



INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA

ICPAU ECONOMIC POLICY PROPOSALS FOR FY 2023/24 BUDGET

The Institute of Certified Public Accountants of Uganda (ICPAU) successfully held its 10th CPA Economic Forum from 20th to 22nd July 2022, under the theme: A Responsive Economic Development Agenda. The overall goal was to debate a responsive economic development agenda and come up with policy suggestions that can drive Uganda's development trajectory and achieve the three (3) desirable budgetary outcomes; aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery.

This Paper highlights the key Economic Policy Recommendations emanating from participants' discussions at the Forum. The recommendations are listed under the following Sub-themes:

1. Industrial Parks for Economic Development
2. The Parish Development Model as a Solution for Social Economic Empowerment & Progress
3. Widening Uganda's Tax Base
4. Standardization of Uganda's Products for Economic Transformation
5. Transport as a Driver for Economic Development
6. Value Addition and Commercialization of Agricultural Innovations

ICPAU ECONOMIC POLICY PROPOSALS FOR FY 2023/24 BUDGET

Establishment of Industrial Parks to spark economic development

Attracting productive investment continues to be essential for Uganda's economic growth and job creation. However, economic activity continues to be concentrated in low-value-added agricultural production, non-tradeable services, and manufacturing activities such as construction, that offer only limited scope for new employment and market opportunities. Many reasons could explain this including the regulatory environment, access to production inputs, and poorly implemented public investments.

The development of Industrial Parks and Free Zones offers an opportunity for Government to target resources toward tackling these key challenges in a way that is less financially and politically demanding than wide-scale reforms.

Industrial parks have been targeted as a vehicle for accelerated industrialization. To this end, a number of regional industrial and business parks are being developed for strategic sectors including agro-processing, ICT, mineral processing, and logistics to provide employment opportunities to the locals and create strong backward linkages to the agriculture and mineral sectors. There are 22 Industrial and Business Parks in Uganda spread throughout the Country, and the most recent ones are targeting Science, Technology, Engineering, and Innovation (STEI).

Proposed Policy Recommendations

1. Government should focus on high-potential locations rather than the current strategy of promoting regional development. While special economic zones and industrial parks are often used as place-based policies to revitalize left-behind regions in a country, cross-country evidence suggests that these are often not appropriate tools to promote regional development because the further away these zones are from big cities and existing markets, the lower their chances of being successful. Investors tend to be attracted to the larger pools of labour, suppliers, markets, ideas, and infrastructure that come with existing urban areas.
2. Government ought to promote spillovers to the rest of the economy through additional policies that promote diversification, long-term upgrading through education and skills training, and backward linkages to the wider local economy. Active policies are needed to develop linkages between large industrial park firms and domestic suppliers and promote learning from the locals and ensure knowledge and technology upgrading is spread beyond the firms in the parks. These spillovers are likely to be the primary driver of employment growth outside the industrial parks. In the long run, it is important to ensure that these parks do not just become offshore assembly lines, repatriating profits and only staying in the parks/ zones until another country offers lower wages or more attractive tax breaks.

The Parish Development Model as a solution for Social Economic Empowerment & Progress

The Parish Development Model (PDM) is the Government of Uganda's strategy for accelerating coordinated, collaborative, participatory, and inclusive socioeconomic transformation across the country¹.

The PDM implements the National Development Plan (NDP) III at the grassroots, with the parish serving as the epicenter for planning, budgeting, and service delivery by both the State and Non-State Actors. The major goal of PDM is addressing poverty as a development challenge, by improving household income and quality of life.

We note however that the PDM is suffering from five (5) major limitations, as explained below:

- a) A One-Size-Fits-All limitation - the fact that each parish was accorded UGX 100million per year, yet these are different in various ways, including in terms of size and priorities.
- b) Sustainability issues - PDM may not be sustainable given the high appetite with which new administrative units and therefore parishes are created.
- c) Deficit of Trust - the lack of trust and faith from the general public about the Programme, especially given the experiences of past similar development Programmes.
- d) Capacity deficiencies - PDM faces a number of capacity problems, including last-minute large-scale recruitments; the model was not tested or piloted for effectiveness; weak capacity to implement, account, monitor & evaluate; underfunding of Local Governments; and the lack of supportive infrastructure, among others.

Proposed Policy Measures

1. Government should re-consider piloting the program, to take stock where it has been implemented and obtain data/ experiences from these areas and guide further decision-making.
2. Government should strengthen the implementation, monitoring, evaluation, and accountability framework/architecture of the PDM at the Parish level, including clear incentives and sanctions for the effective and successful implementation of the PDM at that level. This would entail effective coordination; greater supervision; clear accounting mechanisms; quality assurance of PDM SACCOs; provision of business development services; and full development of the Parish-based management information systems.
3. Relatedly, the PDM should involve the Offices of the Inspector General of Government and Auditor General, clearly highlighting their roles in the PDM Governance and Management, so as to ensure efficiency and accountability of the PDM.
4. Government ought to build the capacity of the Parish Chiefs for the proper management of PDM. This is especially because the Parish Chief is crucial for its successful management and governance. The qualification of the Parish Chiefs ought to be higher, at say Graduate level, for better efficiency.
5. Continuous sensitization, mindset change campaigns, and deepening engagement with the communities on the programme will be required. Relatedly include all stakeholders and PDM Champions, cultural leaders and institutions in these jurisdictions should be incorporated into the PDM operation and management framework. This will provide ownership and goodwill among the different regions.

