UGANDA'S ECONOMIC DEVELOPMENT

Civil Society Statement to the 8th PSI-IMF Delegation to Uganda

MAY 2017

ACKNOWLEDGEMENT

This is to acknowledge Civil Society Organizations (CSOs) who in partnership worked to develop this Civil Society Statement which highlights Uganda's Economic Development to the 8th PSI-IMF Delegation to Uganda by May 2017. The statement facilitated the CSO-IMF Roundtable discussions on Uganda's Economic Outlook on 9th May 2017 held at the IMF Country Office – Uganda. Special appreciation go to the following organizations and persons who worked tirelessly to ensure the finalization of the statement;

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CONTENTS

	Introduction	4
1.0	Economic Development & Outlook	5
2.0	Governance & Business Climate	10
3.0	Limited Financing to Social Sectors	12
4.0	Social Protection Challenges in Uganda	13
5.0	Other areas of concern	14
	Conclusion	14

INTRODUCTION

The International Monetary Fund (IMF) has had a valuable working relationship with the government of Uganda. This relationship has yielded improvement in Uganda's fiscal and monetary policies as well as the public financial management. These policies have provided a strong framework which has fostered economic growth and development. The IMF through the annual Policy Support Instruments (PSIs) has greatly supported the public financial management, growth and development process in Uganda.

The deliberate government efforts to increase Civil Society Organizations (CSO) participation in public financial management, has also enhanced public financial management as CSOs hold government accountable. CSOs under auspices of CSBAG, for instance, seat on the Public Expenditure Management Committee (PEMCOM).

In addition, the Budget Transparency Initiative (BTI) has enabled CSOs such as CSBAG and ACODE to submit Budget Performance Monitoring reports to the Ministry of Finance, Planning and Economic Development (MoFPED) – budget monitoring efforts; as MoFPED has acknowledged, are contributing to the improvement of service delivery.

Recognizing the role of CSO in holding government accountable, the IMF invited CSOs[1] in Uganda to a round table discussion that would inform the 8th PSI process.

This discussion paper summarises the input of CSOs into this discussion. It draws from reviews undertaken on submitted letters of intent, the 6th and 7th PSI and other government documents. The paper highlights commendable actions undertaken for development, the challenges faced, as well as propositions on mitigating the challenges. The subsequent part of this paper is categorized into three sections namely; i) Economic development and outlook; ii) Governance and business climate, and iii) Social spending /method of delivery.

1 *See annex 1*

1.0 ECONOMIC DEVELOPMENT & OUTLOOK

1.1 Management of macroeconomic parameters:

We commend Government for maintaining stable macroeconomic parameters in Uganda. Over the last fiscal year, annual core inflation has been maintained at single digit average of 4.5%[1]. In addition, Bank of Uganda (BoU) has maintained relative stability in foreign exchange rates following periods of instability in 2015.These have had positive effects on the economy which has also started to recover in terms of growth. Over the last five years[2], BoU has accumulated reserves worth four and a half (4.5) months of imports, to respond to government's foreign exchange needs.

However, there is still room for improvement since the economy has failed to meet the growth targets in the recent financial years. In FY 2016/17, the economy is projected to grow at a rate of 4.5% which is short of the respective target of 5.7%. Similarly, the economy grew at a rate of 5% in FY 2015/16, narrowly falling short of the targeted 5.5% rate of growth[3]. Notably, the growth deficit has increased from 0.5 to 1.2 percentage points. In addition, the country's fiscal deficit is still high at -6.3%[4] of GDP (excluding grants) for FY 2016/17, which is an increase from 6.1% in FY 2015/16.

Some of the key areas of concern for growth are listed below;

1. Poor agricultural growth. The agriculture sector has experienced negative growth over the last four quarters[5]. Set in a wider contextual period, agriculture's contribution to GDP in the last five years has relatively stagnated . In fiscal year 2015/16, the sector's share of GDP (at current prices) was 23.6% which marked a slight decline from the fiscal year 2014/15 share of 23.8%. The persistent funding shortfalls the sector has experienced over the years are a major determinant factor in its growth deficiencies. However, with the sector's Investment Plan yet to be approved[6], it is difficult to determine the funding gaps (shortfalls) and constraints affecting public financial management in agriculture - a sector that remains a major source of livelihoods for most Ugandans.

