OFFICE OF THE
LEADER OF THE OPPOSITION

OPPOSITION RESPONSE TO THE NATIONAL BUDGET FRAMEWORK PAPER FY2021/22–2025/26

January 2021

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1.0 INTRODUCTION

In accordance with Section 6E(2) and (4) of the Administration of Parliament (Amendment) Act, 2006 as well as Rule 52 of the Rules of Procedure, the Opposition in Parliament presents a response to the National Budget Framework Paper FY2020/21–2025/26.

1.1 Economy Overview

Economic growth in ***FY 2020/21 was projected in the 2-3 percent range and is expected to improve further between 4 and 5 percent range in the FY 2021/22[1]. The economy is currently growing at 2.6%[2] as compared to the expected 7%.*** It is reported that the size of the economy had grown to UGX 128.5 trillion in FY2018/19 from UGX 120 trillion in FY2017/18[3]. Unfortunately the growth was largely hinged on economic and human development inequalities. Several Ugandans continue to struggle to meet the average household monthly expenditures estimated at UGX 325,800[4] translating into UGX 3.9 million annually. This is affirmed by the assertion that the average income per Ugandan is USD 825 (about UGX 3.05 million) per year[5].

Whereas there is projected reduction in domestic borrowing in FY 2021/22, the same cannot immediately solve the challenges associated with the current level of domestic borrowing. The reduction in domestic borrowing is only by 1% and this is not very substantial. The current loan portfolio is invested into public investments that are characterised by diminishing returns[6]. With Uganda's population estimated at 45 million[7] and total public debt of UGX 58.45 trillion[8], each Ugandan shares a debt burden of UGX 1.24 million[9]. This debt burden is largely driven by the fact that the country cannot support its development agenda based on domestic revenues. For instance in the FY2021/22, domestic revenues i.e. Uganda Revenue Authority and Local Government collections are projected to only raise UGX 21.69 trillion of the total projected budget of

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[1] Bank of Uganda statistics

[2] Bank of Uganda Statistics 2020

[3] Ministry of Finance, Planning and Economic Development, 2019. Macroeconomic & Fiscal Performance Report Financial Year 2018/19

[4] Uganda Bureau of Statistics, 2018. Uganda National Household Survey 2016/17

[5] The First Budget Call Circular (1st BCC) on Preparation of the Budget Framework Papers (BFPs) and Preliminary Budget Estimates for Financial Year 2020/2021. Pg. 11

[6] World Bank, 2019. Economic Development & Human Capital in Uganda: A Case for investing more in Education. Uganda Economic Update 13th Edition

[7] https://www.worldometers.info/worldpopulation/ugandapopulation/#:~:text=Uganda%2020 20%20population%20is%20estimated, (and%20dependencies) %20by%20population.

[8] Treasury operations, Financial and Physical Performance for FY 2019/20&July-December, 2020, presented to the committee on Finance , planning and Economic Development(Parliament of Uganda, February, 2021) page12

[9] OLOP's Computations 2021

UGX 45.658 trillion. This means that domestic revenues will finance only 47.5% financing of projected national budget. Besides debt repayments take first call charge of domestic revenues. Whereas there is a projected reduction domestic borrowing, there are no signs that the government will soon reduce external borrowing.

This is an indication that the country is heavily reliant on debt. In the absence of debt, the country would struggle to sustain itself. Besides most of the loans are largely invested in non-productive sectors subduing the transformation potential of productive sectors such as agriculture, mining and tourism. Hence there is need to focus more attention on productive sectors for they present high potential for gainful employment, import substitution and value chain improvement.

2.0 COMPLIANCE ASSESSMENT

2.1 Format and Content

Section 9(4) of the Public Finance Management Act, 2015 prescribes the format and expected content of a Budget Framework Paper.

Table 1: Budget Framework Paper Format and Content Compliance Assessment

Budget Framework Paper structure	Indicators	2019 Score* (0-2)	2020 Score* (0-2)	2021 Score (0-2)	2021 Comment
Medium Term Macroeconomic Forecast	Average and year end gross domestic product	2	2	2	Information provided
	Average and year end rate of Inflation	2	2	2	Information provided
	Rate of employment and unemployment	0	1	1	Rate of employment not given
	Average and year end exchange rate	2	2	2	Information provided
	Interest rates	0	2	2	Information provided
	Money Supply	0	0	0	No information
Statement on Medium Term Fiscal Framework in line with Charter of Fiscal Responsibility	Government fiscal balance	2	2	2	Adequate information
	Net Present Value of Public Debt	0	0	0	No information
Medium Term Fiscal Forecast	Tax revenue	2	2	2	Information provided
	Non Tax Revenue	2	2	2	Information provided
	External Grants (towards Annual budget and Project)	2	2	2	Information provided
	Petroleum Revenue	0	0	0	No information
	Current Expenditure	2	2	2	Information provided

