Development Partners' Statement on the Budget Strategy for FY18/19

Delivered by Jennie Barugh, Chair LDPG

On the Occasion of the National Budget Workshop

Thursday 7th September 2017

Right Honourable Prime Minister

Honourable State Minister of Finance

Honourable Ministers

Honourable Members of Parliament

Respresentatives of Local Government

Representatives of Civil Society Organisations, and the Private Sector

Members of the Diplomatic Community and Development Partners

Distinguished Participants,

Ladies and Gentleman

It is a great pleasure for me, as the Chair of the Local Development Partners Group, to address this audience on behalf of all Development Partners and to make an initial contribution to the 18/19 budget discussions. I would like to thank the earlier speakers for sharing their insightful diagnosis and proposals for action. You will hear many similarities between the issues already discussed and those we want to raise.

I'll start with a brief reflection on the last financial year, where we observed mixed performance. Commendably, the macro economy remained stable: inflation was contained back into single digits, the exchange rate remained fairly stable and foreign exchange reserves remained adequate. On the other hand, however, economic growth slowed to 3.9%, 1.6% points lower than the projected growth in 2016/17. While this slowdown in growth is not unique to Uganda, and is to a great extent weather-related, Uganda's recent growth trajectory is below that of its regional counterparts in East Africa and its historical average. In fact, the 3.9% growth rate recorded last year is the second lowest in over 20 years. And high population growth means that there has been very limited growth in per capita terms. This reminds us that middle income status by 2020 is barely achievable and key development objectives, to reduce poverty levels and create modern jobs for Ugandans, will all be achieved at a much slower rate than the fast growing population needs.

So, what does this tell us? Certainly, not all is lost. But going forward it cannot be business as usual. Some key issues need to be addressed to put Uganda onto a stronger and more sustainable growth path and I would like to expand on four of these issues.

First, sound public investment management remains critical for growth. We note that the increased prioritization of infrastructure in the national budgets are in line with the National Development Plan and Vision 2040. And investments in the energy, transport and preparation for oil production are expected to remove key bottlenecks to growth.

But infrastructure investments have not been delivered on time or to budget and those that have been finalized have not been well maintained. This means that the benefit of this investment is much lower than it should be, and that it needs to be to deliver the growth the people of Uganda need.

Going forward, investments using public money must be:

- Well prioritized – so the projects you select are the ones that will make the most difference.
- Competitively tendered and well managed so costs are kept in check, quality standards are delivered and money doesn't leak through corruption
- Well maintained so the asset that is created lasts for as long as it should

While the Ministry of Finance should play a vital role in project selection, sector Ministries and local Governments need to play a key role in selecting the most important projects and managing their delivery. The presentation by the National

Planning Authority highlighted the absence of Sector Investment Plans and the challenge this creates for achieving progress. The whole of Government needs to work together to tackle these challenges.

Our final point on public investment is to stress the importance of boosting domestic resource mobilization. Public investments are mainly being financed by external loans and it is right that Government is borrowing to fund them. But it's very important that Government increases domestic resource mobilization so it can repay the loans in the future. Uganda still only collects around 13% of GDP in domestic resources per year, half the level in other countries in the region.

Development partners remain willing to continue to support you to improve both public investment management and increase domestic resource mobilization. Our collaboration on both these issues has taken a positive turn I the last year and we look forward to continuing to support you on these two important areas.

Secondly, we wish to voice our concern that leaving groups of people, including youth, behind carries social, economic and political risks. Uganda has a young population with population growth standing at 3% per annum. However, in recent years, the average annual increment in social sector budgets has not kept pace. The share of the budget dedicated to social sectors has declined from 37% in 2002/3 to 19% in the proposed budget for 2017/18. Inevitably, investment per pupil in Uganda has decreased over the years, leading to a deterioration in education indicators such as numeracy and literacy. In health, earlier progress is either at risk, or highly dependent on donor support, as in the fight against HIV/AIDS. We struggle to understand how these budgetary trends are compatible with Uganda's laudable advocacy of the UN Sustainable Development Goals, and how this can contribute to improved productivity so that everyone can participate in growing Uganda's economy.

Where we provide support, including the Grant for the Elderly, we merely ask that the Government fulfils its side of the bargain. In other areas, we think it is fundamental to strike the right balance and avoid curtailing excessively the social sector allocations, even if temporarily.

Thirdly, we take note of the growing debt service which stands as the second largest budget line. I have already emphasized the important role of public investment management and boosting domestic revenue mobilization to ensure the investment delivers growth and Uganda can pay back the debt. But it is also important that advances from the Bank of Uganda to the Government are limited in size and repaid before the end of the financial year in line with the Ugandan Public Financial Management Act. Further, we encourage Government to put in place a comprehensive strategy to clear the stock of domestic arrears as well as halting the accumulation of more arrears.

Fourthly, we commend the improved transparency of information about public finances. The development of PFM regulations and the charter of fiscal responsibility are particularly commendable. Regulations on oil revenue management provide for transparency of the petroleum reserve fund, but there is a case for thinking more broadly about whether appropriate fiscal rules also need to be put in place to manage risks towards overdrawing from the petroleum fund. The sign up to the Extractive Industry Transparency Initiative by Uganda ahead of oil coming on stream in 2020 would be a welcome boost.

As I conclude, I should emphasise that, while we understand the challenge of prioritization, we pledge to support the Government to invest in both people and infrastructure, to unleash modern and sustainable economic growth. In the interest of future generations , we respectfully call on our partner to take steps now to improve public investment management and boost domestic resource mobilization.

Thank you for the opportunity to contribute to this important debate and we look forward to continuing to continuing our discussion on these important issues.