or goals of the Microfinance Support Centre and Pride Microfinance Limited while improving product range.

Tax Expenditures Haemorrhage

The country loses a lot of revenue through statutory tax expenditures exercised through ministerial discretionally powers. Currently, there are no ceilings set for the tax expenditures and Parliament has no mechanism of scrutinising tax expenditure proposals before they are awarded. For the last 5 financial years i.e. FY2016/17 – 2020/21, tax expenditures have been gradually escalating and the country has foregone revenue amounting to UGX 21.51 trillion. Rather Parliament may scrutinise the tax expenditure reports presented under Section 77 of the Public Finance Management Act. Unfortunately, Parliament has never undertaken extensive scrutiny and debate on the reports.

Proposed Alternative

Amend Section 77 to introduce prior approval of Parliament for exemptions granted by the Minister responsible for Finance. This should be complemented with biannual post legislative scrutiny of the exemptions with the findings targeted at informing scrutiny of tax bills for the subsequent financial year particularly phasing out ineffective tax measures.

In the interim, the statement and reports made to Parliament on tax expenditures should articulate in detail the number of exemption requests received and granted, number of beneficiaries, value of expenditures, foregone revenue accrued impact, duration of exemptions, ceilings and eliminated or discarded tax expenditures. Benchmark can be undertaken on the Tax Expenditure report prepared by the Ministry of Economy and Finance in Morocco.

Inadequate Evaluation of Tax Policy Measures

The proposed new tax heads descriptions for subsequent financial year and what they would yield have never been incorporated in the National Budget framework paper. Non articulation of the measures constrains assessment as to whether the proposed national annual budget resource envelope is realistic and aligned. Also, the proposed tax measures are not accompanied by any Regulatory Impact Assessment (RIA) to aid Parliament determine the undertaken cost benefit analysis. Attempts for Parliament to access the tax studies have been futile. Except for revenue outcome, no evaluation of past tax measures in terms of administration, citizen perception, unintended impact and alignment to budget strategy among others is undertaken.

Proposed Alternative

Parliament should amend Rule 159 of the Rules of Procedure to specifically require Committees undertake post legislative scrutiny. The responsibility of Parliament should not end with bill scrutiny and ensuring that it is assented into law. This will aid in assessing the responsiveness of the finance laws in enhancing domestic revenue mobilisation and how they have shaped the lives of the citizenry.

Counter effective Tax Policy and Administration Measures

Government has over the years invested in counterproductive tax administration measures. For instance, digital stamps provided by SICPA Uganda Limited are part of the drivers for price escalations since the stamping charges are borne by customers at the consumption of gazetted products. Another intervention of fuel marking by the same company charging UGX 30 per litre marked has contributed to increment of fuel prices which have a ripple effect on commodity prices. Relatedly, road transport services are dominated by foreigners transporters who transport 80% of Uganda bound cargo and have to pay 15% withholding tax as per Section 85 of the Income Tax Act. This too is part of the drivers of the current escalating commodity prices in Uganda.

Proposed Alternative

Uganda Revenue Authority (URA) should own the digital stamps and technology infrastructure. This will lead to reduced costs, sustainability and improved accuracy in tracking of the gazetted products. In turn this will boost tax collections while reducing costs extended to the consumer of the gazetted products.

Aware that the contract of SICPA Global Fluids International is expiring in 2023, the fuel marking programme should be discontinued and emphasis is placed on improving capabilities of Geographical Position Systems embedded in the Regional Electronic Cargo Tracking System (RECTS). The system that was initiated in 2017 is operational in Uganda, Kenya, Rwanda and Democratic Republic of Congo. This will contribute to a reduction of fuel costs and ensure real time monitoring of fuel tankers to prevent round tripping.