Budget Framework Paper structure	Indicators	2019 Score* (0-2)	2020 Score* (0-2)	2021 Score (0-2)	2021 Comment
	Investment Expenditure	1	1	1	Not segregated from net lending
	Net Lending	1	1	1	Not segregated from investment expenditure
	Overall balance of gov't	2	2	2	Information provided
	External financing	2	2	2	Information provided
	Domestic financing	2	2	2	Information provided
	Petroleum Fund financing	0	0	0	No information
	Errors and Omissions	0	2	2	Information provided
Compliance with Charter of Fiscal Responsibility	Consistency of fiscal targets with objectives	2	1	2	Information provided
Statement of the resource for annual budget for the next financial year	Ceiling of gov't expenditure	2	2	2	Information provided
	Floor of government investments	2	2	1	Allocations were taken as the floor although it should be stated explicitly
	Ceiling of total budget funding from Petroleum Revenue Holding A/c	0	0	0	No information
Statement of Policy Measures to meet fiscal targets	New expenditure policies	2	2	2	Information provided
	New revenue policies	2	2	2	Information provided
Medium Term Expenditure Framework	Vote expenditure projects	2	2	2	Information provided
Fiscal Risk Statement	Alternate fiscal framework	0	0	0	No information
	Individual risk sources	2	2	2	Information provided
	Fiscal risk impact	2	2	2	Information provided
COMPLIANCE RATE (max score – 60)		**40 (67%)**	**44 (73%)**	**44 (73%)**	

* 0 – None, 1 – Partial Compliance, 2 – Adequate Compliance

Source: PFM (2015) Act, NBFP 2019/20-2023/24, 2020/21-2024/25, 2021/22-2025/26 and OLOP Computation

There has been an improvement in content of the budget framework paper. Nonetheless there are areas for improvement. These include:

a) Compliance to the Charter of Fiscal Responsibility. It has been noted that government has been increasing its expenses through the creation of additional administrative units eroding the gains of additional revenues as a consequence. Currently the fiscal deficit for FY 2020/21 is projected to reach 10.7% and decline to 7% all above the CFR threshold of 3% of GDP. This implies that the target set for Fiscal deficit in the CFR has not been met, making the BFP for FY2021/22 and the medium term inconsistent with the CFR. This is completely against section 9(4) of the PFM ACT 2015.

Inconsistency with the CFR implies that additional debt has to be raised to finance the Excesses created in the budget that weren't envisaged the CFR. Section 7 of the PFM Act 2015 provides for incidences of deviations from the Chatter, in this regard, Government must prove that economic shock that resulted from the COVID 19 led to an increase in the Fiscal deficit of 7.7% of GDP in FY 2020/21(10.7%-3%=7.7% of GDP).

b) Broad statements are made regarding tax measures. There are no details provided how much the tax measures are projected to yield and how they will contribute to increased revenue collections. Hence there is no alignment of eventual tax measures with those proposed during the consideration of the budget framework paper.

- ***In line with Section 78(1) of the Public Finance Management Act, the Minister of Finance, Planning and Economic Development should submit a report to Parliament why there is a deviation from the Charter of Fiscal Responsibility.***

- ***New revenue policies and tax measures should be articulated in the budget framework paper detailing how much they would yield. This would articulate the logic of proposed domestic revenues and ensure consistency during the consideration of tax bills.***

2.2 None Alignment to NDP111

The National Planning Authority in its presentation to the Budget Committee, noted the following with regard to the alignment of the NBFP to NDP 111. That at the Macroeconomic level, the NBFP is aligned to the NDP111 at a level of 53.3% and this unsatisfactory performance is on account of the following

a) Lower targets of GDP in the NBFP FY 2021/22 (4.3%) compared to those in the plan which is (5.9%).
b) Deviation of the programme allocations as presented in the table in the NBFP
c) Increment in the nominal public debt
d) Levels of domestic financing in the BFP are higher than those in NDP111

Therefore, failure to align resources with NDP is contrary and inconsistent with the provisions of the PFM Act 2015 in particular section 9(3). The section mandates the Minister to present the BFP which is consistent with NDP111.

Recommendation;

- ***We recommend that this NBFP be improved such that all programmes are aligned to the NDP111 as directed be section 9(3)***

3.0 RESOURCE ENVELOPE AND ITS CREDIBILITY

3.1 Decreasing Revenues

It has been noted with concern that there is a projected reduction in domestic revenue by 1165 billion UGX, though there is an increment in budget support by UGX 755.4 billion[10]. The decline in domestic revenue points to a struggling economy which was seriously affected by COVID 19.

- ***We recommend that Government allocate bigger percentage of the budget in productive sectors of the economy and also give support to the private sector so as to overcome the economic effects of COVID 19.***

Table 2: Projected Resource Envelope FY2021/22

S/N	Source	FY2020/21 UGX Billion	FY2021/22 UGX Billion	Variance
1	Domestic Revenues	21,809.7	21,693.2	-1165
2	Budget Support	2906.7	3662.1	755.4

Source: NBFP2021/22

Table 2: Summary of the Projected Resource Envelope FY2021/22

S/N	Source	FY2020/21 UGX Billion	FY2021/22UGX Billion	Variance
1	Domestic Revenues	21,809.7	21,693.2	-116.5
2	Budget Support	2,906.7	3,662.1	755.4
3	Domestic Financing (Borrowing & BOU Capitalization)	3,054.2	2,483.8	-570.4
4	Project Support (External Financing)	9,515.3	8,574.9	-940.4
5	Appropriation in Aid (AIA)	215.6	215.6	215.6
6	Draw down from Government deposits	24.4	-	-24.4
7	Domestic Debt Refinancing	7,486.1	8,547.0	1060.9
8	BoU Recapitalization	481.7	481.7	0
	Total Resource Inflow (1+2+3+4+5+6+7+8+9)	**45,493.7**	**45,658.2**	**164.5**
9	External Debt Repayments (Amortization)	(1,228.9)	(1,826.2)	597.3
10	Project Support (External Financing)	(9,515.3)	(8,574.9)	-940.4

