development initiatives

July 2019

is the 2019/20 Uganda budget pro-poor?

pro-poor analysis of FY2019/20 budget

report

Contents

Executive summary

Uganda's Poverty Eradication Action Plan, created in 1998 to channel resources to priority programmes that directly alleviate poverty, guides the allocation of poverty action funds. Using the headcount ratio of measuring poverty incidence, 21.4% of the Ugandan population is deemed as poor according to the Uganda Bureau of Statistics (UBOS). The average consumption per adult equivalent is Ugandan shilling (UGX) 96,900. This implies that at national level, 21.4% of the population do not have sufficient income to meet their calorific requirements. Most poor people live in Eastern and Northern Uganda.

Key findings

Setting priorities in the Second Uganda National Development Plan (NDP II). The priorities of the four sectors selected for analysis – health, education, agriculture and social protection – have been well articulated in the NDP II, which includes a situational analysis, objectives and key interventions. The Budget Policy Statement FY2019/20 has extracted its priorities from the NDP II and attached the expenditure allocations that will help achieve the goals that have been set out.

However, these priorities are not very well aligned to Poverty Action Fund (PAF) expenditure allocations in agriculture and social protection (under the Social Assistance Grant for Empowerment). There is the risk that vulnerable populations might increase even though measures are being taken in education and health to develop human capital. The government should therefore allocate adequate funds for social protection to reduce the vulnerability risks of the population.

Revenues and expenditures. While expenditures have grown at an average rate of 18% over the last five years, revenue has grown at an average rate of 15.7% during the same period. Uganda's resource envelope is largely driven by tax revenue; this is made up of direct taxes and indirect taxes, non-tax revenue from fees and other charges collected and oil revenues. Total revenue excluding grants has been growing at an average rate of 14% per year since FY2016/17. The country's expenditure–GDP ratio, at 27%, is yet to meet the target set out in the NDP II of 21%. External debt constitutes 74% of total debt against a target of 29%. Key actions are to increase resource mobilisation through progressive expansion of the tax base and more importantly to increase efficiency in the use of public resources through effectively sealing corruption loopholes.

Reducing poverty though agriculture seems to require much more attention than has been given. PAF expenditure on agriculture is much lower than other major sectors (7%), yet most people in rural areas (54%) are subsistence farmers and also poor. Uganda's spending under the PAF in FY2019/20 has largely focused on infrastructure. Infrastructure development is important since it cuts across all sectors and is essential for growth. At the same time, prioritisation of education and health can also be seen through the greater proportion of PAF allocation to these sectors.

A review of programmes which are allocated funding under PAF (and fund those that are not, i.e. non-PAF) does not distinguish which activities will be undertaken in each programme and how the activities in the two funding streams will complement each other.

For example, it is not clear which activities fall under the PAF and non-PAF funding for social development. Distinction should be made between the activities of the PAF and non-PAF fund for each sector and how activities from these funding streams complement each other.

Debt sustainability. The Ugandan debt portfolio is growing and there are concerns about the increase. The budget deficit and therefore financing have grown in absolute terms from UGX 4.5 trillion in FY2015/16 to 10.1 trillion in FY2019/20. Consequently, interest payments are made from recurrent expenditure, and on average constitute 21% of this (for FY2015/16–2019/20). Wages and salaries constitute 32% of recurrent expenditure while operations and maintenance make up 47%. Increasing debt implies that more money will be allocated to interest payments, which could have been aligned to operation and maintenance activities or development spending. Also, increased borrowing from domestic sources crowds out investment in the private sector, affecting employment and output. Government should focus on fiscal prudence by ensuring efficient use of available resources and increasing resource mobilisation by widening the tax base.

Service delivery outcomes of expenditure allocation. Expenditure allocations and actual spending cannot be easily linked and aligned to social outcomes as with the case of health or education. And even the most recent data available is rarely up to date but 2–4 years behind. Even though a large proportion of the health allocation from the PAF is spent on pharmaceuticals and medical supplies (25% of total health PAF allocation), 77% of households interviewed on the quality of drugs provided by government ranked the service as poor or fair. Likewise, staff responsiveness to health needs of households when seeking treatment was found to be wanting, with 54% ranking their services as fair or poor.

The 1% allocation of expenditure to social development under the PAF fund is unlikely to reduce vulnerabilities of older people, orphaned children, widows or even the youth. There are indications that investments in agricultural sector programmes like National Agricultural Advisory Services (NAADS) are making progress through inputs supply, even with a much lower PAF expenditure allocation. At least 75% of households rated the quality of various inputs and their access as improved or good. This finding, however, needs to be disaggregated at a regional or sub-regional level, as there are several challenges in the implementation of the PAF. In the agricultural sector the inputs provided are low quality in the case of seed or are causing a high livestock mortality rate.

Investment in data generation. More accurate and timely data is needed for assessing the impact of budgetary allocation, spending and revenue impacts. Accurate social output indicators can be derived from the government’s integrated financial and management information system. This will facilitate analysis of impact of the PAF and non-PAF funding on different sectors. Also, most indicators available from surveys such as Demographic Health Surveys and household surveys are available after 4–5 years. The government through UBOS can initiate biennial household data collection that can facilitate more accurate budgetary impact analysis.

Recommendations

This study provides the following recommendations:

1. Fairly low priority is being given to the social protection and agriculture sectors and their subsequent PAF expenditure allocation. The government should allocate adequate funds for social protection to reduce the vulnerability risks of the population.
2. Uganda's expenditure–GDP ratio, at 27%, is yet to meet the target set out in the NDP II of 21%. External debt constitutes 74% of total debt against a target of 29%. Key solutions would be to increase resource mobilisation through expanding the tax base and more importantly increase efficiency in use of public resources through effectively sealing corruption loopholes.
3. When reviewing the programmes under the PAF and non-PAF fund, it is not clear which activities will be undertaken in each programme and how the activities in the two funding streams will complement each other. For example, it is not clear which activities fall under PAF and non-PAF funding for social development. Distinction should be made between activities of the PAF and non-PAF fund for each sector and how activities from these funding streams complement each other.
4. The government should focus on fiscal prudence by ensuring efficient use of available resources and on increasing resource mobilisation by widening the tax base as a way of moving towards debt sustainability.
5. The PAF has mixed outcomes based on anecdotal evidence; there is need for further impact analysis of the PAF interventions to establish if they are pro-poor.
6. More data is needed for assessment of impact budgetary allocation, spending and revenue impacts. Accurate social output indicators can be derived from integrated financial and management information systems of the government. This will facilitate analysis of the impact of PAF and non-PAF funding on different sectors. Also, most data on indicators from surveys like Demographic Health Surveys and household surveys are only available after 4–5 years. The government through UBOS can initiate biennial household data collection that can facilitate more accurate budgetary impact analysis.

Introduction

Rationale for pro-poor budgeting

The Government of Uganda has outlined various strategies for combating poverty. The Second National Development Plan (NDP II) addresses several aspects of development that have implications for poverty reduction. These include developing human capacity through education and health, increasing production and productivity in animal and crops to increase incomes of farmers, and decentralising services delivery.

Decentralised service delivery is expected to improve the population's access to public services. This planning framework came from the Government of Uganda's Vision 2025 ('Prosperous people, Harmonious nation and Beautiful country'). Within this planning framework, the first Poverty Eradication Action Plan was completed in 1997 and created the framework for ending poverty. The plan has guided the Poverty Action Fund (PAF), which was created in 1998 to channel resources to priority programmes that directly alleviate poverty.