2. Non-compliance to the NDP II remains a challenge in public expenditure management. Despite the improvement, the National Planning Authority (NPA) in its assessment of the annual budget for FY 2016/17 revealed that it was only 48.1% compliant with the NDP II at the macroeconomic level. In addition, only 58.8% of the government Ministries, Departments and Agencies (MDAs) were compliant to the NDP II in their budgets. Among the main issues highlighted, was the lack of investment plans (only 7 out of 16 sector investment plans were available) which greatly constrains public expenditure management.

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1 *IMF Seventh Review Under the Policy Support Instrument – Press Release and Staff Report, Country Report No. 17/7, January 2017*
2 *IMF Seventh Review Under the Policy Support Instrument – Press Release and Staff Report, Country Report No. 17/7, January 2017*
3 *UBoS and BoU Statistics 2017.*
4 *MoFPED, 2017/18 Draft Budget Estimates*
5 *UBoS Quarterly GDP Figures*
6 *See NPA's Certificate of Compliance on the FY 2016/17 Budget*

Recommendations:

- *Government is called upon to ensure the quick development and approval of sector investment plans to improve public financial management.*
- *In order to improve agricultural production, government is advised to increase financing for agriculture; especially agricultural extension (non-wage facilitation of extension workers) which has the potential to increase value addition and production through advisory on reducing pre and post-harvest losses as well as improved agronomical practices.*
- *The implementation of the core projects in the NDP II has to be fast-tracked given that they were factored into the growth projections of the NDP II. Several core projects in the NDP II are yet to be implemented. These include the recapitalization of Uganda Development Bank (UDB) to improve access to credit, as well as the development of the phosphate industry in Tororo which has the potential to lower the cost of fertilizers in the country and in turn, improve agricultural production.*

1.2 Debt management (domestic and external):

Although Uganda's debt is still considered sustainable (at 34% of GDP in NPV terms) and thus at low risk, a few concerns remain. As the December 2016 IMF debt sustainability assessment indicated, Uganda has low levels of risk distress, but increasing vulnerabilities such as export shocks experienced in this period, amplified non-concessional borrowing, and weaknesses in the absorption of project loans are a major concern.

It is also notable that some of the assumptions/considerations used in computing the level of debt sustainability have a more optimistic outlook to certain macroeconomic variables compared to the actual turn out. For instance, the average level of GDP growth projected over this period is about 6%. However, the levels of GDP growth in the 2015/16 and 2016/17 financial years as earlier alluded to, have fallen below this projection in the debt sustainability computations. **Thus, the economy has to improve its performance for debt sustainability considerations to hold true.**

During this period, IMF also notes that Uganda's debt stock as a percentage of GDP has continued to rise from about 34.5% at the end of 2015/16, to a projected 38.6% at the end of FY 2016/17. This, however, only depicts disbursed debt stock. When considered together with the commitments (undisbursed debt), the debt stock is projected to be about 52% of GDP[7] by the end of 2016/17. The level of sustainability notwithstanding, it is unhealthy for an economy aspiring to reach mid-income status during this planning period, to have a debt stock that is more than half of its GDP.

Further, the utilization of debt also remains an issue given the service delivery funds being foregone to finance debt. The World Bank's 2016, Country Economic Outlook Report on Uganda indicated that for every shilling invested (most of which is debt), Uganda is getting less than a shilling in return.

Considering that interest payments are projected to take up 12.2%[8] of the FY 2017/18's UGX 22.4 Trillion budget[9], it is vital that debt management and utilization improves.

7 *BoU State of the Economy Report, June 2016*

8 *This is an increase of 65.4% in only 2 years, amidst stagnation in revenue-to-GDP ratio at about 13% for the past 3 years*

9 *Total Budget amount Excludes External Debt Repayments, Arrears and Unallocated Taxes and Pension*

Various Auditor General Reports have for the last 5 years consistently highlighted low debt absorption and non-performance of loans, among other issues of concern. Low absorption of debt culminates into payment of commitment charges/fees and reflects ineffective implementation of projects. The Auditor General also indicated that by end of June 2016, committed but un-disbursed debt stood at UGX 18.1trillion with commitment charges of UGX 20.9 billion to be paid, further adding onto the cost of debt servicing on un-utilized debt.

It is notable that non-concessional borrowing (especially from the domestic market) is projected to increase by 9.3% between FY 2015/16 and FY 2017/18[10]. The total amount of money government is yet to pay back to the domestic market will increase to UGX 7,955.42bn (26.3% of the total budget) in the FY 2017/18. Given that a lot of this debt is due this financial year, and only an amount of UGX 2,739.4bn has been ear-marked, it is very likely that government will default on its debt payments.