[10] NBFP 2021/22

S/N	Source	FY2020/21 UGX Billion	FY2021/22UGX Billion	Variance
11	Domestic Refinancing	(7,486.1)	(8,547.0)	1060.9
12	Domestic Arrears	(450.0)	(400.0)	-50
13	Recapitalization	(481.7)	(481.7)	0
	GOU MTEF: Resource Envelope Less External Debt Repayments, Project Support, Domestic Refinancing, Arrears and AIA	**26,331.6**	**25,828.4**	-503.2
14	Interest payments	(4,049.5)	(4,960.5)	911
	GOU MTEF: less interest payments	**22,282.1**	**20,867.9**	-1414.2

Source: MoFPED and OLOP Computations

3.2 Recapitalization of Bank of Uganda, and consistence with the PFM Act, 2015

In the process of scrutiny of the NBFP, it was established that the Ministry of Finance had a figure of UGX 481 Billion purporting to be funds for the recapitalization of the Central Bank (BoU). However, the Deputy Governor BoU, while appearing before the budget Committee disowned the funds before the Committee and this raises the issue of integrity which has far reaching effects on the resource envelop. Section 9 (4) of the PFM Act schedule 3 section 5, dictates that Parliament must approve the total resource envelop ceiling to be used in the preparation of the annual budget.

The implication of having the recapitalization of the BoU from the resource envelop is that the Interest cost on the budget will be overestimated since the capitalization was supposed to be financed by issuance of domestic securities.

We therefore recommend that,

- ***Since the resource envelop is over estimated then the budget should be readjusted to attain a balanced budget. The basis of inclusion of recapitalization funds to the Central Bank without any justification questions the integrity of the budget and how the interventions were determined.***

- ***The fiscal authority needs to merit Government interventions based on properly articulated plans guided by the NDP111***

- ***Even in the near future, Bank of Uganda should exhaust all options before seeking for recapitalization from Government.***

3.4 Domestic Borrowing

There is a projected reduction in domestic borrowing by 10.3%[11], however, this reduction is not very substantial to give the public and the private sector confidence that they won't be crowded out and so will be in position to get cheap capital to revamp their businesses. This is seen from the static interest rates by commercial banks which is between19-22%, making it expensive for private investors to access credit.

Also worrying is that there is no hope that Government will soon reduce on external borrowing which is the biggest burden to this country. It's also worrying to note the extent and impact of domestic debt roll over. In FY2018/19 alone, government through treasury Bills and Bonds borrowed UGX 7.4 trillion of which UGX 5.23 trillion (71%) was for refinancing maturing domestic debt and only UGX 2.16 (29%) trillion was left for pressing expenditures[12]. This means that the greatest proportion of domestic debt is a debt rollover. It is thus not surprising that government indicated that it is at the verge of failing to pay its domestic debt[13] which has more than doubled in the last 5 years[14]. It has risen from UGX 9.96 trillion in FY2014/15 to UGX 15.51 trillion in FY2018/19. Critical to note is the fact that domestic borrowing is undertaken on highly competitive rates as compared to external loans.

It has been contended before that domestic borrowings are loans in the meaning of Section 36(2), (4) and (5) of the Public Finance Management Act. However terms and conditions of these loans are not laid in Parliament so that they are enforceable by a resolution. This is a violation of Article 59(3) (a) of the Constitution and Section 36(5) of the Public Finance Management Act.
As of 30th June, 2020, the committed but undisbursed debt was UGX 19.53 trillion of which UGX 8.99 trillion is bilateral, UGX 0.56 trillion is Commercial Banks and UGX 9.98 Trillion being multilateral[15]. Government debt burden is soon surpassing the 50% threshold as its now in at 49.9%.

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[11] National Budget Framework Paper, 2021/22

[12]Ministry of Finance, Planning and Economic Development, 2019. Macroeconomic & Fiscal Performance Report Financial Year 2018/19

[13]Ministry of Finance, Planning and Economic Development, 2019. National Budget Framework Paper FY2020/2. Pg. xviii

[14]Ministry of Finance, Planning and Economic Development, 2019. Report on Public Debt, Guarantees, and other Financial Liabilities and Grants for Financial Year 2018/19. Pg. 7

[15] Treasury operations, Financial and Physical Performance for FY 2019/20&July-December, 2020, presented to the committee on Finance , planning and Economic Development(Parliament of Uganda, February, 2021) page 12

- ***As proposed in the response of 2019[16], a public debt repayment schedule should be developed and published to guide debt management in Uganda.***
- ***Terms and conditions of domestic borrowing should be laid before Parliament and become enforceable by a resolution.***
- ***The Government must not commit loans that it's not intending to use in the near future otherwise it sounds irregular for tax payers to pay interest on loans that are idle.***

3.5 Under Exploited Potential for Local Revenue

Based on the resource envelope, it is clear that from a total revenue of UGX 21.6 Trillion[17], the bulk is projected to be collected at the centre by Uganda Revenue Authority (99%) and the rest collected from Local Governments (1%). It is thus not surprising that local governments rely on Central Government transfers. Due to the reliance on the transfers in form of grants estimated to fund over 85% of local governments' budgets, there is a marginal opportunity for fiscal autonomy and resource allocation discretion[18]. This in a way defeats the decentralisation policy which intended to empower local governments to be self-sustaining in service delivery. The discretion powers of local governments are increasingly being centralised to the extent that central government determines revenue instruments and expenditures through grants. Hence the revenue collection potential is subdued. This has been worsened by the failure to undertake comprehensive revenue assessments and registrations as precursors to boosting revenue collections[19]. More still the Government policy to create more administrative centres through formation of new districts, municipalities and town councils continues to undermine revenue collection potential.

