

ISSUES FOR DISCUSSION BETWEEN DEG AND DIRECTOR BUDGET (DB)
20th April 2021

The main aim is to discuss issues related to the FY 21/22 budget preparation.

We thank the DB for accepting to meet with DEG. This one of the regular engagements between DEG and DB, the last one was on 3rd Nov 2020

Issues of concern:

1. Budget allocations

- a. We understand the COVID-19 pandemic hit the economy badly and the government was forced to find savings. However, some sectors sustained more reductions than others. Can you provide some insight on the criteria and rationale used for the reductions? For instance, Sustainable Energy Development was reduced by 62% while others were not reduced as much.
- b. Agriculture:
 - We commend the reduction on the NAADs budget (especially on the distribution of agricultural inputs).
 - However, we notice a two-thirds reduction in the UCDA budget. Given that it is the flagship for the sector (and fundamental to the country's foreign exchange earnings), we believe the reduction is good.
- c. Combining of the wealth funds - such as the Youth Livelihood Programme (YLP) and Uganda Women's Entrepreneurship Fund (UWEP) – which were specifically targeting groups that had difficulty accessing traditional forms of finance and credit. We have heard, the funding will now go towards the implementation of the Parish Dev't model. Can shed some light on how the parish model will work. And can you let us know how specific groups, like women, youth and other vulnerable individuals will benefit from this model will. In addition, what are the roles of various institutions, especially MAAIF and MGLSD?
- d. Social Protection: We were informed that there is a GoU's shortfall of Shs 58bn for the senior citizens grants which are required to trigger donor contributions. Is there a plan to address this issue in the in FY 21/22 budget?
- e. As an advocate for road maintenance, we are concerned about the inadequate allocation towards road maintenance (1% reduction compared to last FY), especially Great Kampala metropolitan road's maintenance. Is there a way we can help address this issue? Is there a plan to increase funding for road maintenance as the economy gets better and the revenue increases?
- f. *Differences in the draft budgets for MDAs. We notice that the Consolidated Programme Estimates FY 2021-22 have different figures (i.e. Shs 927.440 Bn for Agro-Ind.) to those in the Draft Budget Estimates FY 2021-22 Central Governments (i.e. Shs 1,410.385Bn for Agro-Ind.). Can we get some clarity on what caused these variations?*

2. Human Capital Development (HCD)

- a. We are concerned about the low investment in HCD, especially education and health compared to peers (countries);
- b. We notice that the education sector budget will marginally increase by 1%, however, it is still low given the increased cost of running educational institutions due to Covid-19 impacts. Also, the low allocation will have a negative impact on Uganda's eligibility to access Global Partnership for Education funding.
- c. Health:
 - We notice that that health sector budget is projected to decline by 10% compared to last FY (especially external financing). This decline may be due to grant cycles or projects being closed out. However, as you know DPs are also reducing funding. Are there strategies to address funding gaps when DPs are no longer supporting a particular activity?
 - We found that financing for Covid-19 vaccination is not explicitly provided for in the FY 21/22 budget. For instance, the Shs 500 Bn Covid-19 Response Plan is listed among the unfunded priorities by the MoH. How will the purchase of the vaccines be handled?
 - Can you clarify if there are plans to construct the Blood Bank in Fort Portal Hospital (part of the UgIFT DLIs), because we do not see it among the 6 BBs listed in the FY 21/22 budget.

3. Financing of the Budget and Domestic Revenue Mobilisation (DRM)

- a. Is there a document you can point us to that has the information on domestic revenue performance for FY 20/21? Can you tell us what financial strategies may be used to manage potential revenue shortfalls due to Covid-19 in FY 21/22?

4. Debt dynamics and trajectory

- a. We observe that containing debt will continue to be a critical priority for the Government, given the recent shift to moderate risk of debt distress (GoU DSA). An unexpected downturn in GDP growth or increased reliance on non-concessional/commercial borrowing would create additional vulnerabilities, as IMF modelling has shown. Public debt stock is projected to increase to 49.9% of GDP in FY2020/21, from 41.2% in FY2019/20. We notice a large and concerning increase in domestic borrowing over the last year. Consequently, over 37% of the budget is going to debt and interest payments during FY 201/22.
 - Can you share with us plans to maintain debt sustainability, including increasing DRM, limiting domestic borrowing and maximizing the use of external concessional financing?
 - Can we get an update on DSSI? It seems Uganda continues to make loan repayments that are eligible to defer under the Debt Servicing Suspension Initiative (DSSI). Can you share the strategy behind this?

5. Domestic Arrears

- a. The Auditor General's FY19/20 report notes that domestic arrears grew by over 46% in the last 3 FYs from UGX 2.6tn in June 2017 to UGX.3.8tn in June 2020, despite several interventions by the Treasury. Accounting Officers do not make sufficient budget provisions towards domestic arrears' settlement despite the accumulation of unpaid obligations.
- b. We observed that by Q2 of FY 20/21, Arrears' payments were above (18%) the half-year target, but there seems to be a significant arrears' accumulation in FY20/21. May be there is need for an audit in order to gain a good understanding of the overall arrears position.
- c. How will MoFPED address the issue of domestic arrear accumulation?

6. Budget engagements

- a. We realize COVID-19 took a toll on all of us and has placed undue burden on our work schedules. This may have led to our limited interaction this past year. As we want to help the GOU, we would like to foster more participation with the DPs. We believe by working together, we can achieve more just working separately. We respectfully ask for more interaction in the upcoming year and may be even have a set calendar of meeting dates going forward.
- b. Is there a way we can improve the DPs access to budget information?
- c. To help us be more informed, can you assign technical focal persons who will liaise with DEG concerning budget issues?

7. Alignment of the Budget to NDP III

- a. The NPA Certificate of Compliance showed decline in the alignment of the budget to NDP from 60% in FY 2018/19 to 54.8% in FY 2019/20, which is far below the benchmark of 70%. We understand that more work is needed to align the Budget to the NDP III in FY 21/22.
- b. We are aware that the complete transition to Programme Based budgeting was not possible during FY 20/21. Can you give us an update on the transition efforts including the update to the financial systems?
- c. Do you have any guiding thoughts on what DPs should focus on to help the alignment process? How can DPs help with the overall transition efforts?

8. Supplementary budgets

- a. We noticed that by the end of Q3 of the FY 20/21, supplementary budget requests were over 10% of the approved budget. We are concerned that, increasing use of supplementary budgets is undermining the credibility of the budget. Can you tell us how the use of supplementary budgets will be limited in the future?