The government has used the Foster-Greer-Thorbecke poverty index to establish the poverty incidence (also known as headcount ratio) in Uganda. This index measures three elements of poverty: level (incidence), depth (inequality) and severity (intensity) and sets a consumption-based measure using a poverty line. The incidence measures the percentage of people estimated to be living in households with consumption per adult equivalent below the poverty line for their region. More than a fifth (21%) of Uganda's population are estimated to live in households that spend less than what is needed to meet their caloric requirements and cover their non-food needs.[1]

Pro-poor policies increase government spending in a pro-poor manner, for example, fiscal policies that allocate funds for improved delivery of preventative and curative healthcare and education services from which the poor benefit[2] .To be successful, pro-poor budgeting must involve poor people in planning, budgeting and monitoring and evaluation to ensure that government aid and social programmes are correctly targeted to the right population cohort – that is, people who are in poverty or vulnerable to poverty. Pro-poor budgeting may also involve sectors that indirectly affect poor people but result in significant access opportunities and ensure progressive taxation for incomes received by poor people.[3] Furthermore, in the case of Bone District in Indonesia, the sufficiency of pro-poor spending depends on increasing the proportion of spending to all planned programmes and activities related to poor people, increasing the proportion of expenditure received directly by poor people, and evenly distributing innovations to all parts of the country including the most remote.

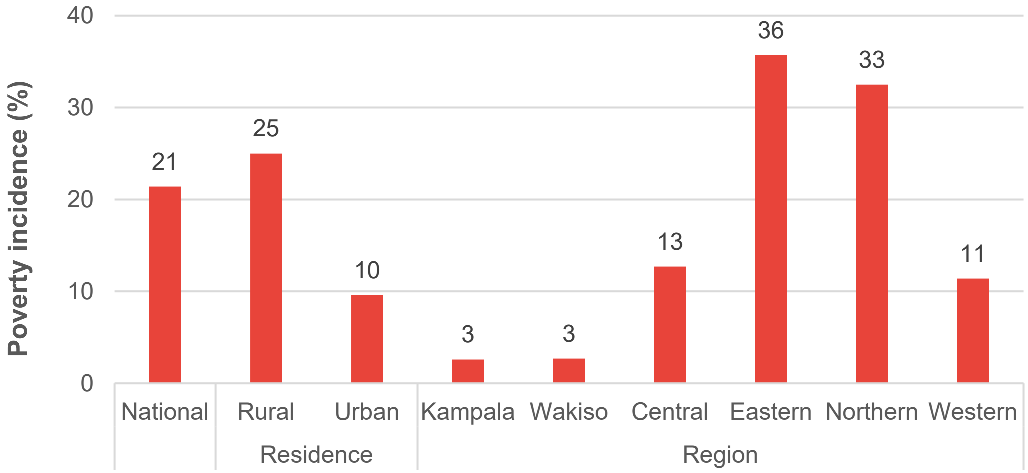
This analysis seeks to establish if the Medium-Term Expenditure Framework for Uganda FY2019/20 is pro-poor, that is, whether it responds to the needs of the poor segment of the population. This is done by analysing the overall budget expenditure and sectoral spending allocation under the PAF. The paper is structured as follows: the next section provides an overview of poverty incidence in Uganda, followed by national development plans in key sectors that have a direct impact on poverty, followed by a full sectoral analysis and then conclusions and recommendations.

Poverty

Poverty incidence trends

Poverty incidence, which measures the headcount ratio of poor people as a proportion of the total population, stands at 21.4% in Uganda. This implies that at national level, 21.4% of the population do not have sufficient income to meet their calorific requirements. The average national consumption per adult equivalent is UGX 96,900. Poverty remains largely a rural phenomenon, since 25.0% of rural inhabitants are considered poor (Figure 1), while in urban areas, 9.6% of the population are poor. At regional level, Eastern and Northern Uganda, which have large rural populations, have the highest poverty level incidences of 35.7% and 32.5% respectively. In terms of contribution to overall national poverty, rural inhabitants contribute 89.3%. Eastern and Northern Uganda are the largest contributors to national poverty (43.6% and 31.6% respectively).

Figure 1: Poverty in Uganda as of 2017 (%)

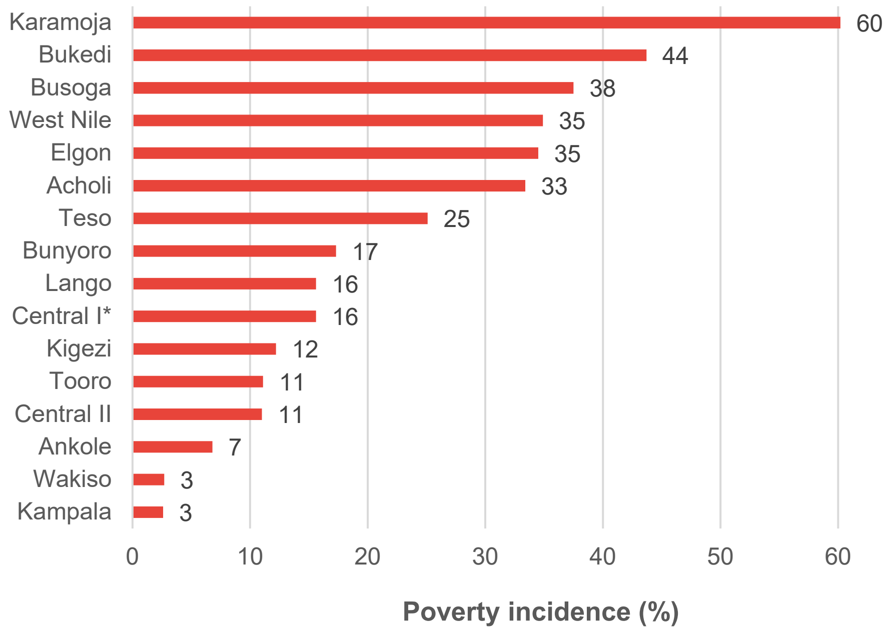


Source: Development Initiatives based on UBOS. Uganda National Household Survey Report 2016/2017.[4]

A review of regional poverty incidence shows that Karamoja has the highest poverty incidence at 60.2% followed by Bukedi at 43.7%, while Wakiso and Kampala have the lowest poverty incidence rates of 2.7% and 2.6% respectively. Karamoja and Bukedi have consumption per adult equivalent of UGX 58,600 and 46,300 respectively. This is almost half the national average of UGX 96,200. In Wakiso and Kampala, this is UGX 184,900 and UGX 214,900 respectably. This implies high disparities in income and further reinforces the inference in Figure 2 that poverty is largely a rural phenomenon. It is therefore expected that any pro-poor development initiatives should be targeted towards rural regions.[5]

Furthermore, profiling of distribution of households by main source of earnings shows that 53.9% of rural residents are subsistence farmers while only 19% are in wage employment. For the urban households, 40.4% are in wage employment, a further 31.3% are in non-agricultural enterprises. In Uganda, 82.7% of rural residents live in their own dwellings while 43.9% of urban residents do. At the same time, 47.7% of urban residents occupy rented houses compared with 11.4% in rural areas.

Figure 1: Sub-regional poverty incidence as of 2017 (%)



Source: Development Initiatives based on UBOS. Uganda National Household Survey Report 2016/2017.[6]
Note: *Central I excludes Wakiso district.

In terms of quality of dwelling, 86.6% of urban dwellers live in houses with irons sheets and 31.1% in houses with thatched roofs. Some 58% and 76% of rural and urban households use bricks as walling material respectively.[7] The non-consumption measures of welfare also give important indications of the status of the welfare of a population and areas that require policy intervention. In the health sector, 17.5% of female deaths are maternal related. The under 5-mortality rate stands at 72 per 1,000 live births for boys and 56 per 1,000 girls. Infant mortality rates are 25 per 1,000 births for boys and 20 per 1,000 births for girls.[8] Much work needs to be done if these indicators are to be reduced by half by 2030 to meet the Sustainable Development Goals (SDGs).

Non-consumption measures of welfare show that the net secondary school attendance rate is much higher for boys than girls for all wealth quintiles apart from the middle quintile where there are more girls (19%) than boys (17%) (Figure 3a). More women than men suffer from anaemia (any form of anaemia) – which increases as wealth quintile decreases (Figure 3b). These indicators show that there is need to increase investments in the education and health sectors to improve the general welfare of the population in the lower quintiles.

More targeted policy interventions in these sectors are likely to increase the chances of achieving SDG 3 of ensuring healthy lives and promoting well-being for all at all ages and SDG 4 of ensuring inclusivity in education.