As earlier recommended by the Auditor General[20], there is need to:

- ***Allocate adequate funds to local governments to undertake revenue assessments and registrations;***
- ***Establish unit cost of delivering delegated services at local governments in order to facilitate proper planning and resource allocation.***
- ***Reward entities that surpass their revenue targets with bonuses.***
- ***Halt the creation of new administrative centres.***

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[16]Opposition Response to the National Budget Framework Paper FY2019/20 – 2023/24

[17] National Budget Framework Paper 2021/2022

[18]Office of the Auditor General, 2016. Financing of Local Governments in Uganda through Central Government Grants and Local Government Revenues

[19]Ministry of Finance, Planning and Economic Development, 2019. Financing Local Governments: Exploiting the Potential of Local Revenue. BMAU Briefing Paper (15/19)

[20]Office of the Auditor General, 2016. Financing of Local Governments in Uganda through Central Government Grants and Local Government Revenues

3.6 Unspent Balances

Section 17(2) of the Public Finance Management Act stipulates that a vote that does not expend money that was appropriated to it for the financial year shall at the close of the financial year repay the money to the Consolidated Fund

Table 3: Votes with highest unspent balances for FY2019/20[21]

Vote	Unspent balances (UGX Billion)
Min. Science , Technology and Innovation	23.18
Uganda Revenue Authority	22.57
Parliamentary Commission	20.57
Min. Foreign Affairs	18.66
Min. Education and Sports	12.36
Rural Electrification Agency (REA)	7.40
Judiciary	7.05
Kampala Capital City Authority	6.39
Inspectorate of Government (IG)	5.77
Total	**123.95 (2019/20)**
	828.871 (2018/19)

Source: MoFPED and OLOP Computations

As earlier noted during the consideration of annual budget for FY2019/20[22], it is not clear how unspent balances of previous financial years are incorporated into financing a budget of the next financial year. This leads to underestimating the available resource envelope for a given financial year[23]. Ideally the unspent balances of previous financial year ought to be incorporated into the resource envelope of the following financial year. Surprisingly the votes with highest unspent balances are regular beneficiaries of supplementary budgets. This points to the fact that such votes did not require supplementary budgets. It also points to inadequate scrutiny of supplementary requests by the Ministry of Finance, Planning and Economic Development.

- ***A special audit of the consolidated fund should be undertaken with the purpose of ascertaining extent of unspent balances, how they arise, ought to be budgeted for and utilised.***

[21]Ministry of Finance, Planning and Economic Development, 2019. Annual Budget Performance FY2018/19. Pg. 993

[22]Parliament of Uganda, 2019. Report of the Budget Committee on the Annual Budget Estimates for FY2019/20; A Minority Report on Annual Budget Estimates FY2019/20

[23]National Planning Authority, 2019. Certificate of Compliance for the Annual Budget for FY2018/19

4.0 MACROECONOMIC FORECAST ANALYSIS

4.1 Decline in Concessional Financing

Government is increasingly raising non concessional loans for projects that would not generate revenues for government within a period of not more than 5 years as required under the Public Debt Management Framework (2013). In the FY2020/21, it is projected that non concessional loans amounting to UGX 6.16 trillion will constitute 89% of the total external financing of UGX 6.93 trillion.

As proposed in the response of 2019[24], non-concessional borrowing should be reserved for value-addition projects with a high social or growth impact return such as agro-processing industries and cold chain facilities as well as development of strategic tourism sites

4.2 Employment Creation

The rate of unemployment by **2020 has increased to 1.92% from 1.84% in 2019.[25]** Over the next two years, massive investments in infrastructure development related to the oil and gas sector and the related expected increase in foreign direct investment inflows have the potential to drive Uganda's economic growth. Sustained growth of the economy was expected to create jobs, drive poverty reduction and make growth more inclusive.

Although the economy is growing, it is not creating enough jobs. The Ugandan economy is now on a path of rapid and sustained growth, however, the number of new jobs arising from this growth has been disappointingly low. It is estimated that of the 700,000 individuals who enter the labour market each year only 100,000 find employment[26]. This huge job absorption gap has retarded poverty reduction in the country. For instance, although the economy grew by an average of 4.5% year on year between FY2015/16 and FY201517/18, the number of people living in poverty increased in the same period from 19.7% in FY2015/16 to 21.4% in FY2017/18[27]. This means that whereas the economy is perceived to be growing, its growth is not inclusive enough as it has not translated into job creation, poverty reduction and significant wealth creation for Ugandans. As a consequence many Ugandans are crowded out in sharing national cake by a few individuals. They are outside the market economy.

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[24]Opposition Response to the National Budget Framework Paper FY2019/20 – 2023/24

[25] https://www.statista.com/statistics/447763/unemployment-rate-in-uganda/

[26] Ministry of Finance, Planning and Economic Development, 2014. Uganda s Employment challenge: An evaluation of Governments strategy

[27]Uganda Economic Outlook 2019- PwC Uganda

There is need to boost more investments in productive sectors of agriculture and tourism so as to create more job opportunities as compared to complementary sectors particularly works and transport that have taken centre stage in the recent years.

