Briefing

Pro-poor orientation of budgets: The case of Uganda

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1. Introduction

Poverty reduction has been an explicit overarching objective among many developing countries and their development partners since the late 1990s.[1] National budgets have often had poverty reduction or welfare improvement as an explicit or implied objective during this period – hence the concept of pro-poor budgeting.

As the world implements the Sustainable Development Agenda, poverty eradication remains a major objective. Thus national budgets, which are the essence of resource allocation, need to be pro-poor oriented (oriented towards reducing poverty). However, the assessment of how pro-poor a budget is has been a point of constant debate since the origins of the concept in the 1990s.

Much of the pro-poor narratives were scripted in the early 2000s when the concept was still new.[2] Over time, the objectives of public expenditure for many developing countries have shifted away from targeting extreme poverty to target structural transformation. In addition, previous work to assess pro-poor orientation of national budgets has mostly been restricted to expenditure analyses.[3] However, spending is only one element in assessing how the needs of those facing poverty and vulnerability can be considered in the broader budgeting process.

This paper proposes five components to be considered while assessing the pro-poor orientation of a budgeting process.

i. **Alignment with the stated national poverty reduction strategy/priorities:** poverty reduction strategies are often stated in country development plans. However, well-defined poverty reducing strategies may not necessarily translate into poverty reducing expenditure. Thus, in assessing the pro-poor orientation of a budget, this paper considers it important to assess the extent to which budget allocations/appropriations are consistent with the stated national poverty reduction strategies.

ii. **Revenue generation strategies:** revenue generation is an important component of any national budget. In addition, the more domestic resources a country generates, the more discretion it has to allocate these to reduce poverty. For a budget to be pro-poor

oriented, this paper considers it important that revenue measures (especially tax) should place less fiscal burden on the lower-income individuals/households.

iii. **Prudent debt management:** budget deficits are also a common element of most national budgets. However, debt has been known to exacerbate poverty by taking up resources that could otherwise to go towards poverty reduction or social welfare and service provision.[4] The Highly Indebted Poor Countries (HIPC) initiative of the 1990s was based on this notion. Thus for a budget to be pro-poor oriented, debt sustainability must be ensured and utilisation of borrowed funds must demonstrate clear returns to investment. Only then can the additional interest payments associated with debt be considered worthwhile.

iv. **Clear pro-poor spending/budget lines:** a pro-poor oriented budget should have clear budget lines/programmes (such as social protection) aimed at boosting the welfare of the poorest and protecting them from economic shocks. These budget programmes effect the poverty reduction strategies stated in the development plans. In assessing these programmes, clear links to poverty reduction as well as expected outcomes are important to consider.

v. **Poverty-reducing expenditure outcomes:** expenditure outcomes provide insight into the results of the budget programmes aimed at reducing poverty. Budgets often have sections detailing performance in the preceding fiscal year. In assessing pro-poor orientation of a budget, it is worth considering the poverty reduction outcomes of related expenditure.

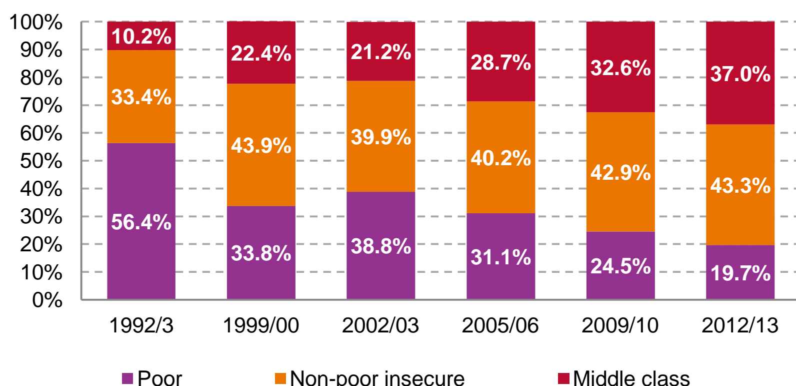
Assessing these five components in detail is a task beyond the scope of this paper. This paper only proposes the above framework for assessing the pro-poor orientation of a budget. It also applies elements of this framework to Uganda to provide a summary of the pro-poor orientation of Uganda's budget.

This assessment excludes expenditure outcomes due to limitations in data availability and is limited to the current National Development Planning period (NDP II) thus far: fiscal years 2015/16 and 2016/17. Impact can be measured and evaluated only after a given period of time. However, most of the data available on Uganda's budgets (going back to over a decade) is limited to expenditure outputs.

1.1 Financing poverty reduction in Uganda

Uganda has been committed to financing poverty reduction since the Poverty Eradication Action Plan (PEAP) years (1990s to late 2000s). The PEAP, a World Bank supported process to address the severe social consequences of structural adjustment programmes, reoriented public expenditure towards reducing poverty. The subsequent National Strategy, 'Vision 2040' marked a shift in Uganda's spending focus away from arresting extreme poverty and towards supporting structural change, wealth creation and improvements to the productive capacity of the economy.

Figure 1: Poverty trends in Uganda



Source: Computations based on MoFPED, 2014

Despite the change in spending focus, the proportion of Uganda's population defined as 'poor' has continued to decline, falling from 56.4% in 1993 to 19.7% in 2013. However, as can be seen in Figure 1, vulnerability (categorised as 'non-poor but insecure' to mean Ugandans who are not poor but are at risk of falling into poverty) has been rising. In total, well over half (63%) of the Ugandan population is either poor or vulnerable to poverty. The growing number of vulnerable Ugandans suggests that very few Ugandans are sustainably transitioning out of poverty. There is also limited evidence to suggest that they are being properly targeted by public spending.