Figure 2a: Net secondary school attendance by wealth quintile as of 2017 (%)

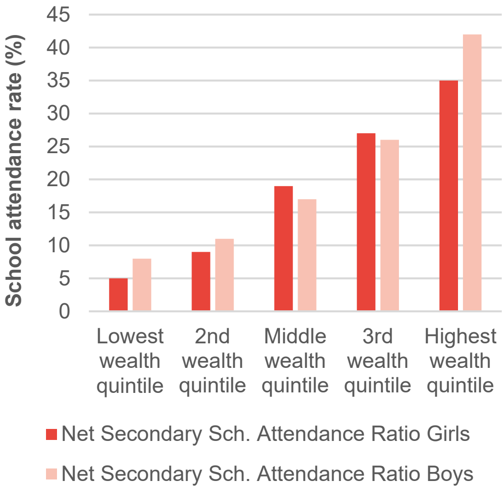
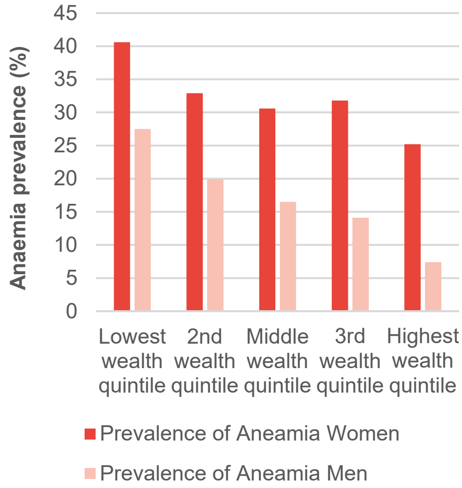


Figure 3b: Prevalence of Anaemia by wealth quintile as of 2017 (%)



Source: Development Initiatives based on UBOS. Uganda National Household Survey Report 2016/2017.[9]

Development targets and commitments

National development targets and commitments to poverty eradication, wealth creation and development

The NDP II has provided a comprehensive development strategy for all Uganda's sectors. In the agricultural sector, the Government of Uganda seeks to increase agricultural production and productivity; increase critical farm inputs; improve market access and value addition for 12 key crops; and strengthen institutional capacity of organisations in the agricultural public sector. To operationalise these objectives, the Ministry of Finance has set up priorities and targets for alleviating poverty through the Budget Policy Statement for FY2019/20. Table 1 provides highlights of the intervention areas for key sectors in this analysis.[10] The statement for FY2019/20, therefore, seeks to fulfil the agricultural sector goals set out in the NDP II by increasing production through further development of the genetic breeding programme among other strategies. A comprehensive legal and regulatory framework creates an enabling environment not only for increasing farm inputs such as animal feeds but also enhancing market access through better regulations that ensure connectivity.

The health and education sectors are key for human capital development, provision of equitable, safe and sustainable health services as well as protection of households from health-related financial expenditure risks. Strengthening intersectoral relationships and partnerships will contribute to developing human capacity in Uganda.[11] Putting the health insurance scheme into operation is key in reducing the financial risks related to health expenditures. Training of health specialists, for example, will enhance Uganda's health sector competitiveness and further reduce mortality and morbidity rates.

The education sector seeks to increase equitable access to relevant quality education and training. Prioritising marginalised populations in education and skills development programmes as well as school-feeding programmes will reduce the gaps in education and skills training. Furthermore, developing various skills in teaching and the competency-based curriculum will enhance the quality of education.

Table 1: Highlights of priority interventions for selected sectors from the Budget Policy Statement 2019/20

Sector	Priority interventions
Agriculture	• Support increased genetic breeding programmes for meat (beef animals, piggery, poultry and ruminants) and genetic development of dairy animals for increased production of diary and by-products. • Build capacity of technicians on embryo transfer technology. • Create an enabling environment for increased pasture production for animal feeds through legislation, regulations and public–private partnerships in the manufacture of animal feeds. • Ensure sustainable exploitation of fishery resources for future generations without degrading the environment. • Increase productivity, value addition and market access for Mukene and other small pelagic fishes (Ragoogi, Muziri and haplrochromines) by 10% annually over the next five years. • Create a model to provide agriculture extension services, a comprehensive legal framework for effective regulation of extension services by the private sector and promote an information and communications technology platform for service to farmers.
Education	• Promote skills development, practical skills, life skills and coping skills in teaching and learning and enhance the competency-based training curriculum. • Review the Government White Paper, 1992. • Establish a Technical Vocational Education Training council. • Monitor and support the teaching of physical education in primary schools, secondary schools and teacher training institutions; organise and facilitate national teams and sports clubs and identify and promote talent. • Develop and implement a school-feeding and nutrition strategy for school children. • Develop and implement education and skills development programmes that increase the participation of vulnerable people (girls, women, persons with disabilities and those living in conflict and disaster-hit areas).
Social protection	• Review the national policy on disability, older persons and equity promotion. • Develop and disseminate national guidelines for inclusion of natural resource-dependent communities, ethnic minorities, Social Assistance Grant for Empowerment beneficiaries. • Support 10,590 women's groups with capacity and skills development and women's enterprise funds. • Care, protect and rehabilitate 6,200 children in conflict with law.

	• Train youth in entrepreneurship, life skills and non-formal vocational skills through funding 18,614 youth projects.
Health	• Recruit and deploy medical specialists to regional referrals and implement the specialist retention strategy. • Operationalise the National Health Insurance Scheme. • Strengthen the capacity of regional referral hospitals to manage specialised equipment. • Upgrade health centres to general hospitals in sub-counties, constituencies and districts where there are none. • Prioritise health promotion, prevention and early intervention for both communicable and non-communicable diseases. • Improve tracking of off-budget funding to the sector to ensure rationalisation and alignment of funding with sector priorities.

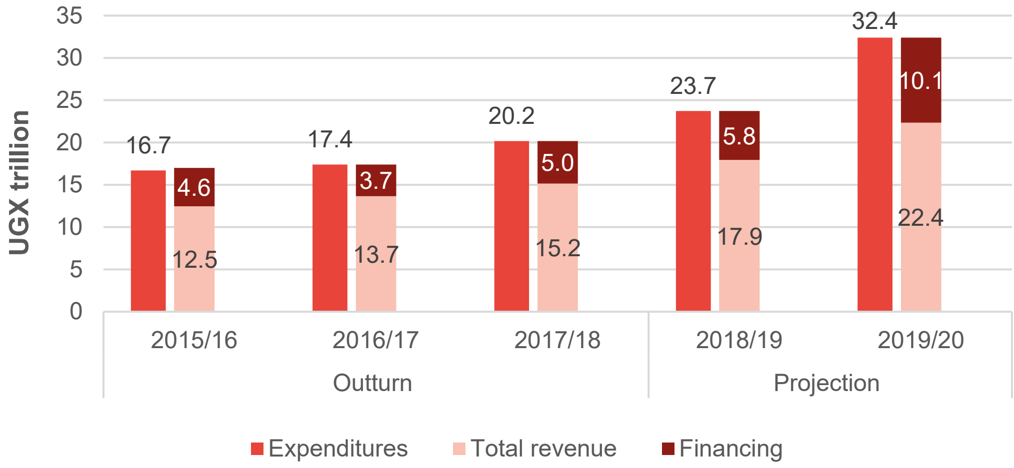
Source: Development Initiatives based on Budget Policy Statement 2019/20.[12]

Social protection forms part of the social development programme, which is important for human capital development and ensuring inclusive growth in the country. It ensures that communities are mobilised and empowered to make the most of their potential by protecting the rights of vulnerable population groups. One of the objectives of this sector is to improve the resilience and productive capacity of vulnerable persons for inclusive growth. Likewise, developing entrepreneurial skills in youth and women and providing grants to older people increases inclusivity in the economic growth trajectory of the nation.