5.0 FISCAL FORECAST ANALYSIS

5.1 Budget Execution Inefficiencies

Over a decade, national budgets are oriented towards infrastructural project developments. These are largely funded by external loans. Unfortunately most of the projects are poorly appraised and prepared for leading to inefficiencies in utilisation of appropriated funds. Absorption is a parity 43% of a total loan inventory of USD 9.2 billion[28]. Most times projects are incomplete, completion time frames are extended and costs are escalated depleting resources that would cater for other development priorities. Irrespective of the unique environments that influence development costs, the unit costs of developing major assets such as dams and roads in Uganda are extremely exorbitant as compared to other countries in Africa. As at 30th June, 2020, the committed but undisbursed debt was UGX 19.53 trillion of which UGX 8.99 trillion is bilateral, UGX 0.56 trillion is Commercial Banks and 9.98 trillion being multi-lateral[29]

For instance,

a) Kampala – Entebbe Expressway / Munyonyo (51km) whose total value is UGX 1.772 trillion, unit cost per kilometre was UGX 34.763 billion. Despite the fact that this road is a 4 lane expressway, the unit cost is still so high for each lane to cost UGX 8.69 billion per kilometre. This is far higher than the upper limit cost of UGX 4.4 billion per lane kilometre in Sub Saharan Africa[30].

b) The combined investment cost of Bujagali, Isimba, Karuma and Ayago hydropower projects with total planned capacity of 1,873 megawatts amounts to USD 5.08 billion. This translates to an average cost of USD 2.7 million per megawatt as compared to Gibe III hydropower project in Ethiopia whose planned capacity is 1870 megawatts with a total investment cost of USD 1.8 billion translating to average cost of USD 0.96 million per megawatt[31].

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[28]Ministry of Finance, Planning and Economic Development, 2019. Report on Public Debt, Guarantees, And Other Financial Liabilities and Grants for Financial Year 2018/19. Pg 56-76

[29] Treasury operations, Financial and Physical Performance for FY 2019/20&July-December, 2020, presented to the committee on Finance , planning and Economic Development(Parliament of Uganda, February, 2021) page12

[30]World Bank, 2008. Africa Infrastructure Country Diagnostic. Unit cost of infrastructure projects in Sub-Saharan Africa

[31]Ministry of Finance, Planning and Economic Development, 2019. How can the Performance of the Electricity Sub Sector be enhanced? BMAU Briefing Paper (29/19)

As proposed in the response of 2018[32], the following ought to be undertaken:

- ***Change of fiscal strategy from growing the external loan portfolio for at least 3 financial years and place priority on fully utilising the already committed loans.***
- ***The nation's infrastructure development portfolio should be capped until ongoing projects are completed. This will ensure financial prudence.***
- ***As resolved by Parliament in FY2017/18, Government should table cost structure of roads in Uganda.***

5.2 Inadequate Disclosure of Treasury Operations

The reflections of the allocations for Vote 130 – Treasury operations in the budget framework paper continue to be inaccurate. While the Vote manages government statutory debt obligations, Investments and the Contingency Fund, undertakings for interest payments of UGX 3.59 trillion, domestic refinancing UGX 7.36 trillion, external debt repayments UGX 1.2 trillion and domestic arrear repayments UGX 400 billion are not explicitly reflected in the Vote allocations. This totals to UGX 12.55 trillion excluding Contingency Fund whose allocations are not reflected anywhere in the budget framework paper. To the contrary, only UGX 9.8 trillion[33] is reflected as proposed allocation to Vote 130 – Treasury Operations particularly for interest payments. This too contradicts UGX 3.59 trillion reflected in the resource envelope and sector allocations[34].

- ***All funds regarding interest payments, domestic refinancing, external debt repayments and domestic arrear repayments should be reflected in budget allocations and medium term projections of Vote 130 – Treasury Operations.***
- ***Indicative proposed allocations of the Contingency fund should also be reflected in the budget allocations and medium term projections of Vote 130 – Treasury Operations.***

5.3 Low Agriculture Contribution to Tax Revenue

[32]Opposition Response to the National Budget Framework Paper FY2018/19 – 2022/23

[33]Ministry of Finance, Planning and Economic Development, 2019. National Budget Framework Paper FY2020/2. Pg. 262

[34]Ministry of Finance, Planning and Economic Development, 2019. National Budget Framework Paper FY2020/2. Pgs. xiii, xxxi

Although agriculture employs the greatest proportion of Uganda's population (65%)[35], it only contributes 37% of tax revenue[36]. This is mainly attributed to subsistence nature of agriculture, degraded land and collapse of cooperatives. There is also a perception that agriculture is no longer profitable at household level. Besides government seems more committed to supporting a few individuals and entities engaged in commercial agriculture rather than empowering the transformation of subsistence agriculture. Agro industrialisation is presumed to be the engine for take-off[37] against a mismatch of low produce. Government policy is largely geared towards creation of service employment that promotes and entrenches a master-servant relation rather than transforming subsistence agricultural productivity for an inclusive supplier-producer relations. There is a need to shift from market led approach to citizen led approach as a means of boosting household productivity which would translate into increased tax collection.