Against such a background, this paper seeks to analyse the pro-poor orientation of Uganda's budgets to assess their appropriateness in dealing with the poverty challenges the country faces.

2. Pro-poor orientation of Uganda's budgets

Using the proposed assessment framework, this section of the paper examines the pro-poor orientation of Uganda's budgets over fiscal years 2015/16 and 2016/17. The paper assesses: budget alignment to NDP II; progressiveness of strategies for revenue mobilisation (excluding grant revenue) and debt sustainability; and effectiveness of the functional allocation of Uganda's Poverty Alleviation Fund (PAF).

2.1 Alignment to the poverty reduction strategy

The first element of assessing budget pro-poorness is the degree of alignment of a budget to the country's poverty reduction strategy (NDP II in this case). According to the National Planning Authority[5], limited alignment of planning and budgeting instruments was the most critical challenge to the implementation of NDP I. To counter this, Sections 13(6) and 13(7) of the new Public Finance Management Act, 2015 (PFM Act, 2015) provided for a Certificate of Compliance to examine the alignment of the national budget to the NDP and the Charter of Fiscal Responsibility.[6]

The first of these Certificates of Compliance assessed the 2015/16 budget and examined only its alignment to NDP II, as there is no Charter of Fiscal Responsibility in place.[7] Results of the Certificates of Compliance indicated that the 2015/16 budget was 68.8% compliant with NDP II. Specifically, it was largely consistent with NDP II at the macroeconomic (72.3%) and national

strategic level (75.4%) priorities but substantially less compliant at the sector and MDA levels at 57.7%.[8]

Notably, at national strategic level, the National Planning Authority[9] indicates that the 2015/16 budget allocation for job creation fell below the NDP II target, with gaps in access to financial services, job creation, entrepreneurship, and creativity and innovation. In particular, creativity and innovation for creative industries were not allocated any resources, despite being a priority in NDP II.

At sector level, the biggest area of non-compliance was the lack of sector development plans. Where sector development plans existed, they were not aligned to NDP II. Many of these sectors assessed have a large bearing on livelihoods of the poor; highlights of their compliance issues are summarised in Table 1.

Table 1: NDP compliance issues in key sectors

Sector	Highlights of issues
Agriculture	1 Non-compliance in: ▪ low prioritisation to regulation (for quality control of inputs) ▪ unfunded NDP II priorities, including training district staffs on control of pests and diseases, assisting farmers to obtain value addition services and extension services.
Health	Non-compliance in: ▪ review and re-alignment the essential care health package ▪ mass treatment of malaria for prevention ▪ mass distribution of long-lasting insecticide-treated nets (LLINs) ▪ insecticide residual spraying to high-transmission districts ▪ inter-sectoral collaboration issues of nutrition, gender, health concerns in food production systems where not addressed.
Education	Non-compliance in: ▪ adopting a differentiated allocation formula for capitation grants ▪ revision of the capitation grants pegging them to inflation ▪ implementing the policy of a government primary school per parish.
Water and environment	Restoration of degraded ecosystems was unfunded in FY 2015/16.
Social development	The budget did not prioritise strengthening culture and creative industries, which is key for youth employment.

Source: NPA, 2016

The alignment issues raised are major concerns for pro-poor orientation of the budget. As shown in Table 1, the agriculture issues limit food productivity. The health issues suggest a failure to deliver preventive healthcare, which is essential for the poor who primarily depend on public health facilities. The non-compliance related to malaria prevention has negative health implications for the poor as malaria is responsible for 30–50% of the in-patient visits in health facilities across the country.[10]

In education, the compliance issues constrain access to education for the poor. This is mostly true for basic education where funding constraints have persistently remained an issue over the years. Adopting a differentiated allocation formula for capitation grants alone would go a long way in remedying the inadequacy of the capitation grants[11] that has dogged the universal provision of primary and secondary education since late 1990s. However, with only one fifth of the NDP II implementation period gone, it is too early to evaluate the precise impact this will have on poverty reduction outcomes.

2.2 Revenue generation and poverty reduction in Uganda

Generation of revenue determines the resource envelope available to fund poverty reduction programmes. This analysis mainly focuses[12] on the performance of tax revenue generation because Uganda's domestic revenue is predominantly (96%) made up of tax revenue (Table 2). The assessment also considers performance in debt management because, as noted above, poorly managed debt can further impoverish the poor by taking up resources (in the form of repayments) that could otherwise fund service provision.

Table 2: Projected revenue outturns and estimates, 2015/16 and 2016/17 (billion UGX)

Section		FY 2015/16	FY 2016/17
Items	**Details**	**Projected outturn**	**Estimated revenue**
DIRECT DOMESTIC		3,781.70	3,939.30
	PAYE	1,829.60	1,901.00
	Corporation tax	845.1	800.1
	Presumptive tax	–	40
	Other non-PAYE	67.9	33.9
	WHT	643.2	733
	Rental income	47.7	65
	Tax on bank interest	331.9	352.6
	Casino & lottery	16.4	13.6
INDIRECT DOMESTIC		2,489.80	2,685.30
INTERNATIONAL TRADE		5,086.80	5,846.80
	Petroleum	1,390.90	1,567.60
	Import duty	994.4	1,255.80
	Excise duty	232	329.7
VAT		2,132.10	2,255.40
WHT		192.6	226.2
Surcharge		124	190.4
Hides & skins levy		20.9	21.8
Tax refunds		176.6 -	195.1 -
Total net tax revenue		11,163.20	12,249.70
NON-TAX REVENUE		518.9	588.7
OVERALL REVENUE		11,682.10	12,914.30

Source: MoFPED, 2016

According to the FY 2016/17 budget speech, the domestic revenue outturn in 2015/16 is projected to surpass the fiscal year target by UGX 265 billion. This is mostly down to the performance of tax revenue which makes up 96.5% of the projected revenue outturns. However, while this indicates good performance it could also suggest that the revenue potential was not adequately estimated.