Trends in government budget allocation (FY2015/16–2019/20)

Government of Uganda trends in budget allocation for FY2015/16 to FY2019/20 are presented in Figure 4. In FY2015/16, total revenues and grants were UGX 12.5 trillion; this increased to a projected UGX 22.4 trillion in FY2019/20, and in the last five years total revenue and grants have almost doubled. In FY2015/16 expenditure and net lending was UGX 15.7 trillion; this increased to a projected UGX 32.4 trillion in FY2019/20. The actual budget expenditure as a proportion of approved estimates averages 88% for the period FY2014/15 to FY2017/18. While expenditures have grown at an average rate of 18.0% over the last five years, revenue has grown at an average rate of 15.7% over the same period.

Figure 4: Trends in budget allocation FY2015/16–2019/20, UGX trillion



Source: Development Initiatives based on Government of Uganda Medium-Term Expenditure Framework Data 2019/20.[13]

Uganda's resource envelope is largely driven by tax revenue; this is made up of direct taxes and indirect taxes, non-tax revenue from fees and other charges collected and oil revenues. Total revenue excluding grants has been growing at an average rate of 14% per year. Oil revenues remain quite low and barely constitute 10% of total revenues. In fact, in FY2019/20 the proportion of total oil revenue to grants was 8.5% (Table 2). Non-tax revenue has been growing gradually and almost doubled between FY2018/19 and FY2019/20.

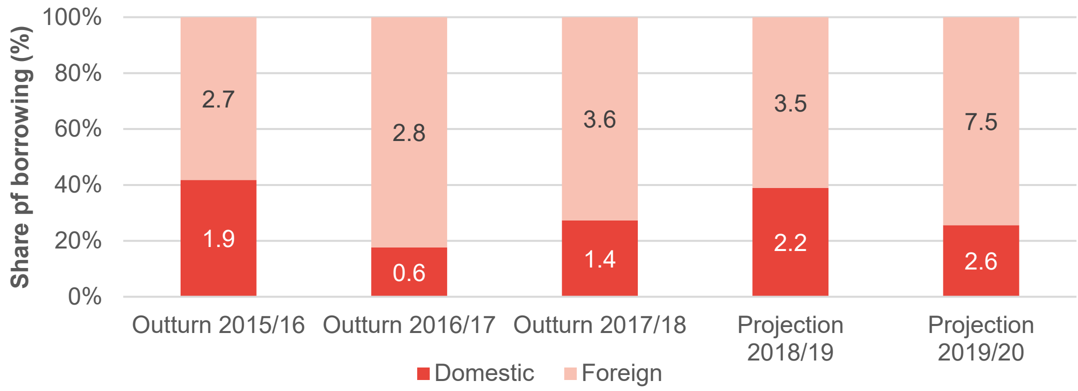
Table 1: Total actual revenue trends FY2015/16–2019/20

Billion UGX	2015/16	2016/17	2017/18	2018/19	2019/20
Total revenue and grants	12,456	13,661	15,150	17,949	22,350
Revenue	11,500	12,947	14,507	16,737	20,450
Tax revenue	11,059	12,463	14,076	15,939	18,823
Non-tax revenue	319	354	431	798	1,429
Oil revenues	121	130	0	0	198
Grants	956	714	643	1,212	1,900

Source: Development Initiatives based on Government of Uganda Medium-Term Expenditure Framework Data 2019/20.[14]

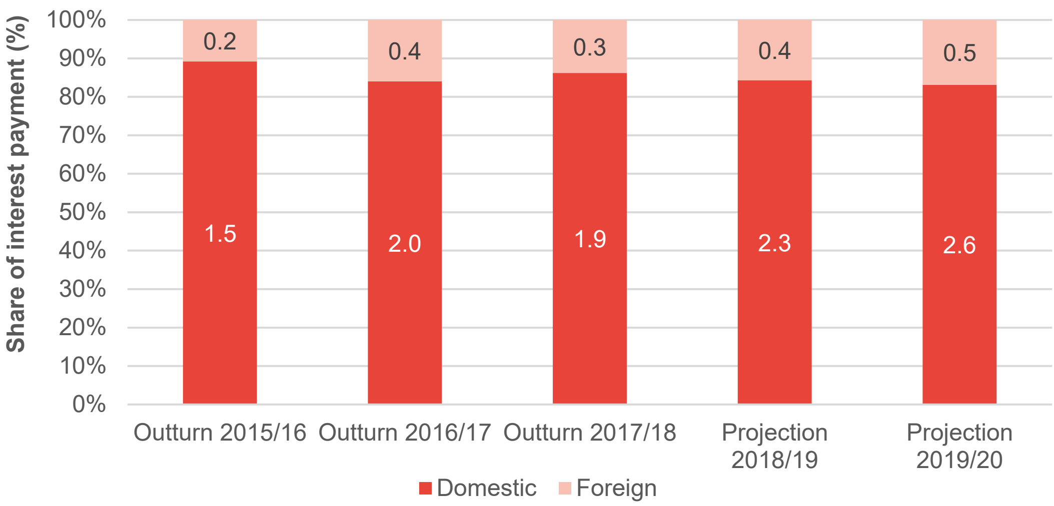
Budget deficit and therefore financing have grown in absolute terms from UGX 4.5 trillion in FY2015/16 to 10.1 trillion in FY2019/20. Deficit financing has largely been from foreign sources as can be seen in Figure 5. In FY2015/16 foreign financing was UGX 2.7 trillion, or 58% of total financing, this increased to UGX 7.5 trillion in FY2019/20, making up 74% of total financing. Interest payments have also been on the rise, increasing from UGX 1.6 trillion in FY2015/16 to UGX 3.1 trillion in FY2019/20 (Figure 6).

Figure 5: Deficit borrowing/financing (domestic versus foreign), UGX trillions



Source: Development Initiatives based on Government of Uganda Medium-Term Expenditure Framework Data 2019/20.[15]

Figure 6: Interest payments (domestic versus foreign), UGX trillions

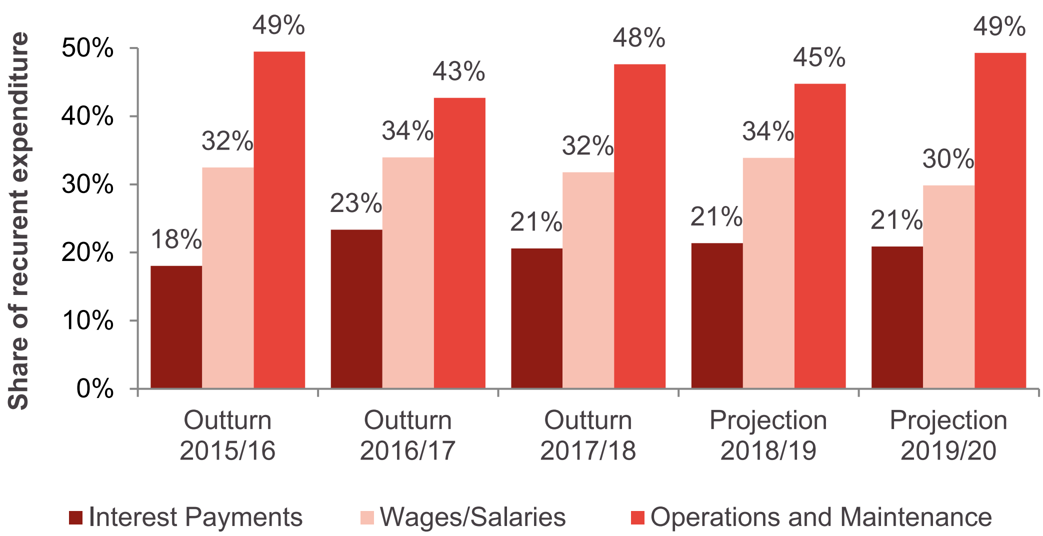


Source: Development Initiatives based on Government of Uganda Medium-Term Expenditure Framework Data 2019/20.[16]

Foreign interest payments constitute 14% of total interest payments while the rest (86%) is made up of domestic interest payments (Figure 7). One implication of increased local borrowing is that the government crowds out private sector investment since banks are more willing to lend to the government (as a less risky borrower). Interest payments are made from recurrent expenditure; this has averaged 21% of recurrent expenditure between FY2015/16 and 2019/20. Wages and salaries constitute 32% of recurrent expenditure while operations and maintenance make up 47% of recurrent expenditure.47%.

