CIVIL SOCIETY STATEMENT

UNLOCKING THE POTENTIAL OF UGANDA'S ECONOMY: WHAT SHOULD BE DONE?

ISSUES AND RECOMMENDATIONS ON THE WAY FORWARD

SEATINI
Strengthening Africa in World Trade

August 2022

Introduction

On 11th August 2022, the Minister of Finance, Planning and Economic Development, Hon. Matia Kasaija while interfacing with the Parliamentary Committee on National Economy in Parliament of Uganda revealed that the economy is struggling and that Government has no money to pay for its priorities[1]. According to the Minister, this is partly because of the tax revenue shortfalls that were not anticipated as a result of the ongoing economic crisis in the country.[2] The ongoing economic sluggishness was precipitated by multiple crises both internal and external such as COVID-19 induced challenges, climate change crisis, debt crisis and the recent Russia-Ukraine war which have led to weaker economic growth, persistent global supply chain disruptions, rising food and fuel prices, heightened economic uncertainty and higher inflation and exchange rate depreciation, reduced household consumption and slow business activity. It is worth noting that some of the internal crises that befell the country have been driven by the long-standing challenges which predate the COVID-19 pandemic and Russia-Ukraine war. Some of the long-standing challenges include; persistent trade deficit standing at 493.70 USD Million as of June of 2022[3], rising poverty rates with 10.1 million people living below the national poverty line of $1.25 a day[4], jobless growth (Bank of Uganda estimates that out of the 22.8 million working Ugandans, only 1% earn more than Shs1m on a monthly basis), poorly designed and discretionary tax incentives and exemptions, limited budgetary outlay to the agriculture sector, poor utilization of resources and wastage, low absorption capacity of borrowed funds and financing shortfalls that have delayed implementation of certain projects, limited linkage between agriculture and manufacturing with weak forward and backward linkages, limited diversification and low productivity, environmental degradation contributing to increased natural calamities and disasters.

The current economic meltdown has left millions of Ugandans, especially the most vulnerable, struggling to buy essential products such as food, medicine and fuel. There is an urgent need to have a deeper diagnosis of the state of the economy inorder to come up with viable solutions.

Uganda's Economic Outlook

In its Monetary Policy Statement for August 2022, Bank of Uganda confirmed that the overall economic growth prospects have been dimmed further with increasing risks of a global recession, and weaker consumer and business sentiments as high inflation and commodity prices continue to erode households and business incomes and financial conditions continue to tighten. Economic growth is now projected in the range of 2.5 – 3.0% in 2022 as compared to 4.6% registered in the FY 2021/22 partly reflecting the effects of higher costs of production arising from rising fuel and

1 https://www.youtube.com/watch?v=a9crA50Qrg4
2 https://nilepost.co.ug/2022/08/18/ugandas-economy-fails-to-shake-off-covid-19-after-effects/
3 https://tradingeconomics.com/uganda/balance-of-trade
4 https://bti-project.org/en/reports/country-report/UGA

transportation costs. However, economic growth is projected to rise to 5.0-6.0% in 2023, in part supported by public investments and recovery in demand as inflationary pressures begin to wane.

On the fiscal side, revenue shortfalls have continued to constrain fiscal operations. During the ten months of FY 2021/22, revenue underperformed its target by Shs1,586.0 billion, while government expenditure underperformed by UShs 2,070.2 billion.

The resultant fiscal deficit of Shs. 8,438.3 billion was below the projected deficit by Shs. 484.2 billion and was largely funded by external sources. Generally, Uganda's total public debt stock as a percentage of GDP had increased to 47 percent as of 30th June 2021, up from 41 percent reported in June 2020 and was projected to rise to 51.6% by end of June 20225. This exceeds the government's generally accepted risk threshold of 50%.[6]

The increases in fiscal deficit and public debt are likely to undermine Uganda's economic potential and get the country caught up in a "public debt safety trap7" in which over-reliance on the Debt Sustainability Analysis (DSA) results masks the real situation on debt. The Auditor General's Report for FY 2020/21 shows that Uganda's external and domestic debt stood at UShs 73.78 trillion as at end of October 2021. Contingent liabilities amounted to UShs 160 trillion, rising from 11 trillion in just one year. Domestic arrears amounted to Ushs 4.65 trillion. Outstanding advances from Bank of Uganda amounted to UShs 3.033 trillion. With nominal GDP ratio of 139%, which by far exceeds the Charter of Fiscal Responsibility target of 53.1%.