In addition, despite this tax revenue performance, progress remains short of targets. The ratio of tax to GDP based on the projected outturn levels will amount to 12.7%, unchanged since fiscal year 2014/15. In addition, this level falls below the NDP II target of 16% and far below the East Africa region macroeconomic convergence criterion of 25%. This further heightens the need for the country to broaden its tax base, as emphasised in NDP II.

2.2.1 Tax policy and poverty reduction

Tax policies have poverty reduction implications and should be progressive in nature in order to ensure that the tax burden matches ability to pay. For instance, the 2012/13 upward revision of the Pay as you Earn (PAYE) threshold meant that Ugandans earning a monthly income below 235,000 Ugandan shillings (UGX) were exempted from PAYE. This is especially helpful in reducing numbers of the working poor (poor people in paid employment but with meagre earnings).

Overall, Uganda's tax polices over the first two fiscal years of NDP II have led to a more progressive regime, a few challenges notwithstanding. Notably in 2015/16, the annual VAT registration threshold was revised upwards from UGX 50 million to UGX 150 million.[13] In addition, the threshold for the presumptive taxpayer regime increased from a gross turnover of UGX 50 million to UGX 150 million and qualifying businesses started being categorised with fixed taxes.

In 2016/17, private health clinics have been removed from the businesses subject to specific rates of presumptive tax on turnover below UGX 50 million. While these policy changes have potential to encourage investment, which can in turn create jobs and help to reduce poverty, it is difficult to ascertain the precise outcomes of these changes given the currently available data.

The exemption of private health clinics has positive healthcare implications for the poor as these clinics are the nearest healthcare facilities in some parts of the country. However, the outcomes of this policy change similarly cannot be clearly estimated with the currently available data.

The tax policy changes in agriculture have a direct impact on the poor. In 2015/16 the supply of cereals grown and milled in Uganda was zero-rated which, it can be argued, may have contributed to stabilised food prices in the country both for the poor who are selling their produce and for those who buy food. In 2016/17, agricultural machinery and implements including grain dryers, manure spreaders, fertiliser distributors, and seed and grain shellers have been exempted from VAT. These measures significantly reduce the cost of agricultural inputs and could, in the long run, lead to increased production levels.

The Uganda Red Cross Society and the Global Fund, which supports the combating of AIDS, malaria and tuberculosis, were added to the list of public international organisations that are VAT exempt in FY 2015/16. This has benefits in improving the health of many poor Ugandans across the country, especially in rural areas. Over the past two to three years, the Red Cross has played a major role in reaching poor and displaced persons during occasional flooding challenges in areas such as Kasese as well as landslide victims in Eastern Uganda. Savings resulting from such an exemption are likely to ensure more funding is channelled to the institution's humanitarian activities.

In 2016/17, the tax revenue generation measures include a waiver on all tax arrears owed by savings and credit co-operative organisations (SACCOs) as at 31 December 2015. This will potentially improve credit available to the poor to invest (especially in agriculture), as SACCOs offer much lower interest rates than do commercial banks.

While all the above measures demonstrate a pro-poor orientation of Uganda's revenue measures in the focus years, there remains some room for improvement. For instance, while the increased environmental levy on used clothes and shoes from 15% to 20% fits within the East Africa integration agreements, most poor and vulnerable Ugandans entirely depend on these used goods for their clothing needs. As the prices are marked up by the increased environmental levy, many poor Ugandans are likely to be excluded from affording better clothing.

In addition, there is need to strengthen regulation of prices in the economy to further protect the poor. As tax burdens are passed on to consumers, many poor people are excluded from accessing certain services and goods. For instance, as tax on petroleum products is revised upwards, transport fares often rise at a much higher rate, excluding many poor people. Thus in the absence of cheap public transport, stricter regulation regimes would shield the poor from possible exploitation likely to arise from the UGX 100 increment in excise duty on each litre of motor spirit (gasoline) in 2016/17.

In terms of combating poverty through specific revenue generation measures, Uganda offers plenty of lessons, as outlined above. However, political will is also important in realising poverty reduction goals. For instance the recent amendment of the Income Tax (Amendment) Bill, 2016 to exempt members of parliament from paying taxes on their emoluments, if upheld, is estimated to deny the country tax revenue amounting to about UGX 41.8 billion – funds which could further strengthen the fight against poverty. This also belies the progressiveness of the PAYE system as members of parliament represent a section of the Ugandan population with very high ability to pay.

2.3 Debt management and poverty reduction

Uganda, like many economies, often experiences budget deficits. These are usually financed through internal and external borrowing. However, this borrowing has to be undertaken sustainably to avoid a heavy repayment burden on Ugandans. As highlighted in the framework above, debt and associated interest payments can take up sizeable proportions of a budget, reducing funds available for service provision to the poor if not prudently managed.

According to the 2016/17 national budget speech, Uganda's public debt is estimated to be UGX 29,984 billion (about 34% of GDP in 2015) by the end of June 2016, 62% of which is external debt. Despite rising public debt, the total public debt (external and domestic) was assessed to be sustainable in 2015 by the International Monetary Fund (IMF).[14] The IMF 2015 assessment attributes some of this rise in external debt to a large depreciation of the Ugandan shilling and weak export performance. These present areas for improvement considering that Uganda is a net importer.