Prudent public finance management requires that wages and salaries should not be more than 30% of total recurrent expenditure, Uganda is almost within this threshold, however, interest payments take up a substantive proportion. These could be reallocated for better operations and maintenance in sectors that largely contribute to poverty reduction such as education and health. Operations and maintenance provide funding for buying inputs such as medical and non-medical supplies in the health sector, or study and teaching materials in the education sector. When such resources are diverted to pay interest, there is the risk of not providing adequate financing for service delivery. Uganda's expenditure–GDP ratio, at 27%, is yet to meet the target set out in the NDP II of 21%. External debt constitutes 74% of total debt against a target of 29%.

Figure 7: Components of recurrent expenditure (%)



Source: Development Initiatives based on Government of Uganda Medium-Term Expenditure Framework Data 2019/20.[17]

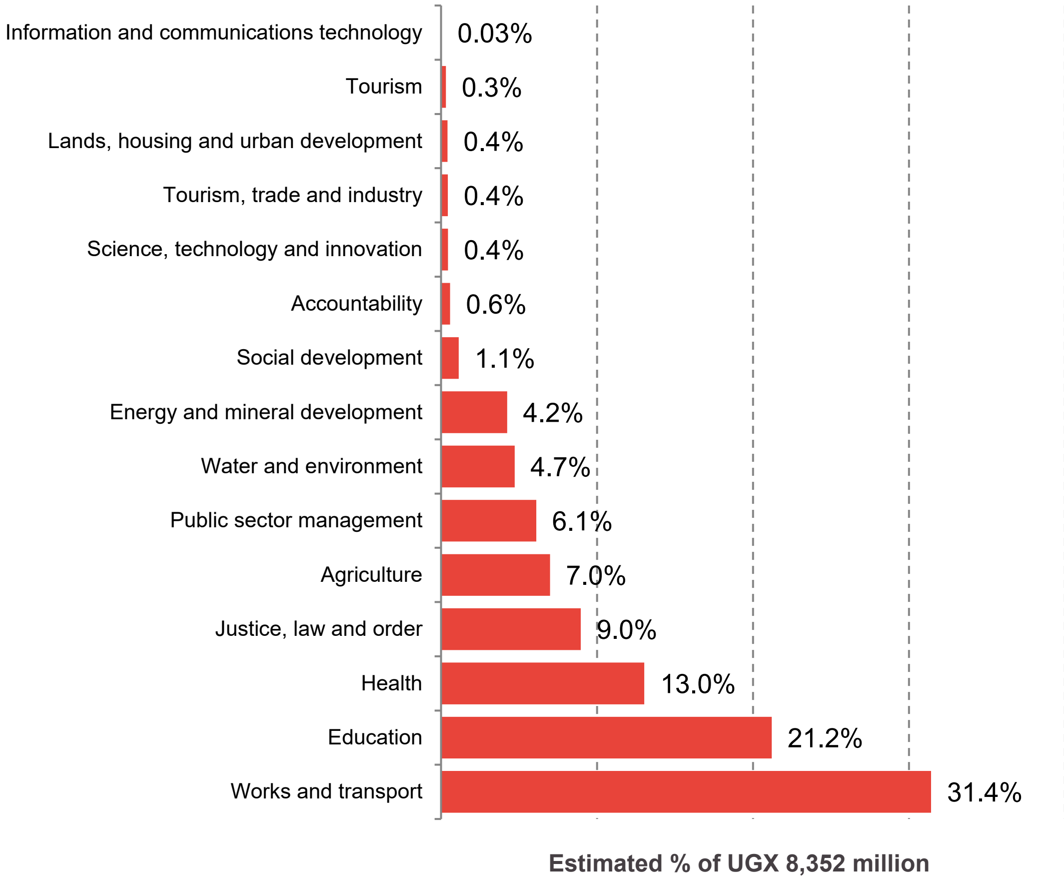
Sector allocations

Sectoral budget analyses FY2019/20

The following sectoral budget analysis focuses on PAF allocation to sectors that have been identified to have a more direct link to poverty – education, health, agriculture and social protection. The PAF is a special fund that was introduced in 1998 to channel resources to priority programmes with direct poverty benefits. The fund is a virtual grouping of investments and programmes rather than an independent fund. Its expenditure is ring-fenced and protected from in-year budget cuts.[18] This analysis uses approved budget estimates of the PAF to analyse sectoral expenditure. From FY2015/16 to FY2019/20, the PAF as a percentage of total expenditure has been around 25%. Even though agriculture plays an important role in livelihoods, it received just 7% of the PAF allocation. Between FY2015/16 and FY2018/19, the works and transport sector has received the most allocation, and in FY2019/20, the sector was allocated 30% of the PAF, while education (21%) and health (13%) ranked second and third in terms of allocation.

Research evidence shows that the effect of social spending (health, education and social protection) on the inequality-adjusted Human Development Index and child mortality have strong positive causal effects on aggregate welfare. Health spending is more effective in fostering human capital than education or social protection spending. Evidence from a sample of 55 developing and transition economies from 1990 to 2009 was, however, unable to establish whether this difference is due to data limitations or the quality of the components of government expenditure.[19] This contrasts the finding in Nigeria that primary education and healthcare were more pro-poor in absolute terms than tertiary education and healthcare. It is evident that the impact of social spending on poverty reduction varies and could be location or even policy specific.[20]

Figure 8: Sector allocation of the poverty action fund FY2019/20

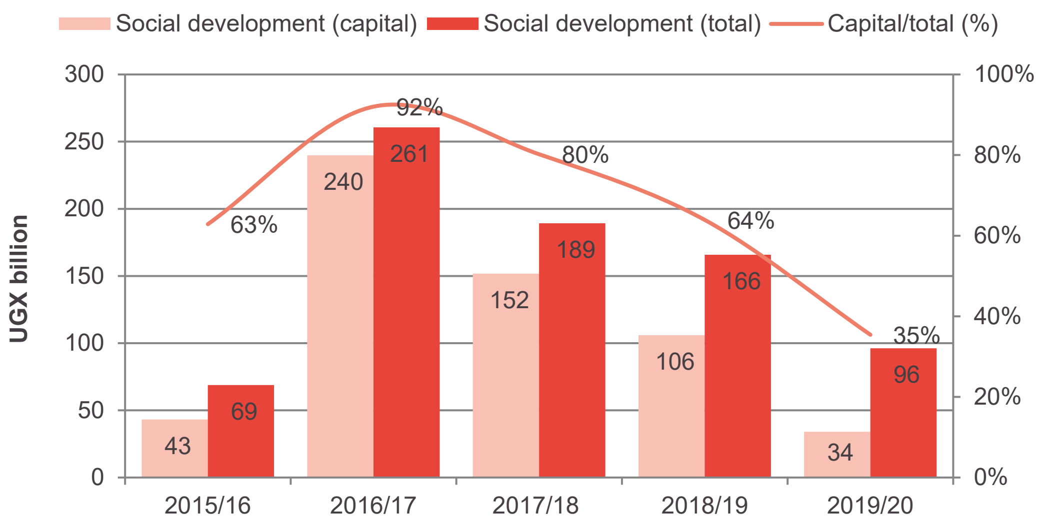


Source: Development Initiatives based on Government of Uganda Medium-Term Expenditure Framework Data 2019/20.[21]