Inadequate Public Debt Disclosure and Management

The reported stock of public debt stood at UGX 73.78 trillion as at end of October 2021. The stock does not include all publicly guaranteed debt which are part of contingent liabilities. It has been noted that in the year 2021, contingent liabilities rose to UGX 160 trillion from UGX 11.5 trillion. Additionally, the public debt stock does not include domestic arrears. In the year 2021, domestic arrears amounted to UGX 4.65 trillion. The outstanding debt due to Bank of Uganda as bank advances amounting to UGX 3.033 trillion are also not recorded in the declared stock of debt. The situation will be compounded by the pre-financing debt which is currently being considered in the roads sector. The selective disclosure hampers determination and control of the public debt. When the entire spectrum of public debt is computed, it far exceeds the recommended debt to GDP ratio of 50%.

Proposed Alternative

The debt stock of the country should reflect all components of debt. All contingent liabilities, Bank of Uganda advances, domestic debt and pre-financing must be included in the debt stock. This will abate the risks of hidden debt and being cut off from prospective lenders and donors. These risks were realised in Republic of Congo (non-disclosure of prefinancing contracts), Togo (non-disclosure of prefinancing debt), Ecuador (non-disclosure of contingent liabilities), Mozambique (non-disclosure of state guarantees) and Zambia (debt reporting lags).

The criteria for benefiting from government guarantees should be disclosed to ensure transparency and fairness in their access. The criteria should be complemented with legal and regulatory frameworks that empowers government to inquire into operations of private enterprises and state-owned enterprises incorporated as private companies.

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CHAPTER 1: BACKGROUND TO ALTERNATIVE POLICY STATEMENT

1.1 Legal Provisions

This Alternative Policy Statement for Finance, Planning and Economic Development has been developed and presented in accordance with Section 6E (4) of the Administration of Parliament (Amendment) Act (2006), Rules 14(4) and 147 of the Rules of Procedure 2021.

1.2 Sector Overview

The Finance sector is the lifeblood of Government. Its functioning is critical for the rating of the country, service delivery and quality of life of the citizenry. Depending on the resources mobilized and expenditures prioritized, the health and strength of the sector is an indicator of prosperity.

Any indiscipline in the sector for instance in the form of wasteful expenditures, weak regulation, corruption and poor budgeting among others is fatal for it shutters national and individual aspirations.

Given its complementary contributions to other sectors of government, it seems to attract limited scrutiny through the financial year. It cannot be equated to sectors such as health, education, works and transport that have more of physical and beneficial presence in the lives of the populace. Usually, attention on finance sector is heightened largely during consideration of taxes and budget allocations.

This Alternative Policy Statement highlights and proposes alternatives to emerging issues that include noncompliance to existing laws, escalating domestic borrowing, inadequate debt disclosure, narrow definition of local revenue, dominance of foreign owned banks, risks of tax expenditures, weak tax policy and administration evaluation.

CHAPTER 2: BUDGET ANALYSIS

2.1 Compliance to the Public Finance Management Act

Section 13(6) of the Public Finance Management Act demands that the budgets should be consistent with National Development Plan, Charter of Fiscal Responsibility and the Budget Framework Paper.

While Parliament approved both the Charter of Fiscal Responsibility and Budget Framework Paper, the Ministry of Finance, Planning and Economic Development has failed to publish them. As regards the former, it is a violation of Section 5(2) of the Public Finance Management Act which demands that the Charter should have been published not later than one month after approval by Parliament.

It would be prudent for the approved National Budget Framework Paper to be published. Given the fact that it was approved with amendments, publishing the approved National Budget Framework Paper would aid in assessing level of consistency of the Ministerial Policy Statements.

Due to the failure to publish the Charter of Fiscal Responsibility and Budget Framework Paper, it was not practically possible to ascertain level of consistency of the Ministerial Policy Statements.

Additionally, the laid Policy Statements were not accompanied by a Certificate of Gender and Equity responsiveness. This violated Section 13(15)(g) of the Public Finance Management Act. Hence it is difficult to determine whether the policy statements are gender and equity responsive.

2.2 Vote 130 – Treasury Operations

Treasury Operations is the vote that is allocated the largest share of the national budget. In FY2022/23, its budget is projected to increase to UGX 17.27 trillion from a revised approved budget of UGX 15.70 trillion in FY2021/22. This is an increment of UGX 1.57 trillion of which UGX 1.34 trillion is attributed to increase in Treasury Bonds Costs.