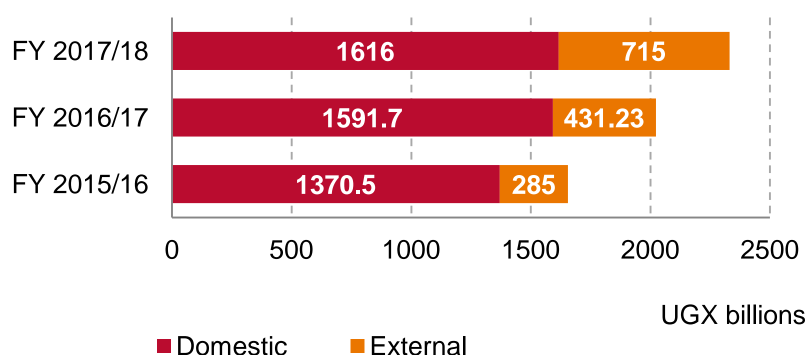
It is prudent for government to continue to maintain the debt at sustainable levels and improve on the timely utilisation of borrowed funds. However, there has been a decline in returns to public investment which is an area of concern as most of the large infrastructure development undertakings are funded by debt. The 2016 Uganda Economic Outlook report by the World Bank[15] cites spending inefficiencies and delays as some of the reasons behind declining returns from public investment. Thus, timely utilisation of borrowed funds will improve returns to public investment given that most of the large public investments are funded by debt.

In 2016/17, domestic borrowing is expected to reduce by more than half (55.8%) as compared to 2015/16. Domestic borrowing in developing economies is associated with crowding of the private sector from credit markets. Thus, such a major reduction in government domestic

borrowing could enhance private sector access to credit which could in turn enhance investment in the economy. This bodes well for Uganda's objective of private-sector-led growth and employment creation.

In addition, such a move will potentially result in savings on interest payments, as domestic debt is associated with higher interest rates. Despite domestic debt constituting 38% of the total public debt, domestic interest payments account for more than three-quarters of Uganda's interest payments in the two fiscal years considered (Figure 2). In 2016/17, interest payments account for 27% of the national budget. These payments take up resources that could otherwise be used to deliver services to the poor. This further highlights the need for the associated debt to be effectively utilised.

Figure 2: Interest payments, 2015/16–2017/18



Source: *Medium Term Expenditure Framework (MTEF) 2014/15–2019/20* (excluding arrears and appropriations in aid)

2.4 Spending on poverty reduction

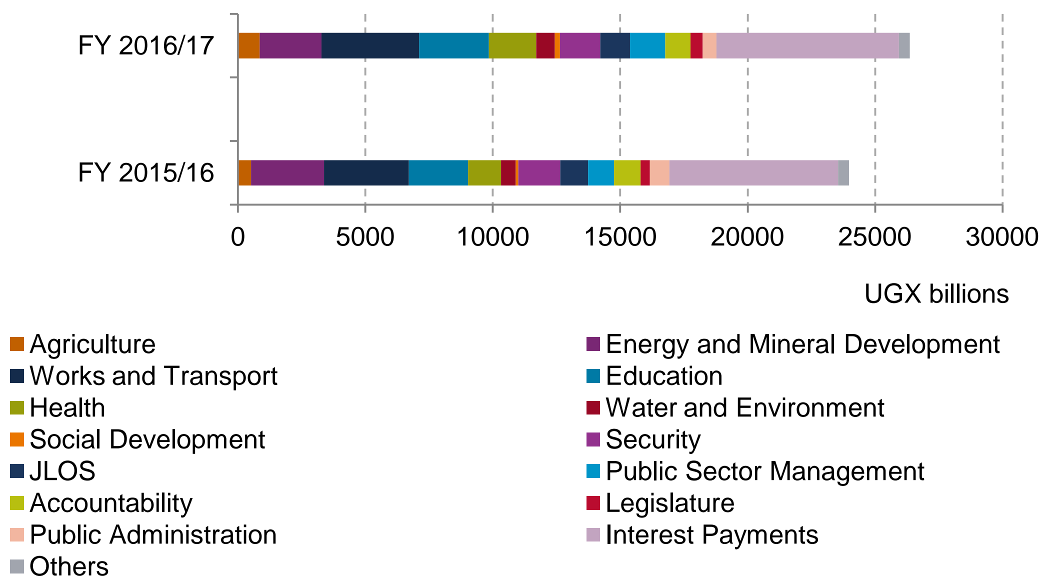
In analysing the pro-poor spending component, two different approaches are considered. One approach looks at expenditure aimed at directly improving the incomes of the poor and the second approach considers expenditure aimed at improving the quality of life of the poor by improving access to basic services. These two approaches often co-exist in national budgets with persistent debate over their poverty reduction merits and demerits among policy-makers.

It is notable that pro-poor spending cuts across many sectors of government but this paper considers agriculture, social development, education, health, and water and sanitation as essential. In addition, expenditure on works and transport and energy is also considered relevant as it enhances employment by improving the investment climate. The transport infrastructure also eases access to basic services and connects poor farmers to markets. However, it is worth pointing out that expenditure in this sector has no guaranteed impact on the poor.

2.4.1 Overall sector allocations

In budgets for fiscal years 2015/16 and 2016/17 the sector allocation patterns are similar, implying a consistency in overall focus of expenditure (Figure 3). Focus is placed on infrastructure development (transport infrastructure construction and maintenance, and large hydroelectric power dams) as well as education and health services. This expenditure is geared towards stimulating job creation by improving the investment climate in the country.