- ***Given that majority of landlords own an average of 2.5 acres and most of the land is under customary ownership (84%)[38], block farming should be promoted so as to boost productivity.***

- ***Shift from provision of free agricultural inputs to subsidised inputs with emphasis on fertilisers so as to boost land fertility and subsequently production which is a precursor for industrialisation.***

- ***Revive District Farm Institutes as epicentres for training small scale farmers in modern farming skills and enterprise.***

- ***Government should invest resources into the sugar industry and open up new sugar factories in especially the areas of Busoga in a bid to solve the sugar cane crisis in that area.***

6.0 CERTIFICATE OF GENDER AND EQUITY RESPONSIVENESS

Section 14 of the Equal Opportunities Commission Act (2007) and Section 9 (6) (a) and (b) of the Public Finance Management Act (2015), the Equal Opportunities Commission is supposed to recommend issuance of the Certificate of Compliance with Gender and Equity requirements for the

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[35] Uganda Bureau of Statistics, 2019. 2018 Statistical Abstract

[36] https://www.pwc.com/ug/en/industries/agriculture.html

[37] The First Budget Call Circular (1st BCC) on Preparation of the Budget Framework Papers (BFPs) and Preliminary Budget Estimates for Financial Year 2020/2021. Annex 3: Budget Strategy for FY2020/2021 – Pg.4

[38] World Bank, 2018. Closing the Potential – Performance Divide in Ugandan Agriculture

National Budget Framework Paper (BFP) and the 18 Programme Budget Framework Papers for the FY 2021/22 that met the minimum requirements.

The Compliance of the National BFP for the FY 2021/22 is 62% above the Minimum score of 50%.[39]

At programme level, the average compliance score for all the 18 BFPs is (65.75%). The specific programme BFP scores are as: Human Capital Development (82%), Community Mobilization and Mind-set Change (79%), Natural resources, Environment, Climate Change, Land & Water (76%), Innovation, Technology Development and Transfer (70%), Agro-Industrialization(68%), Governance and Security (68%), Digital Transformation (66%); Integrated Transport and Infrastructure Services (66%), Mineral Development (63%) Sustainable Urbanization and Housing 63%, Development Plan Implementation 63%, Regional Development (63%), Private Sector Development (62%), Public Sector Transformation (62%), Tourism Development (61%), Manufacturing (59%), Sustainable Development of Petroleum Resources (58%) and Sustainable Energy Development 57%[40].

[39] COMPLIANCE OF THE NATIONAL AND PROGRAMME BUDGET FRAMEWORK PAPER(S) WITH GENDER AND EQUITY REQUIREMENTS FY 2021/2022

[40] Gender and Equity Responsiveness Budgeting a Requisite for increased household incomes through Sustainable Industrialisation for Job Creation and shared prosperity", December 2020.

7.0 CRITICAL ISSUES AND ALTERNATIVE PROPOSALS ON PROPOSED PRIORITIES FOR FY2021/22

7.1 Financing of Budget Strategy

Whereas some aspects of the budget strategy for FY2021/22 are agreeable such as boosting cooperatives, extension services, tourism marketing and support for the elderly, they do not match with the proposed allocations. The budgets for the relevant responsibility centres have largely been reduced and insufficient to realise the aspirations espoused in the budget strategy. Hence reducing the strategy to a rhetoric.

Table 4: Mismatches between budget strategy and allocations

Item	Budget FY2020/21 (UGX billion)	Budget FY2021/22 (UGX billion)	Variance
Cooperatives Development	10.790	7.513	-3.277
Directorate of Agricultural Extension & Skilling	546.30	546.30	0
Uganda Tourism Board	197.45	176.73	-2.072
Social Protection for Vulnerable Groups	78.94	77.97	0.97

Source: National Budget Framework Paper FY2020/21 and OLOP Computation

This is extremely terrible given the following:

a) Government owes 17 traditional cooperative unions outstanding verified compensation claims. As of 2017, the claims amounted to a total UGX 53.9 billion[41]. To date most of the claims remain outstanding;

b) Social protection for the vulnerable groups continues to be constrained by inadequate funding. Although the programme is to be rolled out to every district, the budget for social protection has decreased by 1% from the approved budget of FY2020/21 which targeted selected districts. It is projected to reduce from UGX 78.94 billion in FY2020/21 to UGX 77.97 in FY2021/22.

c) Due to the continued inadequate allocations to the Uganda Tourism Board (UTB), there are challenges in commissioning of effective market research and advertising campaigns. Despite UTB being allocated UGX 176.73 billion[42] for all its activities, it requires annually an average of UGX 50 billion specifically for product development[43]; and

d) Ever since FY2015/16, extension services have been faced with budgeting gap of 88%[44]. This explains the inadequate coverage of

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[41] Parliament of Uganda, 2017. A Minority Report on the National Budget Framework Paper FY2017/18 – 2021/22

[42] Ministry of Finance, Planning and Economic Development, 2019. National Budget Framework Paper FY2021/22.

[43] Uganda Tourism Development Master Plan 2014-2024

[44] Ministry of Finance, Planning and Economic Development, 2019. Performance of Agricultural Extension Services: What are the emerging Challenges? BMAU Briefing Paper (25/19)

extension services and low technology transfer. These entrench subsistence production in Uganda's population.

We continue to ask Government to allocate more funds towards cooperatives, extension services, tourism marketing and support for the elderly so as to satisfy budget requirements and enhance their performance.