Table 1: Budget Allocations to Vote 130 Treasury Operations

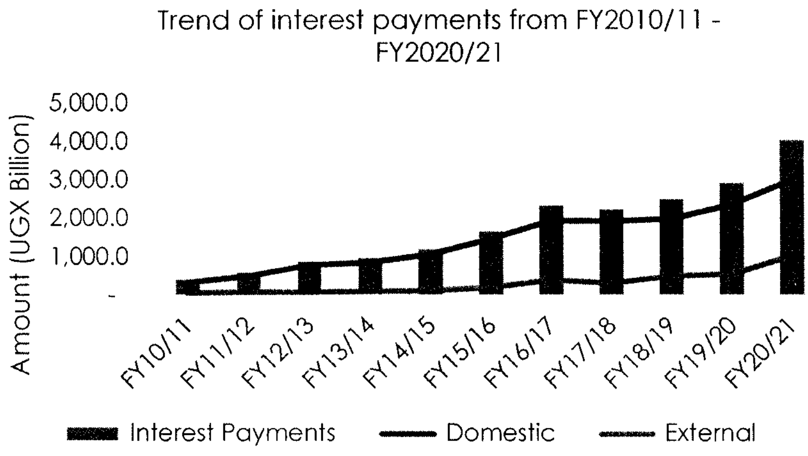
ACCOUNT NAME	REVISED BUDGET FY 2021/22 (UGX)	PROJECTIONS FY 2022/23 (UGX)	VARIANCE (UGX)
DOMESTIC			
Contingencies Fund	290,368,387,275	223,893,943,441	-66,474,443,834
Arrears	192,907,536,446	443,517,241,262	250,609,704,816
Treasury Bills Interest	504,129,926,000	583,536,681,349	79,406,755,349
Treasury Bonds Costs	2,763,749,759,000	4,107,771,456,163	1,344,021,697,163
Listing Fees	1,500,000,000	1,380,000,000	-120,000,000
Other Charges e.g. RTGS	105,000,000,000	120,000,000,000	15,000,000,000
Promissory Notes	348,212,391,050	319,552,683,336	-28,659,707,714
Sub-total	**4,205,867,999,771**	**5,799,652,005,551**	**1,593,784,005,780**
EXTERNAL			
Loan Interest	1,054,536,553,000	871,443,354,070	-183,093,198,930
Commitment Fees	20,678,365,000	137,038,580,487	116,360,215,487
Management Fees	132,133,579,000	48,698,917,909	-83,434,661,091
External Amortization	1,903,015,501,000	2,412,206,795,952	509,191,294,952
Sub-total	**3,110,363,998,000**	**3,469,387,648,418**	**359,023,650,418**
REDEMPTIONS / ROLL-OVER			
Treasury Bills at Cost (Principal)	6,485,527,877,000	5,800,774,656,163	-684,753,220,837
Treasury Bonds at Cost(Principal)	1,901,472,123,000	2,207,225,343,837	305,753,220,837
Sub-total	**8,387,000,000,000**	**8,008,000,000,000**	**-379,000,000,000**
GRAND TOTAL	**15,703,231,997,771**	**17,277,039,653,969**	**1,573,807,656,198**

Source: MoFPED

2.2.1 Escalating Domestic Borrowing

The weak provisions in Section 36(5) of the Public Finance Management Act on domestic borrowing in terms of Treasury Bills and Bonds is escalating domestic debt. Given the fact that they are securities, they do not require prior Parliamentary approval. Hence, they are risk to financial prudence. The securities constitute UGX 12.69 trillion (73%) out of the entire budget of the Vote. Of this UGX 8 trillion is domestic refinancing or rollover. No wonder domestic borrowing constitutes a greater portion of interest payments. These are diverting further from external debt interest payments.