Figure 3: Sector allocations, 2015/16 and 2016/17



Source: MoFPED, 2015

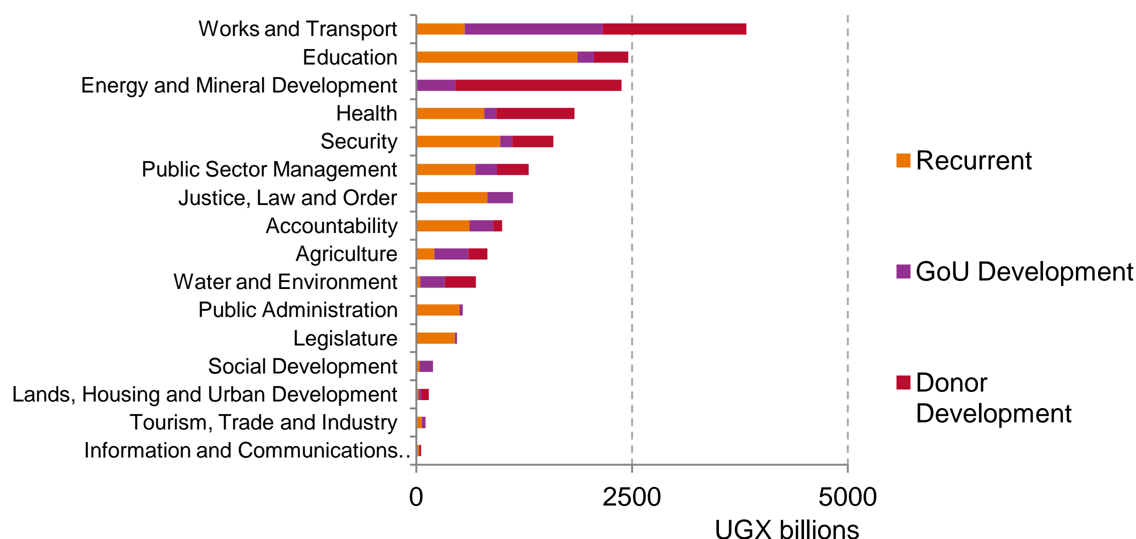
Note: 'Others' includes: lands, housing and urban development; information and communications technology; and tourism, trade and industry.

In FY 2016/17, works and transport is the highest-priority sector and constitutes 20% of the national budget. Education follows and constitutes 14%, ahead of energy (13%) and health (10%); water and environment, and agriculture constitute 4% each while social development constitutes only 1%.

Compared to FY 2015/16, there are sizeable increments in the budgets of social development (108% increase), agriculture (67%), health (43%), public sector management (36%), water and environment (28%), education (18%) and works and transport (15%), suggesting an emphasis on sectors that provide basic services that the poor can access. A detailed functional breakdown of funding within key sectors for 2016/17 is provided in the annex to this paper.

Donor funding (25% of the 2016/17 budget) plays a vital role in poverty reduction in Uganda. Several funding increments observed in health, agriculture and water and sanitation in FY 2016/17 are due to increments in funding from development partners. For instance, the largest proportion (86%) of the health sector's development budget is financed externally. This large contribution of donor development funding can also be seen in other sectors such as works and transport, energy and mineral development, agriculture, and water and environment (Figure 4).

Figure 4: Government and donor funding distributions of sector budgets, 2016/17



Source: Computations from MoFPED, 2016

The merits of the donor funding increment notwithstanding, the usual challenges of uncertainty that characterise reliance on external funding still hold. There are usually variations experienced between commitments and disbursements of donor funding.

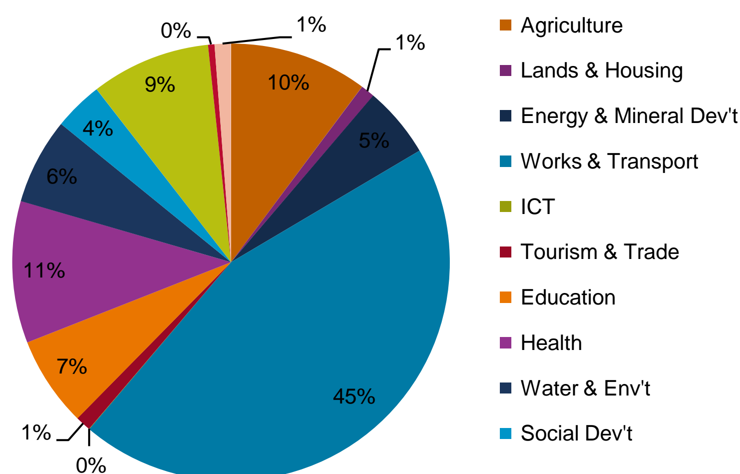
2.4.2 Poverty Action Fund

This subsection examines the appropriateness of the Poverty Action Fund (PAF) in Uganda to poverty reduction by considering the relevance of sector allocations. It further examines the intended use of PAF allocation to two sectors of PAF (agriculture and social development). These two sectors are chosen because they have large proportions of expenditure aimed at improving the incomes of poor Ugandans.

The Poverty Action Fund (PAF) consists of all programmes or investments within the budget deemed to be directly aimed at poverty reduction. The PAF is thus a virtual grouping of investments/programmes and not an independent fund. PAF expenditure is ring-fenced and protected from in-year budget cuts.[16] Based on the PAF definition, 17% of the 2016/17 budget is aimed at poverty reduction as the PAF accounts for 17% of the national budget. The appropriated amount of UGX 4.46 trillion has increased by UGX 133.45 billion (3%) compared to the 2015/16 funding level and is mostly disbursed to infrastructure development projects.