Recommendations:

- *IMF should implore Government to reduce borrowing and concentrate on streamlining/sequencing existing loan projects and identify growth drivers in which to invest.*
- *Effective and efficient management of non-performing loans needs to be stepped-up before acquiring more to ensure effective loan utilization and avoid undesirable consequences of future unsustainable debt.*
- *The process of approving in-year loan applications should be stopped. Government should have all the loan applications considered within the usual fiscal year process for effective planning and budgeting (approved only as part of the overall appropriation bill before the fiscal year starts) which has worked for economies such as Kenya, Rwanda and Malawi.*

1.3 Stepping up efforts to reduce domestic arrears.

According to the semi-annual budget performance report 2016/17, the reconciled stock of arrears as of December 2016 stood at 13% (2.7 trillion[11]) of approved budget, far beyond the maximum acceptable level of 3%. Despite government committing to clear the arrears, it is likely that they will persist. According to the second (2nd) Budget Call Circular, the stock of domestic arrears reflected a position of UGX 2,700 billion, far above the projected FY 2017/18 budget of only UGX 300.85 billion.

Recommendation:

- *Government needs to task Ministries, Departments, Agencies and Local Governments (MDALGs) on a clear strategy towards the reduction of arrears, with sanctions fully implemented on non-compliance by MDALGs.*

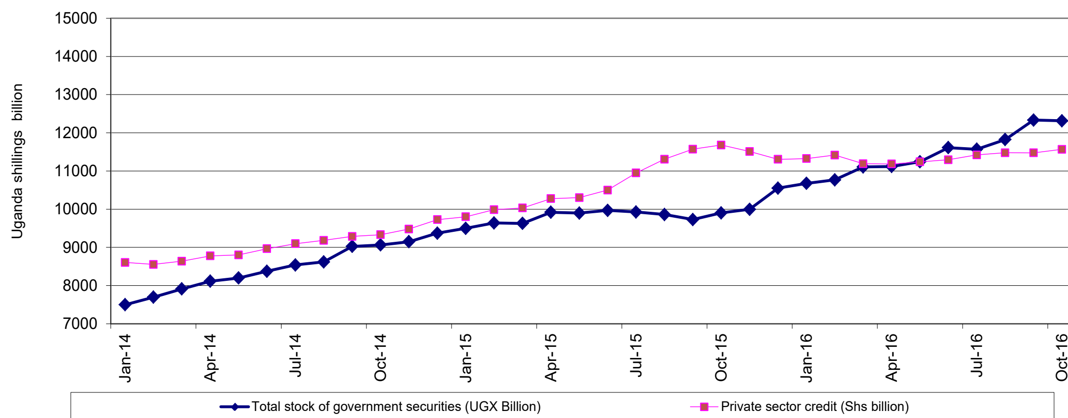
10 National Budget Framework paper FY 2017/18
11 Auditor General's report FY 2015/16

1.4 The Effect of Domestic Borrowing on Domestic Revenue Mobilization (DRM)

Government has strengthened tax administrative efforts through the Taxpayer Registration Expansion Project (TREP)[12], as a measure to improve DRM. However, domestic borrowing tendencies through crowding out effects are likely to constrain any gains from such measures. Despite committing to reduce domestic borrowing by 55% in FY 2016/17, government's domestic borrowing in first quarter of FY 2016/17 amounted to UGX 678.6 billion, already exceeding the annual limit set out in the annual approved budget for FY 2016/17 of UGX 602 billion. Between June and October 2016, the total stock of government securities outstanding rose by 5.7% and stood at UGX 12,315.5 billion compared to UGX 11,612.7 billion at the end of June 2016.

The increased domestic borrowing by Government of Uganda has not only increased beyond some benchmarks set out in the in the 2013 Public Debt Management Framework, but has also in part limited the scope of private sector to borrow (also known as crowding out). Private sector credit growth, a leading indicator of the financial sector's contribution to economic activity, has slowed- registering a 1% reduction between September 2015 and September 2016 - and at end of October was UGX 11,739.2 billion.