Figure 2: Trends of interest payments from FY2010/11 – FY2020/21



Source: MoFPED

2.2.2 Poor Loan Absorption

It has been reported that a debt of UGX 19.58 trillion stands committed but undisbursed[1]. This constitutes unproductive debt and risky projects. The amount far exceeds the stock of risky projects that were declared in the budget framework paper by 86%. It was earlier indicated that Government had identified17 risky projects for which USD 457 million (approximately UGX 1.7 trillion) had been spent and USD 757 million (approximately UGX 2.8 trillion) remained undisbursed[2].

2.2.3 Abuse of Court Awards

For years, the allocations towards Court awards have been a target for reallocation of funds by Parliament. Almost as a standard, every financial year, UGX 40 billion is reallocated. This is an indication that there are redundant allocations towards court awards within the Vote that are at risk of misuse. It has been established before those payments are discretionary made without supporting documents to a knitted clique of law firms[3].

It is now government policy that payments of court awards save for Order of Mandamus are decentralised to the budgets of entities that accrue them. Hence

[1] Ministry of Finance, Planning and Economic Development, 2022. Policy Statement FY2022/23 for Vote 130: Treasury Operations

[2] Ministry of Finance, Planning and Economic Development, 2021. Addendum to the National Budget Framework Paper FY2022/23 – FY2026/27

[3] Office of the Auditor General, 2016. Special Audit Report by the Auditor General on Mandamus Payments by the Ministry of Finance, Planning and Economic Development

there is no need of allocating a large portion of funds for court awards under the Vote.

Regarding the case of armed activities in the territory of Congo (DRC Vs. Uganda), funds have always been requested for through the Ministry of Justice and Constitutional Affairs. Therefore, the part payment of UGX 236.25 billion (equivalent to USD 65 million) out of the International Court of Justice (ICJ) Court award of UGX 1.18 trillion (Equivalent to USD 325 million) should have been budgeted for under the Ministry responsible for Justice. The Ministry has outstanding court awards that accrue interest and may translate into Order of Mandamus amounting to UGX 989 billion[4].

2.3 Vote 008 – Ministry of Finance, Planning and Economic Development

The budget for the Ministry of Finance, Planning and Economic Development is projected to rise from UGX 783.04 billion in FY2021/22 to UGX 1.79 trillion in FY2022/23. This translates to a growth of 56%. The leap in funding has been realised in sub-sub programmes of Financial Sector Development (UGX 1.03 trillion) as well as Budget Preparations, Execution and Monitoring (UGX 35.41 billion).

Table 2: Comparison of budget allocations in FY2021/22 and FY2022/23 by Sub sub programme

Sub sub Programme	Approved Budget FY2021/22 (UGX Billion)	Proposed Budget FY2022/23 (UGX Billion)	Variance (UGX Billion)
Budget Preparations, Execution and Monitoring	101.76	137.17	35.41
Deficit Financing and Cash Management	12.21	10.94	(1.27)
Development Policy and Investment Promotion	86.90	93.95	7.05
Financial Sector Development	315.97	1,352.25	1,036.28
Internal Oversight and Advisory Services	5.26	6.51	1.25
Macroeconomic Policy and Management	22.65	20.51	(2.14)
Policy, Planning and Support Services	113.13	93.46	(19.67)
Public Financial Management	125.16	76.05	(49.11)
Total	783.04	1,790.85	1,007.81

Source: MoFPED

Due to programme based budgeting migration, allocations are easily comparable at sub sub programme but a bit challenging at output level due to limited detail. Nevertheless, an increment of UGX 1.03 trillion was observed under

[4] Office of the Auditor General, 2021. Report of the Auditor General to Parliament for the Financial Year ended 30th June 2021

Financial Sector Development. Based on the policy statement, this may be attributed to implementation of implementation of financial inclusion pillar in the Parish Development Model. However, it is not clear whether these funds are exclusive to the sector of finance.

On the other hand, there is a noticeable reduction of UGX 49 billion under Public Financial Management. Due to dropping of half year budget performance reporting, it was difficult to ascertain the reason for the reduction in the budget line.

2.3.1 Non-Budgetary Alignment with NDP

It has been established while the Ministry of Finance, Planning and Economic Development through the Third National Development Plan was expected to contribute to 13 programmes in FY2022/23, only 4 have been covered. These include Development Plan Implementation, Governance and Security, Private Sector Development and Sustainable Petroleum Development. This accounts to 31% budgetary alignment.