As Figure 5 shows, the works and transport sector is by far the biggest beneficiary of PAF funding (45%). The next-largest allocations are to: health (11%), agriculture (10%), the justice, law and order sector (JLOS) (9%), education (7%), and water and environment (6%). The PAF is not entirely allocated towards direct improvement of incomes of the poor but rather towards improving the investment climate and equalising opportunities to access basic services (which are not exclusive to the poor).

Figure 5: Sector allocation of the Poverty Action Fund, Fiscal Year 2016/17 (n= 4,468.44)



Source: Computations from MoFPED, 2016

In terms of functions, the PAF in the works and transport sector is meant for road maintenance and construction, similar to patterns of overall sector expenditure. In education, the highest PAF priorities are skills development, higher education and primary and secondary education. In health, most of the PAF is directed towards pharmaceutical and medical supplies as well as clinical and public health. Finally, in water and sanitation, PAF funding was mostly allocated to rural water supply and water for production.

However, it is difficult to ascertain the direct benefits the poor accrue from PAF appropriations to sectors such as public sector management, accountability, ICT and JLOS. This spending could be considered to be accommodated in the non-PAF portion of the budget, leaving PAF funding to target raising incomes of the poor.

With almost half of the PAF budget going towards road and energy infrastructure, it is hard to determine the direct benefits the poor will accrue from this expenditure. The spending on road construction and energy may not necessarily have direct benefits for the poor, requiring more to be done for these benefits to be realised. For instance, as more rural areas are connected to the national electric power grid, many rural households are still priced out of using electric power due to the high tariffs. While the economic value of road construction and electric power dams is apparent, there is a need for criteria for adding infrastructure development funding under PAF, spelling out direct benefits for the poor.

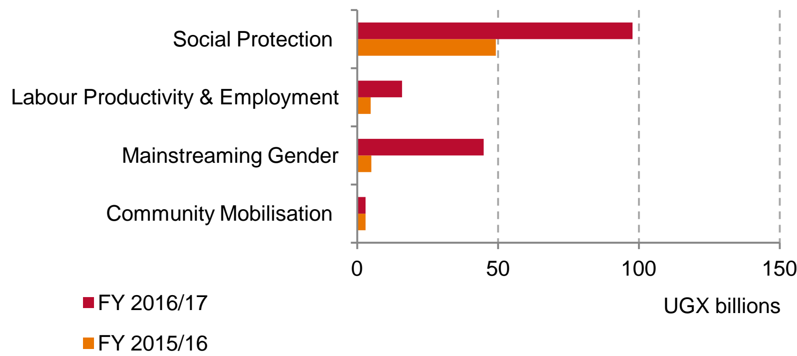
2.4.3 PAF allocations to social development

The PAF in the social development sector has more than doubled in 2016/17 (increased by 134%) when compared to FY 2015/16. This is mostly due to the scaling up of the Social Assistance Grants for Empowerment (SAGE) to cover the entire country, as well as the launch of the Uganda Women Entrepreneurship Programme.

a) Social transfers

A large proportion of PAF funding is meant for social protection, accounting for more than half (51%) of the sector budget (Figure 6). The social protection funding mainly covers scaling up of SAGE grants to cover the whole country (UGX 17.5 billion) and Youth Livelihoods Programme (UGX 75 billion). In addition to the social protection funding, fiscal year 2016/17 will see the launch of the Uganda Women Entrepreneurship Programme (UWEP) which has been allocated UGX 43 billion, seeking to empower women economically around the country.

Figure 6: PAF appropriations to social development



Source: MoFPED, 2015

Note: Excludes local government expenditure due to data limitations for FY 2016/17.

While scaling up the SAGE grants to cover the entire country is a step in the right direction, a lot more is needed. The SAGE grants include the 'old age grant' disbursed to vulnerable persons above 65 years of age. It is estimated that each individual recipient gets UGX 25,000 per month, an amount which is far from adequate when compared to the poverty line – but nonetheless boosts the incomes of these elderly persons, many of whom head households.

Based on the latest national household survey results, Uganda's poverty line (specified in 2005/06 prices) stands at UGX 64,737 per adult, per month.[17] Using this poverty line, the SAGE grant amount has a shortfall of about 62%. This leaves these elderly Ugandans and some of their respective households poor; many recipients are household heads and for many the SAGE grant represents their most reliable source of income.

Social transfers are also intended to include a vulnerability grant for labour-constrained households such as those headed by people with disabilities, orphans and widows. This however was scrapped in FY 2015/16 owing to challenges such as difficulty in implementing the eligibility criteria. This grant is provided for in the NDP, thus there is a need to understand its complications and challenges with a view to reinstating it. Without it, many of these labour-constrained households are vulnerable to poverty.

b) Youth Livelihood Programme

In addition to the social transfers, an additional UGX 75 billion of the social development funding is directed towards the Youth Livelihoods Programme. The programme targets poor and unemployed youth across all districts in Uganda with the aim of empowering them to increase self-employment. The programme has a revolving fund structure which is meant to ensure sustainability after the initial government investment.