This is a big departure from the total public debt stock of UShs 73.49 trillion reported by Government as at December 2021. The reported public debt stock excludes all publicly guaranteed debt save for a minute portion that has become a liability to government upon default by the responsible debtor. This mismatch between the reported and actual arises from wrong computation of public and publicly guaranteed debt, which is supposed to be total public debt plus debt guaranteed by government. However, with regard to guaranteed debt, DSA Report (2020/21) only includes guaranteed debt that has become a liability to government upon default by the responsible debtor.

Government DSA report 2021 also excludes domestic arrears and unpaid Bank of Uganda advances extended to Government hence lack of transparency in public debt figures published by government.

Consequently, the country's increasing debt burden that is constraining government's fiscal space to spend on social sectors such as health and education remains.

Government's Responses to the Crises

We note that inorder to respond and address the economic and other related crises, government has put in place and implemented a number of policies. These include;

Operationalization of the Small Businesses Recovery Fund (SBRF): In November 2021, Government established the Small Businesses Recovery Fund (SBRF) to provide concessional financial loans to small businesses that have suffered financial distress arising from the effects of COVID-[19].

The SBRF is a risk-sharing fund between the Government of Uganda and Participating Financial Institutions (PFIs) that are regulated by Bank of Uganda and PFIs with both institutions contributing 50% towards the fund. This was a timely response for the

5 *https://www.finance.go.ug/sites/default/files/Publications/REPORT%20ON%20PUBLIC%20DEBT%2C%20GRANTS%2C%20GUARANTEES%20AND%20OTHER%20FINANCIAL%20LIABILITIES%20FY%202021-22.pdf*

6 *https://www.trade.gov/country-commercial-guides/uganda-market-overview*

7 *https://eprcug.org/eprc-highlights/is-uganda-caught-up-in-a-public-debt-safety-trap/#:~:text=Countries%20are%20caught%20up%20in,national%20or%20international%20debt%20limit.*

MSMEs. The targeted MSMEs are those that employ between 5-49 people with an annual turnover of UGX10 million to UGX100 million and exhibited capacity for recovery.

Recapitalization of UDB: Government through the Uganda Development Bank (UDB) targets to lower the Costs of Doing Business by increasing access to affordable credit and long-term finance for SMEs and large enterprises respectively. The financial solutions offered by the UDB include Tourism intervention fund, farmers group loans, terms loans asset finance, trade finance, project finance, equity investments and special programs solutions (SME Kazi Loans, Women Prosper Loans and Youth Step-up loans). It is anticipated that the financed projects through the budget relief and recovery funds will create socio-economic development impact in terms of jobs, contribution to GDP, tax revenue and foreign exchange earnings to improve the livelihoods of Ugandans.[8]

Roll-Out of the Parish Development Model (PDM): In February 2022, the President of Uganda launched the implementation of the Parish Development Model (PDM) which has become Uganda's flagship poverty reduction program for the FY 2022/23. Government intends through the PDM to eradicate poverty through execution of development activities at the parish level and also move the 3.5 million households that are still in subsistence farming to the money economy. The PDM is being operationalized with UGX 1.059 Trillion being allocated to provide 10,594 Parishes across the country with UGX 100 million for each parish under the Parish Revolving Fund.

Signing of the Final Investment Decision (FID): In February 2022, government signed the FID which is one of the most important steps which signified the commitment of the oil companies to invest close to US$ 10 billion to develop Uganda's oil and gas resources. With this project, it is projected that Uganda and Tanzania will realize their record level of Foreign Direct Investment flows to the tune of $3.5 billion over the period 2022 to 2025 which is an increase of over 60% compared to the current levels of foreign direct investment flows. Additionally, it is also anticipated that the project will boost the economy and catalyze economic growth and recovery.

Broadening the East African Community (EAC): The admission of DRC into the EAC will economically benefit Uganda and EAC partner states and also ensure Peace, Security and Stability in the region.