Table 3: Budgetary Alignment of Policy Statement to National Development Plan

Contribution Programmes	NDPIII PAIP Projections FY2022/23 (UGX Billion)	MPS Allocations FY2022/23 (UGX Billion)	Variance (UGX Billion)
Administration of Justice	2.900	-	(2.90)
Agro-Industrialisation	119.390	-	(119.39)
Development Plan Implementation	171.160	300.327	129.17
Governance and Security	3.910	2.020	(1.89)
Manufacturing	0.300	-	(0.30)
Mineral Development	7.200	-	(7.20)
Private Sector Development	389.630	1,440.404	1,050.77
Public Sector Transformation	0.400	-	(0.40)
Regional Balanced Development	42.120	-	(42.12)
Sustainable Energy Development	1.000	-	(1.00)
Sustainable Petroleum Development	30.300	48.097	17.80
Sustainable Urbanisation and Housing	93.400	-	(93.40)
Tourism Development	372.520	-	(372.52)
Grand Total	**1,234.240**	**1,790.848**	**556.61**

Source: NPA and MoFPED

Noticeable is the variance of UGX 1.05 trillion in the Private Sector Development. These funds will be disbursed within the first quarter of FY2022/23 towards financial inclusion pillar of the Parish Development Model. However, it is not elaborated how the funds will be disbursed or whether there shall be a criterion to follow. Secondly, structurally the Parish Development Model only focuses on expenditure and makes no projections at all how much revenue will be raised from it. This is a huge structural deficit.

2.3.2 Inadequate Capitalisation of UNOC

While the country is grappling with escalating fuel prices prompted by fuel shortages and inadequate fuel stocks, there are no indications that funding has been made towards ensuring stocking of fuel reserves in Jinja. Allocations have been maintained at UGX 48.096 billion which were at the initial budget framework levels. Hence the capitalisation deficit of UGX 77 billion for Uganda National Oil Company (UNOC) is still outstanding. This was partly meant for stocking of Jinja Storage Terminal. Aware that Kenya will be undertaking general elections in August, it would be prudent that reserves are adequately stocked to mitigate a possibility of supply risks. Based on a 4-year trend, more stocking is usually undertaken in the months of May – November. However, there is no single month when a minimum stock of 12 million litres or target of 30 million litres[5] has ever been achieved.

Table 4: Jinja Storage Terminal Closing stocks for every month in FY2017/18 – 2020/21

MONTH	FY2017/18 (LTRS)	FY2018/19 (LTRS)	FY2019/20 (LTRS)	FY2020/21 (LTRS)	TOTAL (LTRS)	PERCENTAGE
Jul	2,038,331	10,817,760	858,087	1,849,789	**15,563,967**	8%
Aug	10,443,776	8,768,345	774,581	3,205,793	**23,192,495**	12%
Sept	11,440,720	4,147,845	881,129	1,330,315	**17,800,009**	9%
Oct	13,192,146	4,465,411	878,200	1,788,632	**20,324,389**	10%
Nov	11,553,344	1,881,976	1,004,096	5,347,124	**19,786,540**	10%
Dec	8,654,317	685,850	1,112,317	7,602,701	**18,055,185**	9%
Jan	2,461,988	945,208	717,893	4,347,419	**8,472,508**	4%
Feb	2,354,455	700,065	703,056	3,379,064	**7,136,640**	4%
Mar	2,711,941	697,103	788,482	6,526,198	**10,723,724**	6%
Apr	2,751,730	813,518	1,056,034	6,429,833	**11,051,115**	6%
May	7,898,639	1,208,097	863,819	8,757,112	**18,727,667**	10%
Jun	10,283,691	908,486	684,062	11,665,611	**23,541,850**	12%
Total					**194,376,089**	

Source: UNOC

[5] Parliament of Uganda, 2022. Report of the Sectoral Committee on Tourism, Trade and Industry on the fuel crisis in the country