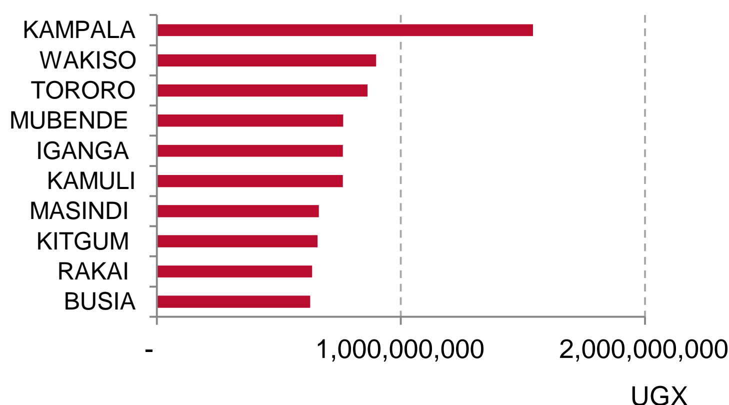
The rolling programme which commenced in FY 2013/14 is yet to be evaluated in the NDP II period. When it was evaluated in 2014, a total of 1,635 projects funded, with a total of 21,132 youth benefiting[18]. The biggest proportion (46%) of beneficiaries was accounted for by school drop-outs. Despite this being a relatively small number of young people, it is a step in the right direction that can be considered for scaling up.

However, better data is needed to assess the exact outcomes of the programme. For instance, based on the data published by the Ministry of Gender, Labour and Social Development, the average rate of repayment stood at only 7% as of June 2016. This however does not separate projects whose funds were due by this time from those that were not. There is also limited

information on the impact of the projects on beneficiaries, with most reports covering only a few success stories.

Better data will also help in understanding the context of the disbursements. Despite poverty levels being part of the allocation criteria, many of the top recipient districts are among those with the lowest poverty rates (Figure 7).

Figure 7: Top ten YLP recipients, June 2016

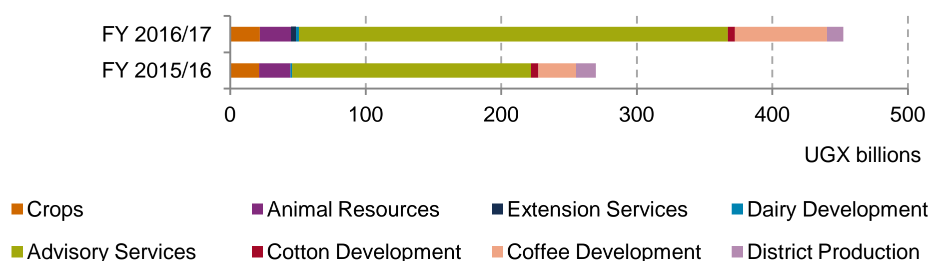


Source: Ministry of Gender Labour and Social Development data, 2016

2.4.4 PAF allocations to agriculture

PAF allocations to the agriculture sector have almost doubled in 2016/17, compared to 2015/16, which is in line with the NDP II guidelines on funding increment for agriculture. The priority across the two years remains advisory services (Figure 8). Advisory services will account for 69.4% of the PAF funding to agriculture. There is also a notable increase in funding for coffee development which has more than doubled in FY 2016/17. However, funding for district production services has reduced from UGX 14.2 billion in FY 2015/16 to UGX 12.06 billion in FY 2016/17 which is a cause for concern.

Figure 8: Agriculture allocations, 2015/16 and 2016/17



Source: Computations from MoFPED, 2016

While advisory services help equip farmers with knowledge and inputs for better production, district production offices play crucial roles in enhancing production and marketing, as well as controlling and regulating food and animal production. These have consistently had funding constraints over the years. Considering that they are closest to the poor farmers, their facilitation is a cause for concern as most of their budget is for wages. In 2016/17, more than three-quarters (76.4%) of the district production offices budget is meant for wages, which leaves

a very limited proportion to facilitate their service provision mandate. This further highlights the need for better non-wage and capital/development facilitation for the districts.

3. Conclusions

As well as considering spending, this paper has analysed Uganda's budget in fiscal years 2015/16 and 2016/17 according to four components that need to be considered when seeking to incorporate the needs of those facing poverty into the broader budgeting process. Overall, it is notable that Uganda has a number of good and best practices. However, there remain some areas for improvement, especially in alignment of the budget to NDP II, revenue generation and appropriation of PAF. We have the following specific conclusions.

NDP alignment: the alignment of a budget to a country's development plan is crucial for poverty reduction. As highlighted in this paper, there was a high degree of alignment at the level of strategic priorities between NDP II and the 2015/16 budget. Specifically, the budget was largely consistent with NDP II at the macroeconomic (72.3%) and national strategic level priorities (75.4%), but substantially less compliant at the sector and MDA levels at 57.7%. The biggest challenge at sector level is the lack of sector development plans and inconsistence with the NDP where the sector plans exist. It is essential that the sectors without development plans develop and align them with NDP II expediently.

Revenue generation: Uganda's tax revenue surpassing fiscal year targets is a mark of good performance. However, it also suggests extra revenue potential that was not estimated or projected. There is thus room for improvement here. While several measures were identified as encouraging a more progressive tax regime, there remains a need to broaden the tax base in order to improve revenue generation which will in turn reduce the need for borrowing. As the East Africa region further integrates, this will also improve Uganda's tax-to-GDP ratio which is crucial to meet the 25% tax-to-GDP ratio required in the regional macroeconomic convergence criteria.

Spending: Uganda's budget has mostly focused on infrastructure development since the first NDP period which is essential for growth. However, better targeting of the PAF is needed to protect a growing number of poor and vulnerable Ugandans from economic shocks. For instance, the SAGE grant amount received by the elderly could be set at the same level as the country's poverty line.

Debt sustainability: Uganda has maintained debt at sustainable levels over the period of study. However, as borrowing from international non-concessional sources increases, it is prudent for the country to improve utilisation of borrowed funds (especially on timeliness) in order to improve returns on the investments funded by borrowing.

The need for better data: as highlighted in the assessments above, there is a need for better data to assess the outcomes of poverty reduction expenditure as well as impact of the tax policy on Ugandans. Currently, the expenditure 'outcomes' available in the data are only in the form of budget outturns and outputs.