Reopening of borders and improved bilateral relations: The reopening of the border between Uganda and Rwanda in January 2022 was a positive step towards improving economic relations, following tensions that led to the closure of the border since 2019.

Drive for Import Substitution and Industrialization: Government has also committed to take advantage of the global crises to boost the country's Import Substitution Industrialization Strategy to support the private sector to produce domestically some of the intermediate goods used to produce most of the affected goods and services. [9]

Provision of Food Relief: Government through the Office of the Prime Minister provided relief food consignment of maize flour and beans to Karamoja to the aid of locals in the region who have been facing acute food insecurity the continued dry spell that hit the entire country. More than 900 people have been reported to have died of hunger in Karamoja. Cases of food insecurity have also been reported in other

8 *https://www.udbl.co.ug/budgeting-for-economic-recovery-how-the-budget-relief-funds-will-support-business-recovery-in-uganda/*

9 *https://www.finance.go.ug/sites/default/files/press/PRESS%20STATEMENT%20ON%20THE%20RISING%20PRICES%20OF%20ESSENTIAL%20COMMODITIES.pdf*

parts of the country.10There has also been increased cost of food in urban areas.

Our Observations and Concerns

While we acknowledge the aforementioned interventions and proposed strategies, we wish to note that they fall far short of salvaging and adequately addressing the ongoing crises and the adverse economic situation. Below are our observations and concerns;

1. Disjointed planning, policy incoherencies and actions

There is a discernable delink between the policies and programmes put in place and the challenges on the ground.

Parish Development Model (PDM): Based on its overall aim of lifting 17.5 million Ugandans in 3.5 million households out of poverty through the total transformation of the subsistence households into the money economy, the Parish Development Model is well intentioned. However, it is poorly conceived and designed to adequately responding to the actual inherent challenges of the rural economy. These include linkages to viable and sustainable markets. Lack of access to viable markets is one of the most pressing challenges facing rural producers/farmers and without a clear focus on the same, the plight of producers might not be addressed. There is inadequate preparedness in regards to the implementation of the PDM which manifests itself in the little understanding and conceptualization of the model among the people and policy makers.

Limited budget outlay to the agricultural sector and industrialization: Despite agriculture being the mainstay of Uganda's economy, the National Budgets over the years have done little to enhance agricultural productivity, promote value-addition, especially by supporting manufacturing, including agro-processing. As such, Uganda's agriculture sector is 90% rain-fed and susceptible to the vagaries of the weather.

Rainfall has become less reliable due to the climate crisis. For the FY 2022/23, a total of UGX 1.449.8 Trillion representing 4.5% of the total Budget was allocated to agro-industrialization as opposed to Ushs 1.67 trillion allocated to the same in the previous Financial Year. The limited budgetary allocation to agro-industrialization is not adequate to achieve the intended objectives as stated in the Background to the National Budget for FY 2022/23. These include;

- Expanding storage and processing capacity for agricultural commodities within the country
- Enhancing the use of the Warehouse Receipt System to improve commodity storage, reduce post-harvest losses, improve value chain management, and increase income to farmers
- Providing funds for private sector investment in key commodity agro-processing value chains through soft and patient debt from UDB and equity from UDC
- Strengthening of standards for quality assurance to improve access to markets, establishing a system for issuance and management of internationally recognized product bar codes, branding, packaging and labelling of Uganda's products for visibility
- Enhancing implementation of the Export Development Strategy, including carrying out negotiations for access and entry to regional and international markets and supporting the establishment of 200 Aggregation and Collective Marketing Societies with cleaning, drying, grading and processing equipment
- Promoting investment in strategic

10 *https://www.aa.com.tr/en/africa/hunger-killed-over-900-people-in-ugandas-north-say-local-leaders/2645472#:~:text=More%20than%20900%20people%20have,region%2C%20local%20leaders%20said%20Monday.*

industries such as the manufacture of pharmaceuticals, industrial sugar, starch, herbal extracts and cotton-based medical sundries

- Finalize the enactment of pending legal instruments, including the Competition Bill and the Consumer Protection Bill, Anti-Counterfeits and Quality Product laws.