Figure 1: Growth Differentials between private sector credit and domestic debt growth



Source: Computations based on BoU data

As illustrated in figure 3, the gap between private sector credit growth and domestic debt growth has been narrowing since January 2014 (with the exception of the period July 2015 to October 2015). What is more concerning is that private sector credit growth has been declining since October 2015 while domestic debt growth rises. Indeed, the growth level of domestic debt has since April 2016 outstripped the level of private sector credit. This trend is bound to even rise further as the National

12 This is a joint operation of the Uganda Revenue Authority, Kampala City Council Authority, Uganda Registration Services Bureau to widen the tax base, increase revenue collection and improve tax compliance. See https://www.ura.go.ug/download/CGMS/URA%20JOINT%20 OPERATIONS%20WITH%20KCCA%20n%20URSB.pdf

Budget Framework Paper for FY 2017/18 indicates that government envisages borrowing UGX 1,477 Billion in the coming FY 2017/18. This pattern is likely to crowd out the private sector which goes against the NDP strategy of a private sector led growth.

Recommendation:

- *Government should reduce domestic borrowing because as it has increasingly become clear, domestic debt is very expensive. In FY 2015/16, domestic debt only amounted to 32% of the public debt stock but accounted for more than three quarters of the total interest payments budget. The pattern is relatively the same in FY 2017/18 as the NBFP 2017/18 indicates that domestic interest payments will constitute 73% of the interest payments budget. Government should consider some alternative financing options such as blended financing.*

2.0 GOVERNANCE & BUSINESS CLIMATE

2.1 Improved access to budget information

We applaud government efforts of making budget information increasingly available to the public. This is a good indicator for promoting budget transparency and accountability in Uganda. As CSOs, we have witnessed commendable efforts by Ministry of Finance in budget transparency and providing up-to-date budget information through the publication of quarterly releases and updating of the budget website . Further, the introduction of the Online Transfer Information Management System (OTIMS) to provide the citizensnand CSOs with information that can be used to monitor and enhance government expenditure tracking and demanding accountability, is a major step in improving transparency.

- This can further be improved through the operationalization of the budget call center and timely updates of the information on the budget website. This will ultimately improve public expenditure management.

2.2 Nugatory/wasteful expenditure

The Auditor General's Report notes that various government entities are engaged in wasteful expenditure to the tune of UGX 6,991.5bn,[1] because of interest on late payments, breach of contracts, storage of unwanted items, litigation costs, among others. In FY 2017/18, allowances, workshops and seminars, welfare and entertainment, special meals and drinks, travel abroad, donations, and hire of venue (chairs, projectors, etc) are expected to take UGX 1,400.5bn, which is 6.9% of the total budget. This expenditure is higher than planned expenditure of UGX 1,270.5bn on priority sectors of agriculture, tourism, trade and industry, and social development.[2] This expenditure is detrimental to the overall economic growth and increases inequality.

Recommendation:

- *Reduction of wasteful expendit ure both at the planning and budgeting stage is critical in ensuring efficiency, as resources are channeled to priority sectors identified in the NDP.*

1 *Office of the Auditor General, 2015/16 Auditor General's Report*
2 *2017/18 Draft Budget Estimates*

2.3 Financial Sector Stability

The regulation of the financial sector is on the right course with strengthened oversight by BoU; tightening its regulations and adherence thereto of commercial institutions to the capital requirements. This has led to the take-over and closure of undercapitalized banks and other financial institutions like Global Trust Bank, Crane Bank, Crane and Stan Hope Forex bureaus recently.

However, there are signs that the sector is still relatively unstable. Total taxes paid by banks in 2016 were UGX 176 Billion compared to 165 Billion in 2015. While this implies a 7% nominal increase in taxes from banks, this performance is considered sub-optimal when compared to the nominal GDP growth of over 10%. In addition, considering the inflation rate of 5.5% in 2016, in real terms, the tax (by banks) grew by 1.5% which is lower than the real growth rate of 5.5%. Thus, as a share of bank taxes to GDP, the ration reduced.

However Non-performing loans as at December 2016 were 10.47% of total Gross Loan portfolio, the highest the country has seen since September 2000 at 13.57% and there is sluggish growth of the Private Sector Credit[3].

Recommendation:

- *As already alluded to, we believe that for NPLs to reduce and the Private Sector Credit growth to improve government must; (i) Clear domestic arrears and (ii) stop borrowing domestically to avoid crowding out the private sector and distorting the operations of the MP by BoU.*

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3 *Year on year analysis between Feb 2016 to Feb 2017 indicated a sluggish growth with* a coefficient of 0.0009 to the *credit value.*

3.0 LIMITED FINANCING TO SOCIAL SECTORS

Allocations to public investment in the social sectors such as hospitals, community roads, schools have either remained stagnant or reduced for several years. Even the quality of service delivery by government is deteriorating and promotes inequality. According to the Oxfam report 2017 on inequality, health centers are under staffed, half of the mothers still deliver their babies without assistance from skilled attendants and yet LGs still operate at 20% capacity in terms of personnel and budget they need. No wonder, 10% of the richest population in Uganda enjoys 35.7% of the national income and 10% of the poorest claim a mere 2.5% of the national income.