Social protection

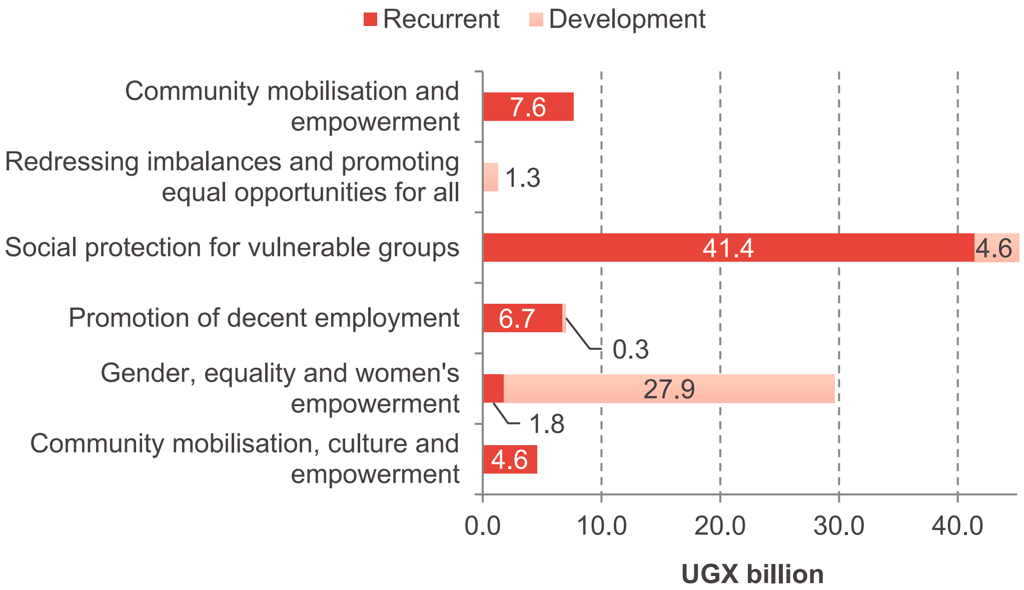
In FY2019/20 social development received 1% of the PAF allocation, a decline from 2% in FY2018/19. The capital expenditure for social development under PAF allocation was highest in FY2016/17 when it stood at UGX 240 million, or 92% of total expenditure. The allocation has gradually declined and in FY2019/20, the estimated PAF capital expenditure allocation is UGX 96 billion, representing 35% of total expenditure (Figure 9). One major cause of this decline is a reduction in the support provided to the Youth Livelihood Program from UGX 65.7 million in FY2018/19 to UGX 4.6 million in FY2019/20.

Figure 9: Social development PAF allocation trends FY2015/16 – 2019/20 UGX billions



Note: Capital/total (%) refers to share of capital investment in total allocation.
Source: Development Initiatives based on Government of Uganda Medium-Term Expenditure Framework Data 2019/20.[22]

Figure 10: Social development PAF programme allocation FY2019/20, UGX billions



Source: Development Initiatives based on Government of Uganda Medium-Term Expenditure Framework Data 2019/20.[23]

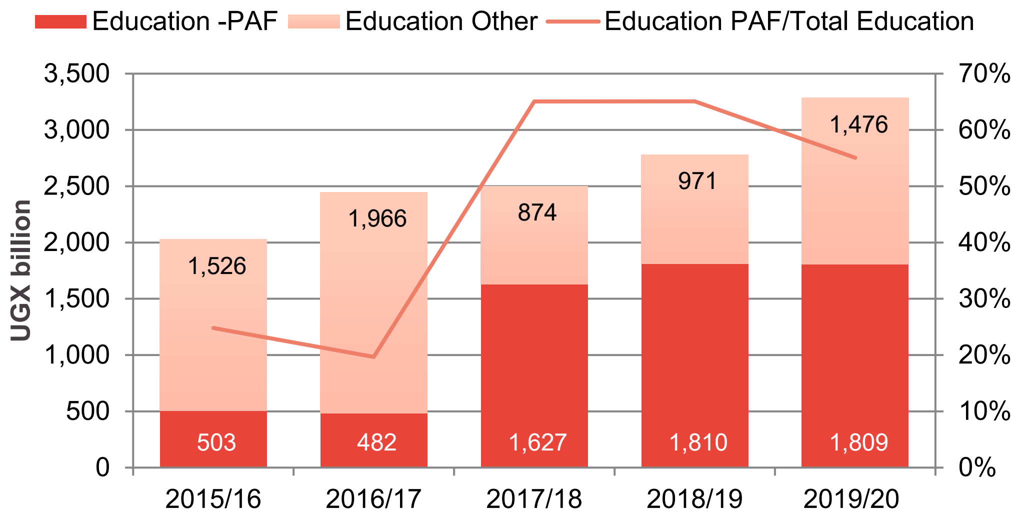
In FY2019/20, most of the UGX 46 billion funding went to activities that protect vulnerable groups, particularly persons with disabilities, older people, youth and children (Figure 10). Most of the activities are funded through recurrent spending. There are around 2.4 million orphaned children in Uganda, with 11% of children below 18 years having lost one or both parents. The school attendance ratio[24] of these children is 80% compared with 87% for non-orphaned children. Older people make up 5% of the Ugandan population (around 1.7 million people); the highest concentrations of older people are in the Eastern (20%) and Western (20%) regions.

The number of widows has also increased, having risen by 16% from about 945,000 in 2012/13 to 1,090,00 in FY2016/17, and around 68% of these widows are economically active.[25] A survey of service delivery for the social sector revealed that vulnerable children may face multiple challenges including defilement, malnutrition, HIV and AIDS, child abuse, neglect violence, limited family and community capacity. Youth on the other hand face challenges such as inadequate employable skills, limited access to finances and assets that are key for production, and lack of access to basic health services. Persons with disabilities often face serious discrimination at work and home that leaves them unable to fully participate in education, employment, healthcare, transportation or political life. A decreasing trend in financing of social development implies that the challenges faced by vulnerable groups will exacerbate.[26] A review of PAF and non-PAF programmes under social development does not clearly distinguish which activities will be undertaken in each programme and how the activities in the two funding streams with complement each other.

Education

PAF allocation in the education sector in FY2019/20 was 20%; this is similar to the proportion allocated in FY2018/19 (Figure 11). The education sector PAF allocation increased in absolute terms from UGX 2,029 million in FY2015/16 to UGX 3,285 in FY2019/20. The proportion of the national budget allocated to activities that have a direct impact on poverty has been on the rise, increasing from 25% in FY2015/16 to 65% in FY2018/19; however, there was a 10-percentage points decline in FY2019/20. This is due to an increase in non-PAF education allocation, while the amount allocated under the education PAF was almost the same as in the previous year. In FY2019/20 development expenditure allocation for education was 4.5%. Development spending focused on financing skills development for various vocational training institutions. Almost three-fifths (58%) of PAF recurrent expenditure was allocated to local government for pre-primary and primary education.

Figure 11: Education PAF allocation trends FY2015/16–2019/20, UGX billion



Source: Development Initiatives based on Government of Uganda Medium-Term Expenditure Framework 2019/20.[27]

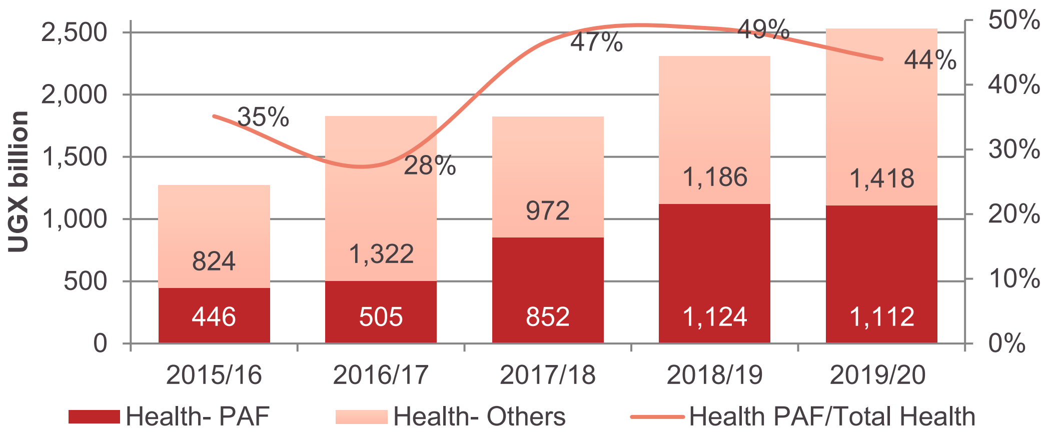
Heavy funding of pre-primary and primary education through local government seeks to fulfil the decentralisation policy in education. However, this funding contradicts the government finding which shows that at national level, close to 1.2 million of the 3.9 million children aged 3–5 years are attending nursery or kindergarten. This implies that there is need for 2.7 million more children to be attending school.[28] This finding could also imply that this allocation goes to primary schooling only in line with the free primary schooling policy (i.e. nothing is allocated to pre-primary education). Net enrolment rate for children aged 6–12 years is 77% in rural areas and 83% in urban areas. For the children who have not attended school, some of the reasons given for this include: inability to meet schooling costs such as school learning materials hence they need to work to obtain the resources, distance to school, disabilities, and opinions about school such as about its quality. While primary and secondary education are free, indirect schooling costs such as uniforms, transport and equipment are not covered. A policy change is needed to allow for creation of funds and special budget lines to also cater for nursery education (making this free) and indirect schooling costs.