Program based Budgeting:
The Government of Uganda transitioned from out-put based budgeting to program-based budgeting in FY 2017/18 in a bid to increase coordination and harmonization, better linkage of resources to results and reduce 'silo' approach to implementation across stakeholders and programs. Despite this transition, the budget structures, planning and implementation are still sectoral. For example, there is still no Parliamentary Committee on Agro -industrializations; but two separate Committees of Agriculture and Trade.

Low utilization of available markets: Uganda's share of exports and utilization of national, regional and global markets such as African Growth Opportunity Act (AGOA), EveryThing But Arms (EBA), EAC, Southern Africa Development Community (SADC)/ EAC/Common Market for Eastern and Southern Africa (COMESA) has consistently remained low and largely dominated by raw primary commodities. This has led to an ever-increasing trade deficit which, for example, increased from US$440.4 million in January 2022 to US$508.5 million in February 2022. This has been as a result of limited capacity and preparedness of Micro, Small and Medium Enterprises to increase their production and productivity and to comply with the requisite standards in order to take advantage of these market opportunities. According to the Auditor General Report of the FY ended June 2020, Uganda Export Promotion Board (UEPB) was facing a number of challenges including under staffing (out of the 40 positions established, only 18 were filled leaving a shortfall of 55%); underfunding below the required annual budget with a shortfall of 70% in its funding to achieve its mandate. Other supply capacity constraints include high transportation costs and limited storage and value addition facilities.

2. Untamed and Wasteful Expenditures

Harry Belafonte in his song "A Hole in The Bucket" describes an inextricable situation similar to Uganda's current situation as follows;

Henry? Oh, Henry? (Yes, Liza)
Could you fetch the water? (Go fetch the water?)
There's a hole in the bucket, dear Liza, dear Liza
There's a hole in the bucket, dear Liza, a hole
Well, fix it dear Henry, dear Henry, dear Henry
So fix it dear Henry, dear Henry, fix it
With what shall I fix it, dear Liza, dear Liza
With what shall I fix it, dear Liza, with what?
With straw, dear Henry, dear Henry, dear Henry
With straw, dear Henry, dear Henry, with straw
But the straw is too long, dear Liza, dear Liza
The straw is too long, dear Liza, too long...

In this scenario, the leaking bucket is Uganda's economy which is experiencing a lot of financial hemorrhage and yet little has been done to plug the leakages.

Huge administration burden: The current economic downturn requires prudent utilization of our resources. Even amidst the hard-economic times, government still maintains a bloated administration which continues to strain resources and challenge efforts towards effective revenue mobilization and investment into the social and productive sectors. The bloated government expenditure is at the expense of the much-needed social services economically harmful especially now when the economy is struggling.

Low absorption of funds: The Auditor General's Report for the financial year 2020/2021 revealed 536.5 billion Shillings for 36 government projects failed to absorb funds availed to them for implementation of activities and as a result, a total of 431 billion Shillings and US Dollars 30.2 million (105.5 billion Shillings) remained on project accounts which increased the country's indebtedness.

Harmful Tax Incentives and Exemptions: As economic challenges persist, Uganda has continued to maintain a generous tax exemptions and incentives regime that include grants of free land and tax breaks to investors. This has led to enormous revenue losses. According to the Tax Expenditure report FY 2019/20 ore than Shs5 trillion in taxable revenue is foregone due to exemptions and related incentives[11].

Inadequate Investment Framework and Enforcement: Uganda's Investment Code Act, 2019 in its current form cannot effectively regulate investments in the country. Key among the gaps in Uganda's Investment Code Act 2019 is the lack of performance requirements which places obligations on investors to provide decent jobs; and to transfer skills and technology. The Code lacks provisions on human rights; and does not protect the citizens in land-based investments. As such, Foreign Direct Investments have not delivered on their promises of enhancing technology transfer, creating employment among others; rather they have become a drain on the economy and have perpetuated human rights and environmental abuses.

Limited role of the State in Development: The National Development Plan (NDP) III charges the government to intervene in strategic sectors to ensure that the economy is more functional. However, following the adoption of the Structural Adjustment Programmes in the 1980s, government relegated its role and left the economy in the hands of the private sector. The economy is thus liberalized and left to the interplay of the market forces of demand and supply leading to worsening and deepening of inequalities, vulnerabilities of the people especially the most marginalized and weakened resilience of the economy. Government's dependence on the Private Sector has given rise to the Public Private Partnerships (PPPs) that have commodified social services like health, transport and education and has also increased the country's indebtedness.