7.2 Revamping Minerals Licensing and Marketing Systems

Although value addition, enforcement and inventory are critical for mineral beneficiation strategy, the mining sub sector can only be revitalised by addressing the corrupted licensing and marketing systems.

As earlier proposed[45], the following ought to be undertaken:

a) Award of exploration and mining rights or licences should be changed from first come first served to auctioning. This is also better than discretionary method. Auctioning will ensure that the highest bidder gets the rights of a mining area. However, for this option to be feasible, it necessitates developing government's geological data so that it accurately provides credible estimates of available mineral resources with a high degree of confidence. Presently the most recent geological data is owned by private companies and explicit regulations are required to demand for it to be deposited in government repository. It calls also for transparency and accountability systems. Nonetheless as is the case for first come first serve, auctioning too without stringent measures is prone to influence by affluent at the neglect of small-scale miners. This therefore calls for categorisation of mining rights, licences and permits that make reservations for small scale miners. For instance in Senegal, extraction permits are categorised into four different types i.e. exploration and mining permits (commercial use), small mine permit (maximum area of 500ha with no depth restrictions), semi-mechanised permit (maximum area of 50ha with depth restrictions of maximum 15 metres), artisanal permit and quarry permit. Zambia has three categories of permits and licences i.e. large scale, small scale and artisanal.

b) As a means for securing markets for minerals produced by artisanal miners, it is important to establish formal mineral marketing centres in major mining centres of Mubende, Bugiri, Buhweju, Namayingo, Ntungamo and Amudat. These will be essential in curbing illicit mineral

[45]Alternative Ministerial Policy Statement for Energy and Mineral Development for FY2019/20

trading and under declaration of mineral values. They have been effective in Malawi. The centres will be more effective as compared to existing mechanisms of exhibitions and trade fairs.

c) ***Provide resources to fast track the realisation of the Mining Act, which instrument will address some of the challenges in the mining sector***

7.3 Skilling and Reskilling of Unemployed Graduates

It has been noted that in most developing countries such as Uganda, there is a challenge of transforming informal jobs into formal wage employment so as to absorb the unemployed graduates[46]. This is attributed to failure to reskilling or retooling the graduates to match the changing labour market demands. Besides the existing employment systems are oriented towards rewarding qualifications as opposed to competence.

A skilling initiative i.e. National Science, Technology, Engineering and Innovation Skills Enhancement Project targeting only science, technology and engineering fields was kick started in 2018[47]. It does not cater for non-science oriented fields. Besides all retooling projects planned under NDP II are exiting the Public Investment Plan[48]. This means that unless they are aligned to a yet to be completed NDP III, no funds will be allocated for their implementation.

The proposals made in the budget framework paper flag retooling of extension workers, staff of Technical and Vocational Education and Training (TVET) institutions as well as Ministries of Gender, Labour and Social Development as well as Ministry of Science, Technology and Innovation. No commitment has broadly been made towards inclusive retooling of unemployed graduates. Failure to address this gap leads to growth of the unemployment rate that ultimately leads to poor quality of life. Additionally the budget strategy proposed to retool public universities[49] but no allocations were made.

Furthermore while Small Medium Enterprises (SMEs) that make the bulk of informal sector may absorb large numbers of unemployed, they are not being considered in skilling programmes.

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[46]World Bank, 2019. World Development Report 2019: The Changing Nature of Work

[47]Public Investment Plan FY2019/20 – 2021/22. Pgs. 798-803

[48]The First Budget Call Circular (1st BCC) on Preparation of the Budget Framework Papers (BFPs) and Preliminary Budget Estimates for Financial Year 2020/2021. Pg. 5

[49]The First Budget Call Circular (1st BCC) on Preparation of the Budget Framework Papers (BFPs) and Preliminary Budget Estimates for Financial Year 2020/2021. Annex 3 – Pg.19

Table showing projected allocation for skilling programme

Sub -Programme	2019/20	2020/21	2021/22
Skills Development	330.283	270.62	251.60

Budgetary allocation for skills development (billion Uganda shillings)

Note: The funds projected to be availed to this sub programme has been significantly reducing, in FY 2020/21 the funds allocated to the sub programme (Skills development) reduced **from UGX 330.283 Billion** in FY 2019/20 to 270.62. In the proposed budget for FY 2021/22 it further reduced to **UGX 251.60 bn.**

As highlighted in the last Opposition Response;
A reiteration is made of the urgent need to establish a national skills inventory and national employment database which should be complemented by a national capacity building strategy. These ought to be complemented by regular retooling of trainers and apprenticeship so as to ensure graduates are employable and innovative for self-employment in a changing labour market.

A survey of SMEs needs should be undertaken and fit for purpose rather than qualification programmes developed. This would ensure growth and transformation of informal enterprises into formal enterprises.

7.5 Environmental Rehabilitation and Restoration

Uganda is experiencing massive environmental degradation. It is characterised by degraded ecosystems such as forests, wetlands, lake shores, river banks, rangelands and hilly mountainous areas. For instance wetland coverage has reduced from 15.6% in 1994 to current 8.9% while forest cover has reduced from 24% in 1990 to 12.4%[50]. This has contributed to increased occurrence of natural disasters such as flooding and mudslides.

As proposed in 2020/21, the National Tree Fund should be operationalized, regulations developed and funds allocated. This in line with Section 57 of the National Environment Act will ensure restoration of degraded hilly and mountainous areas.