It is therefore important that public investment in social sectors is of quality and adequate to address the inequality challenges we are currently facing.

Sector	Approved budget FY 2016/17 (UGX Bns)	Budget projections FY 2017/18[1] (UGX BNs)	Change in Allocation
Agriculture	823.4	863.4	40
Education	2,447.50	2,528.42	80.92
Water and environment	689.6	595.84	-93.76
Social Development	192.8	167.1	-25.7
Trade Tourism & Industry	103.8	112.38	8.58
Health	1,827.30	1,821.05	-6.25

Source: Approved budget estimates FY 2016/17 and Draft budget estimates FY 2017/18

(Footnotes)

1 Excluding arrears and AIA

4.0 SOCIAL PROTECTION CHALLENGES IN UGANDA

Uganda's poverty rate considerably reduced by more than half from 56.4% in 1992/93 to 19.7% in 2014 with 43.3% remaining in danger and highly vulnerable, at risk of falling back into poverty according to the Ministry of Finance[1]. While a National Social Protection Policy (November 2015) is in place, practical interventions should be employed to ensure its effectiveness to reduce vulnerability among specified groups[2] who should benefit from overall economic growth. The Government set UGX 6000 (US$ 1.7) as minimum wage in1984[3] which has since been taken over by the current economic situation but a Bill was submitted to the Ministry of Finance in 2013 to increase the amount . If expedited, a section of the population will be earn slightly higher (approximately UGX 130,000) though not significant enough to cover the cost of living with the unstable inflation levels. According to a country report on Social Protection Monitoring (2016), 78% of Uganda's population is under the age of 30, the world's highest percentage with the share of unemployed youth among the total unemployed at 83%. Only 4.2% of the population above the statutory retirement age are currently benefiting from pension scheme covering only covers a proportion of workers in the formal economy. In addition, women who provide 80 – 90% of labor in subsistence production and receive the lowest wages (especially domestic and agricultural wage workers) are vulnerable in terms of accessing income and decent livelihoods compared to men who control productive resources, including land. Moreover, income and severe food insecurity (due to climatic shocks) challenges in Uganda is increasingly becoming an area of concern.

Recommendation:

- *Government should establish a national social protection system to address inequality, income insecurity, chronic poverty and vulnerabilities. Efficient interventions towards social services to individuals who need special care or would be denied access to basic services should be explored to protect them against the risks and consequences of livelihood shocks. This can be done across sectors, through direct income transfers to vulnerable groups, and sensitization campaigns to protect the rights of socially and economically disadvantaged groups.*

1 *MoFPED. Poverty Status Report 2014. Pg 9.*

2 *For example children, child-headed and elderly-headed households, youth, adolescents, pregnant and lactating women, the elderly, People with Disabilities among others*

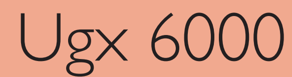
3 *DRT (2013). The Minimum Wage in Uganda: An Urgent Call, Policy Brief No. 4 October 2013*

5.0 Other areas of concern

- According to the 7th PSI, government was supposed to amend the BoU Act to specifically strengthen its capital and operational independence. We are afraid that this has not been done and should implore government to amend the Act.
- We observe that PFM Act 2015 regulations do not have an oil revenue management component. Despite government's commitment to establish separate regulation to manage such revenues, this has not been done.

Conclusion

- CSOs acknowledge areas where government has made progress and has also emphasized areas to improve in the management of public finances to address the economic challenges we are facing. As CSOs in Uganda participating and engaging in PFM process has increased and we now call upon the IMF to have a structured dialogue with CSOs. We believe this will jointly make the efforts towards improving PFM more fruitful.



Minimum wage set by government of Uganda in 1984

Ugx 130,000

Expected minimum wage if the bill that was sent to Ministry of Finance in 2013 is passed

VISION

A Uganda where public resources are prudently, sustainably and equitably managed.

MISSION

To generate advocacy expertise that influences people-based and accountable public resource management in Uganda.

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