Between 2015 and 2018, Uganda's years of schooling index has been on the rise from 11.2 to 11.6, while the mean years of schooling increased from 5.7 to 6.1. This resulted in its Human Development Index score improving from 0.505 to 0.516. While this can be viewed as progress, there is need for accelerated improvement in both quality and access; this would move the country up from its current index ranking of 162 out of 189 countries.[29]

Health

PAF allocation for the health sector in FY2019/20 is UGX 1.1 billion, which constitutes 13% of total PAF expenditure and ranks the health sector second, as per the FY2018/19 allocation (Figure 12). The amount of resources allocated to the health sector from the PAF has increased in absolute terms between FY2015/16 and FY2018/19. However, as a proportion of total health expenditure there was a 5-percentage point decline from FY2018/19 to FY2019/20. Disaggregating the PAF health allocation shows that 9% is dedicated to development while 91% is dedicated to recurrent expenditure (UGX 1.01 billion). This means that more resource is being allocated to support (in terms of wages, operations and maintenance) than development projects already in place. While this may be the case, the development component of the health PAF requires more allocation than it receives. Pharmaceutical and medical supplies account for 27% of recurrent expenditure, while primary healthcare by local government accounts for 46%.

Figure 12: Health PAF allocation trends FY2015/16–2019/20, UGX billions



Source: Development Initiatives based on Government of Uganda Medium-Term Expenditure Framework Data 2019/20.[30]

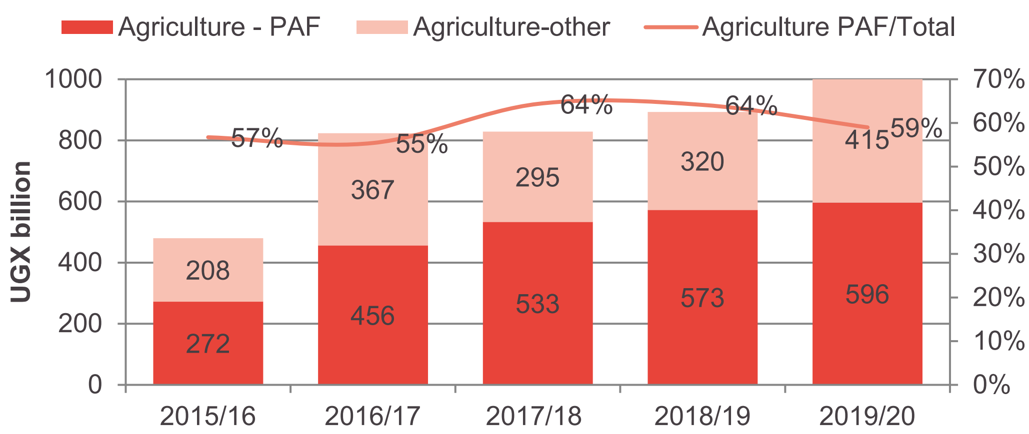
Access to healthcare is a major indicator of success in healthcare provision. One such measure is the ability of the population to reach a facility within shortest time and distance to receive healthcare. The government service delivery survey indicates that around 84% of rural and 93% of urban residents who fell sick were able to access a health facility less than five kilometres away. A review by sub-region shows that the majority (over 90%) of people living in the Kampala, Busoga and Elgon sub-regions can access health facilities within this distance. However, only 65% of Achol sub-region residents are able to access such health facilities.[31]

A large proportion of health allocation from PAF is spent on pharmaceuticals and medical supplies (25% of total health PAF allocation). Yet 45% of households interviewed for the government service delivery satisfaction survey about the quality of drugs provided by government ranked the service as poor, 32% as fair and 22% as good. Rural facilities tend to be more affected by inadequate and low quality of drugs and medical supplies. And even though a key priority of the government is to improve the capacity of medical staff to provide better service, 22% of households that sought treatment due to illness rated staff responsiveness as poor, 32% as fair and 46% as good. Overall, 46% of households rated the quality of government health service as good.

Agriculture

Agricultural expenditure allocation has increased in absolute terms from FY2015/16 to FY2019/20. However, the growth of PAF allocation for agriculture as a proportion of the agriculture sector allocation declined from 64% in FY2018/19 to 59% in FY2019/20 (Figure 13). The amount allocated for FY2019/20 is UGX 596.5 billion (7% of total PAF allocation); a similar proportion to FY2018/19. Unlike health or education, agriculture has a higher proportion of the PAF allocated to development expenditure. In FY2015/16, this proportion was 75% but it declined to 64% in FY2018/19 and 60% in FY2019/20. The resources have been aligned to priority areas; for instance, the directorate of animal resources has been allocated UGX 71, agricultural extension UGX22 billion and agriculture infrastructure UGX 94 billion (25% of capital PAF). The latter deals with the provision of water for agricultural production.

Figure 13: Agriculture PAF allocation trends FY2015/16–2019/20, UGX billions



Source: Development Initiatives based on Government of Uganda Medium-Term Expenditure Framework Data 2019/20.[32]

Agricultural inputs are provided through various public–private partnership arrangements, community procurement under NAADS through providing seedlings, the Operation Wealth Creation (OWC) Secretariat, the private sector and cooperatives. The outcomes of NAADS are quite mixed. The government survey shows that at least 85% of households rated the quality of various inputs such as veterinary drugs, pesticides, fertilisers, animal feeds, fungicides and breeding stocks as good and at least 75% of households rated the improvement in access to farm inputs (pesticides, hybrid seeds, herbicides, veterinary drugs and pesticides) as good or the same. Yet farmers in the northern districts of Alebtong, Apac, Arua, Dokolo, Gulu and Oyam have criticised the seeds supplied by OWC as having low quality since they do not germinate.[33] The National Assembly Committee on Agriculture noted with concern that a lot of money was allocated to buy agricultural inputs under the OWC, yet these were low quality, and meanwhile the mortality of livestock registered under OWC was high.[34]

Focus group discussions conducted with more than 200 smallholder farmers in Kamuli District supported under PAF found that institutional barriers such as corruption and a lack of capacity in local government hindered efficient delivery of services and often resulted in services of very poor quality. Secondly, the success of PAF depends on the sequencing of the interventions pursued and involvement of citizens in creating policies or designing services that affect them – otherwise there would be a mismatch between the national agenda and village-level needs. Lastly, PAF services are best suited for people with high initial endowments who are not vulnerable to shocks such as weather and have the ability to divert resources towards future gains. Taking cognisance of this finding and farmer reports, there is a need to further establish the effectiveness of the PAF and its activities in the agricultural sector. Although this is beyond the scope of this report, the low level of agricultural budgetary allocation against the 50% of the population who rely on agriculture for their livelihood already indicates that the funding would be stretched and not able to achieve the intended goal.[35]

Conclusions

This paper has analysed government expenditure, resource allocation and revenue generation as well as sectoral budget allocation for health, education, social protection and agriculture. The following conclusions are reached:

Setting of priorities in the NDP II. Priorities of the four sectors have been well articulated in the NDP II, which includes a situational analysis, objectives and key interventions. The Budget Policy Statement FY2019/20 has extracted its priorities from the NDP II and attached the expenditure allocations that will help achieve the stipulated goals. However, these priorities are not very well aligned to PAF expenditure allocation in agriculture and social protection (under the Social Assistance Grant for Empowerment). There is the risk that vulnerable populations might increase even though measures are being taken education and health to increase human capital. The government should allocate adequate funds for social protection to reduce the vulnerability risks of the population.