Government should release funds collected through environmental levy for environmental restoration activities.

7.6 Labour Externalization

[50]Ministry of Water and Environment, 2019. Water and Environment Sector Performance Report 2019

Under the Labour Externalization policy, the Ministry of Gender, Labour and Social Development moved to regularise the externalization of labour. So far 187 private recruitment firms were licensed. These facilitated externalisation of at least 42,245 Ugandans to Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman among others between 2012 and 2018[51]. Data from Bank of Uganda shows that Uganda has tremendously benefited from remittances from the Middle East, which increased from $51.4m in 2010 to $309m by 2018[52]. However the economic returns are against a rise in human rights abuse manifested through contract substitution, non-payment and underpayment of wages, trafficking of persons, physical or sexual abuse, sexual harassment and death. These are mainly driven by inadequate monitoring and inspection of recruitment firms and work stations abroad by the Ministry of Gender, Labour and Social Development. Despite the initiative to establish a one stop centre at the Ministry, it is unlikely to fill the gap of monitoring and inspection. Rather it will largely expedite registration processes. As a consequence there is an increase in the number of distressed Ugandan workers abroad.

As proposed in the 2020/2021, special cadre of labour attaches be created and adequately facilitated in all missions abroad as a means of enhancing monitoring of welfare of externalized labourers.

7.7 Road Maintenance

90% of the roads subsector budget is geared towards new road construction and only 7% reserved for road maintenance[53]. As a consequence there is a maintenance backlog of 51,735 kilometres[54] on public roads which will ultimately accrue into higher replacement costs of road assets.

Set a ratio for works and transport sector development budget i.e. 70% of every sector annual budget should be geared towards infrastructural development while 30% is geared towards infrastructural maintenance.

As resolved by Parliament in FY2017/18, Government should review cost structure of roads in Uganda with the intention of ascertaining unit cost of road construction and maintenance.

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[51] Parliament of Uganda, 2019. Preliminary Report of the Committee on Gender, Labour and Social Development on the Externalisation of Labour Phenomenon

[52] https://www.monitor.co.ug/uganda/oped/commentary/covid-19-shuts-out-externalisation-of-labour-to-citizens-2480550

[53] Parliament of Uganda, 2019. Report of the Sectoral Committee on Physical Infrastructure on the Ministerial Policy Statements and Budget Estimates for the FY2019/20

[54] Ministry of Finance, Planning and Economic Development, 2019. The Road Maintenance Backlog: A Cause for Concern. BMAU Briefing Paper (11/19)

As proposed in Clause 22 of the Constitution (Amendment) Bill (2019), there is urgency to amend Article 166 of the Constitution so as to empower the public service commission to determine all salaries and allowances in government. This would address distortions in pay among all public institutions.

7.8. In regard to the Human Capital Development Programme (HCDP) which contributes mainly to the NDPIII objective four which is to: enhance the productivity and social wellbeing of the population. It also contributes to other objectives including; Enhance value addition in Key Growth Opportunities and Strengthen private sector capacity to drive growth and create jobs among others.

In an attempt to realise the aspirations provided for under NDP III, specifically objective 2 which is to strengthen the private sector to create jobs, there is need to allocate more funds to private schools and institutions well knowing that most of them have been hit hard by COVID19 pandemic. This will help to create competitiveness and efficiency which is needed for the progress of the education and sports sector.

We propose an increase of the allocation to the Human Capital Development Programme to enhance the performance and competitiveness of private schools and institutions and also make substantial improvements in the Standards and quality sub programme.

7.9 AGRO-INDUSTRIALISATION PROGRAM

The Agro- Industrialisation programme under the Budget Framework Paper FY 2021- 26 is projected to receive UGX, 509.26 Billions representing 5.1% from 3% for the yr. 2019/20. Uganda however is a signatory to the Maputo Protocol which committed to a 10% allocation of budgets to the agricultural sector. Agriculture remains the back bone to Uganda's economy employing over 34 million of the 45 estimated million Ugandans (75%). **Agriculture contributes 37% to GDP**[55]. The programme seeks to address key challenges in agricultural production, agro-processing and value addition which include low agricultural production and productivity, poor storage infrastructure and post- harvest management, low value addition, poor market access and low competitiveness of agro based products in domestic, regional, continental and international markets, limited access to agricultural financial services and

[55]https://www.pwc.com/ug/en/industries/agriculture.html#:~:text=Agriculture%20has%20for%20several%20years,Gross%20Domestic%20Product%20(GDP).&text=The%20sector%20has%20benefited%20from,in%20the%20agricultural%20production%20sector.

critical inputs, poor coordination and efficient institutions for planning and implementation of agro-industrialization.

There should therefore be an increase in the budget allocation to 10% to bring the allocation up to speed with the Maputo Protocol. This will enhance empowerment of farmer groups through Cooperatives, promote food security and increase the contribution of the agricultural sector to GDP.

8.0 CONCLUSION

The proposed alternative proposals articulated in this response when adopted will contribute to effective and efficient execution of the budget for FY 2021/22. The proposals have been made in line with Section 6E (2) and (4) of the Administration of Parliament (Amendment) Act, 2006 as well as Rule 52 of the Rules of Procedure.

I BEG TO SUBMIT

HON AOL BETTY OCAN- WMP-GULU DISTRICT
LEADER OF THE OPPOSITION.