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Annex: Sector allocations, 2015/16 and 2016/17

Figure A1: Energy sector

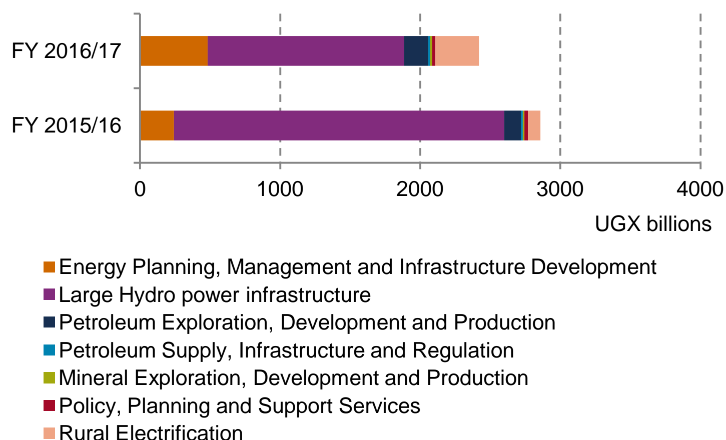

Figure A2: Works and transport sector

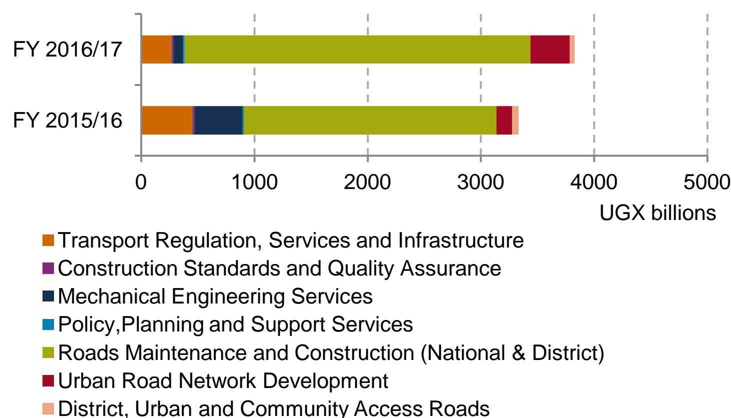

Table A3: Education sector

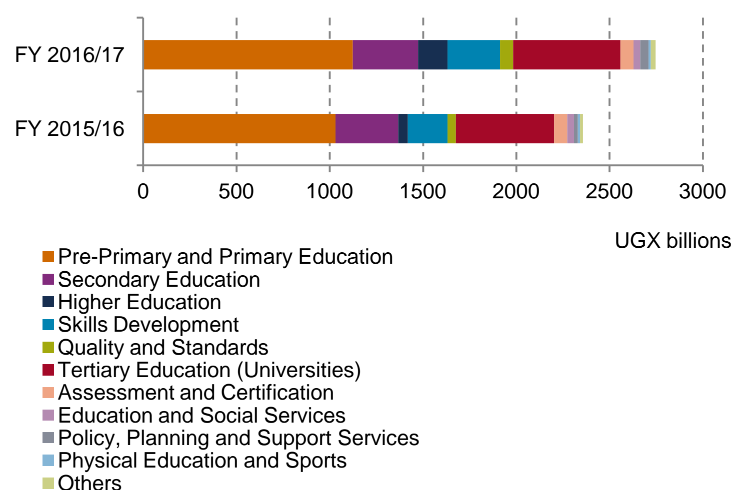

Figure A4: Health sector

FY 2016/17
FY 2015/16
0 500 1000 1500 2000
UGX billions

- Health systems development
- Clinical and public health
- Pharmaceutical and other Supplies (incl. Medical)
- Policy, Planning and Support Services
- Cancer Services
- Heart Services
- Referral Hospital services
- Primary Healthcare
- Others

Figure A5: Water and environment sector

FY 2016/17
FY 2015/16
0 200 400 600 800
UGX billions

- Rural Water Supply and Sanitation
- Urban Water Supply and Sanitation
- Water for Production
- Water Resources Management
- Natural Resources Management
- Weather, Climate and Climate Change
- Policy, Planning and Support
- Sanitationand Environment
- Forest Management
- National Meteorological Services
- Environmental Management

Notes

[1] Carter, 2015; Simson, 2012.
[2] Simson, 2012.
[3] Ibid.
[4] IMF, 2016
[5] NPA, 2015
[6] The Charter of Fiscal Responsibility as provided for in the PFM Act, 2015 is a statement indicating measurable objectives of fiscal policy for a period of not less than the next three financial years, which are consistent with Uganda's macroeconomic framework for the same period (including debt sustainability and consistence between the MTEF and the NDP).
[7] As per the PFM Act, 2015, the Charter of Fiscal Responsibility is meant to be presented to parliament for approval within three months of the first parliamentary sitting after a general election.
[8] NPA, 2016.
[9] NPA, 2016.
[10] MoH, 2015.
[11] A capitation grant is the amount that government pays to a school (equivalent to tuition) to educate each enrolled child.
[12] Grant revenue is excluded from this analysis due to data limitations on direct project funding from development partners.
[13] Ministry of Finance, Planning and Economic Development, Budget Speech, Fiscal Year 2015/16.
[14] IMF, 2015.
[15] World Bank, 2016.
[16] MoFPED, 2004 (PEAP 2004/05–2007/08).
[17] UBOS, 2014.
[18] MGLSD, 2014

Contact

Emmanuel Keith Kisaame

emmanuel.kisaame@devinit.org

Sophie Nampewo

sophie.nampewo@devinit.org