Revenues and expenditures. While expenditures have grown at an average rate of 18.0% over the last five years, revenue has grown at an average rate of 15.7% during the same period. Uganda's resource envelope is largely driven by tax revenue; this is made up of direct taxes and indirect taxes, non-tax revenue from fees and other charges collected and oil revenues. Total revenue excluding grants has been growing at an average rate of 14% per year since FY2016/17. The country's expenditure–GDP ratio, at 27%, is yet to meet the target set out in the NDP II of 21%. External debt constitutes 74% of total debt against a target of 29%. Key solutions would be to increase resource mobilisation through expanding the tax base and more importantly to increase efficiency in the use of public resources through effectively sealing corruption loopholes.

Reducing poverty though agriculture seems to require much more attention than has been given. PAF expenditure on agriculture is much lower than the other major sectors (7%), yet most people in rural areas (54%) are subsistence farmers and also poor. Uganda's spending under the PAF in FY2019/20 has largely focused on infrastructure. Infrastructure development is important since it cuts across all sectors. At the same time prioritisation of education and health can also be seen through the greater proportion of PAF allocation to these sectors. A review of programmes under the PAF fund and non-PAF fund does not distinguish which activities will be undertaken in each programme and how the activities in the two funding streams will complement each other. For example, it is not clear which activities fall under the PAF and non-PAF funding for social development. Distinction should be made between the activities of the PAF and non-PAF funds for each sector and how activities from these funding streams complement each other.

Debt sustainability. The Ugandan debt portfolio is growing and there are concerns at the increase, the budget deficit and therefore financing have grown in absolute terms from UGX 4.5 trillion in FY2015/16 to 10.1 trillion in FY2019/20. Consequently, interest payments are made from recurrent expenditure, and on average constitute 21% of this (for FY2015/16–2019/20). Wages and salaries constitute 32% of recurrent expenditure while operations and maintenance make up 47%. The increasing debt implies that more money will be allocated to interest payments, which could have been aligned to operation and maintenance activities or development spending. Also, increased borrowing from domestic sources crowds our investment in the private sector, affecting employment and output. Government should focus on fiscal prudence by ensuring the efficient use of available resources and increasing resource mobilisation by widening the tax base.

Service delivery outcomes of expenditure allocation. The expenditure allocations and actual spending cannot be easily linked and aligned to social outcomes as with the case of health or education. And even the most recent data is rarely up to date but 2–4 years behind. Even though a large proportion of the health allocation from the PAF is spent on pharmaceuticals and medical supplies (25% of total health PAF allocation), 77% of households interviewed on the quality of drugs provided by government ranked the service as poor or fair. Staff responsiveness to health needs of household when seeking treatment was found to be wanting with 54% ranking their services as fair or poor.

The 1% allocation of expenditure to social development under the PAF fund is unlikely to reduce the vulnerabilities of older people, orphaned children, widows or even the youth. There are indications that the agricultural sector is making much progress in service provision of inputs, even with a much lower PAF expenditure allocation. At least 75% of households rated the quality of various inputs and their access as improved or good. This finding, however, needs to be disaggregated at a regional or sub-regional, as there are several challenges in the implementation of the PAF. In the agricultural sector the inputs provided are low quality in the case of seed or are causing a high livestock mortality rate.

Investment in data generation. More accurate and timely data is needed for assessing the impact of budgetary allocation, spending and revenue impacts, accurate social output indicators can be derived from the governments integrated financial and management information system. This will facilitate analysis of the impact of the PAF and non-PAF funding on different sectors. Also, most indicators available such as Demographic Health Surveys and household surveys are available after 4–5 years. The government through UBOS can initiate biennial household data collection that can facilitate more accurate budgetary impact analysis.

Recommendations

Fairly low priority is being given to the social protection and agriculture sectors and their subsequent PAF expenditure allocation low. The government should allocate adequate funds for social protection to reduce the vulnerability risks of the population.

Uganda’s expenditure–GDP ratio, at 27%, is yet to meet the target set out in the NDP II of 21%. External debt constitutes 74% of total debt against a target of 29%. Key solutions would be to increase resource mobilisation through expanding the tax base and more importantly to increase efficiency in the use of public resources through effectively sealing corruption loopholes.

When reviewing programmes under the PAF and non-PAF fund, it is not clear which activities will be undertaken in each programme and how the activities in the two funding streams will complement each other. For example, it is not clear which activities fall under PAF and non-PAF funding for social development. Distinction should be made between the activities of the PAF and non-PAF funds for each sector and how activities from these funding streams complement each other.

The government should focus on fiscal prudence by ensuring the efficient use of available resources and increasing resource mobilisation by widening the tax base as a way of moving towards debt sustainability.

The PAF has mixed outcomes based on anecdotal evidence; there is need for further impact analysis of the PAF interventions to establish if they are pro-poor.

More regular data is needed for assessing the impact of budgetary allocation, spending and revenue impacts. Accurate social output indicators can be derived from the government’s integrated financial and management information systems. This will facilitate analysis of the impact of PAF and non-PAF funding on different sector. Also, most indicators available such as Demographic Health Surveys and household surveys are available after 4–5 years. The government through UBOS can initiate biennial household data collection that can facilitate more accurate budgetary impact analysis.

Annex

Table A1: Development expenditure by sector excluding external funding (UGX billion)

	2015/16	2016/17	2017/18	2018/19	2019/20
Agriculture	**238**	**392**	**401**	**412**	**364**
Lands, housing and urban development	53	35	23	35	24
Energy and mineral development	355	447	375	427	550
Works and transport	1578	1596	1762	2079	2648
ICT and national guidance	5	3	17	17	23
Trade and Industry	33	42	46	39	48
Education	185	190	161	240	283
Health	91	143	102	173	159
Water and environment	265	288	343	375	409
Social development	50	154	119	114	48
Security	140	140	140	473	1983
Justice, law and order	305	299	219	313	376
Public sector management	203	254	235	248	250
Accountability	456	273	224	138	144
Legislature	15	25	25	67	67
Public administration	85	38	47	41	46
Interest payments	0	0		0	0
Science, technology and Innovation	99		32		38
Tourism			10	7	8

TOTAL	**4057**	**4319**	**5790**	**5229**	**7467**

Source: Development Initiatives based on Government of Uganda Medium-Term Expenditure Framework[36]. Annex 4 PAF Sectoral Expenditure Allocations. FY2019/20.

Methodology

The study undertook a literature review and data analysis of the various programme-based budget estimates for the capital expenditures for the health, education, agriculture together with the social protection.

Limitations of the study and areas for future analysis and research

1. The study could not establish the tax benefit incidence associated with the tax proposals; hence it is recommended that this is done.
2. From the budget statement and expenditure allocation, it is not clear to what extent the manufacturing agenda addresses the challenges in both textile and leather value chains. This area requires further investigation.
3. While the social protection initiatives are commendable and seek to protect vulnerable people, a more disaggregated analysis of the activities within this sub-programme and the actual capital/development expenditure would ensure a much rich analysis.

Notes

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Acronyms

FY	Financial year
GDP	Gross domestic product
NAADS	National Agricultural Advisory Services
NDP II	Second Uganda National Development Plan
OWC	Operation Wealth Creation
PAF	Poverty Action Fund
SDG	Sustainable Development Goal
UBOS	Uganda Bureau of Statistics
UGX	Uganda Shillings

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Contact
Moses Obbo Owori
Senior Analyst
+256 703 992018 | moses.owori@devinit.org

To find out more about our work visit:
www.devinit.org
Twitter: @devinitorg
Email: info@devinit.org

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UK OFFICE
Development Initiatives
North Quay House
Quay Side, Temple Back
Bristol, BS1 6FL, UK
+44 (0) 1179 272 505

KENYA OFFICE
Development Initiatives
Shelter Afrique Building
4th Floor, Mamlaka Road
Nairobi, Kenya
PO Box 102802-00101
+254 (0) 20 272 5346

US OFFICE
Development Initiatives
1110 Vermont Ave NW,
Suite 500, Washington DC
20005, US