Given the above, we wish to make the following recommendations and proposals on the way forward;

Government should:

- Address the policy incoherencies in government's planning and actions. PDM should be redesigned to address the challenges of production, productivity and value addition and utilization of the available markets. The PDM should also be piloted to identify specific problems related to its implementation to inform the necessary adjustments of the model before the national roll-out. Government should also ensure market entry into the available markets through negotiating and signing Product Specific Agreements. For example, earlier this year, Kenya and China signed six trade agreements and also formed a joint working group to address trade barriers between the two countries to reduce trade imbalances.[12] Kenya has shipped 44.26 million kg of avocados, earning 6.09 billion shillings (about 51.18 million U.S. dollars) in the first six months of 2022. 13 Additionally, other countries like India and Malaysia are now engaging Kenya on the same deal.[14]

- Increase the Budget to the agriculture

11 https://www.monitor.co.ug/uganda/business/finance/shs5-trillion-lost-in-tax-exemptions-incentives—3581570
12 https://www.theeastafrican.co.ke/tea/business/china-kenya-sign-six-trade-agreements-3674084
13 https://english.news.cn/20220805/6ca2312f3c8e434da4fea082e567112f/c.html#:~:text=The%20country%20has%20shipped%2044.26,of%20the%20Horticultural%20Crops%20Directorate.
14 https://www.businessdailyafrica.com/bd/markets/commodities/malaysia-india-line-up-for-kenyan-avocado-after-china-3926636

sector should be increased to 10% of Uganda's national budget to meet the country's commitment to the Maputo Declaration. This will ensure that it can address issues of food insecurity, post-harvest losses, access to extension services and access to seeds.

- Strengthen the Ministry of Trade, Industry and Cooperatives (MTIC) to deliver on its mandate: The Budgetary allocation to the MTIC should be increased to ensure that there is sufficient funding to ensure standards compliance, dissemination of market information, value addition and to enhance the competitiveness of MSMEs.

- Develop one robust Strategy for utilizing external markets instead of developing individual strategies for each market i.e. African Growth Opportunity Act (AGOA) Strategy; the AfCFTA Strategy.

- The program-based budgeting should be fully implemented.

- Invest more resources should be invested in the productive sector to create more jobs.

- Enforce existing policies in regards to protecting the environment.

- Rethink economic activities such as sugarcane and palm oil growing that compromise the environment. There is need to implement relevant policies to address climate change and protection of the environment. Government should mitigate environmental degradation and restore the national forest cover and ensure sustainable environmental management.

- Expedite the mergers of Agencies to reduce on the administration burden.

- Reduce on the administrative structures and halt and merge some constituencies to reduce administration costs.

- Expedite the development of the Tax Expenditures governance framework. There is also need to assess the efficacy of existing tax incentives and exemptions

- Ensure prudent debt acquisition, management and accountability.

- Rethink the neoliberal economic model for a more proactive role of the state.

- Review Investment Code Act, 2019 to incentivize investors to reinvest their profits in the country. Performance requirements should be put in place to ensure that investors provide decent jobs to the citizens, ensure technology transfer and respect Human and Environmental rights especially in the host communities where investments are situated. Address land-based investments.

- Establish and maintain food reserves in the different regions of the country to ensure real time deliveries to the vulnerable households during crises, while ensuring that food stocks are monitored and replenished. Food reserves would ensure that good quality food relief is stored and distributed to the vulnerable households as opposed to stakeholders pooling food of different grades or quality standards.

Non-State Actors (Civil Society Organizations, Academia, Media and Private Sector).

- Undertake evidence-based research around critical sectors of the economy to generate reliable data that can inform government planning and interventions.

- Government and the Private Sector should invest in sectors that can enhance forward and backward linkages and create jobs.

Conclusion:

Whereas we recognize government's efforts towards responding to various crises facing the economy, we wish to reiterate that unlocking the potential of Uganda's economy will require holistic, robust and coordinated efforts at all levels and a rethink of some of the existing policies and practices.

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