¹ Ministry of Finance, Planning and Economic Development, 2022

<p>e) Politics - this is especially because some people view it as a campaign tool for the next political elections where the ruling party wants to score.</p>	
<p>Widening Uganda's Tax Base</p>	
<p>During the next financial year 2023/24, Government intends to meet the target of raising domestic revenues by 0.5% of GDP in line with the NDP III annual revenue enhancement target and the Domestic Revenue Mobilization Strategy (DRMS)².</p> <p>The different challenges to tax base expansion in Uganda are broadly articulated as:</p> <ol style="list-style-type: none"> 1) Inadequate laws, - weak tax administration policies, Uganda's tax is seemingly exorbitant, there exists a number of tax exemptions (2% of our GDP) that reduce the country's tax potential, and over 5 percent of the GDP is lost in tax leakages 2) Low taxpayer compliance - only about 2.4 million Ugandans are registered taxpayers; there is a group of people who are hiding in the open and are not contributing their fair share. 3) Lack of trust in the tax system - without effective tax systems, the government cannot fund the initiatives to build trust. 4) Inadequate and inappropriate data collection <p>It is important to widen the tax base for a number of reasons including creating a fair and balanced competitive business environment; improving the national incomes in order to boost development; reducing reliance on aid; and ensuring policy consistency in application (Fairness and Equity).</p>	<p>Proposed Recommendations</p> <p>We recommend the following:</p> <ol style="list-style-type: none"> 1) Synergies should be built between Central Government, MDA's, and Local Governments in the planning of tax administration initiatives. This is especially because the LC System which has long been used for political mobilization has not helped in revenue mobilization. Local governments (Districts) & MDAs should take lead in increasing the tax base from their regions with budgetary implications and incentives. Regulators (MDA's) and Local Governments should take charge in data collection and taking a census of all potential taxpayers, while Government provides revenue-enhancing incentives to these MDAs and Local Governments during budget appropriation - Specifically, those MDAs and LGs which collect more revenue should be appropriated more during budgeting. 2) Regulators in the different sectors should be encouraged to take on their roles. It is important that taxpayers comply on their own through regulatory actions in their respective sectors. Tax enforcement is also easily done in collaboration with regulators. 3) Government business agencies should be increased to expand government revenues. Management of such business agencies should be given targets to understand that they are government businesses aimed at generating extra revenue for the government. Sectors like Banking, Construction, Manufacturing, Education, Real estate, and Transport may be invested in for this cause. These businesses should

² Budget Strategy FY 2023/24, MoFPED, September 2022

<p>Government efforts to expand the tax base are recognized, including through fighting smuggling; undertaking digital solutions like EFRIS and DTS; undertaking tax education; undertaking tax reviews; consolidating the Taxpayer Register Expansion Project; accessing data from other MDAs by URA; and Use of National Identity Numbers (NIN), among others.</p>	<p>be set to compete with the private sector for efficient service delivery.</p> <ol style="list-style-type: none"> 4) The National Development Plan (NDP) and Domestic Revenue Mobilization Strategy (DRMS) should provide more details on revenue mobilization, including sectoral and regional initiatives/ incentives. 5) Government should develop a clear and elaborate framework for tax incentives and exemptions to help solve the issue of tax leakages. 6) Tax payment should be democratized. The URA ought to leverage technology to further digitize and simplify the tax system further. This can involve incentives like paying tax via Auto-Teller Machines (ATMs) and the development of a cocktail of revenue enhancement technologies and Apps like say a URA App. 7) Government should fast-track the enactment of the Real Estate Agency Bill as part of the efforts to organize the real estate industry and later on increase its tax efforts in the sector. Relatedly, the government should try to regulate all trade activities in all valuable minerals items and then be able to efficiently collect taxes on these activities. The best example is Gold, iron ore, and sand among others.
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Standardization of Uganda’s Products as an impetus for Economic Transformation

<p>UNBS has over 4,000 standards to facilitate production and trade across all the major sectors of the economy (Food and Agriculture; Engineering; Chemical and Consumer Products; Management and Services Sector; Oil and Gas Sector, e.t.c). These standards include Indigenous Ugandan Standards, EAC Regional Harmonized Standards, and Internationally adopted Standards (ISO/CODEX/IEC).</p> <p>Standards play a critical role in increasing the competitiveness of the Country’s Products and Services; are key to market</p>	<p>Proposed Recommendations</p> <ol style="list-style-type: none"> 1) Government should fast-track and implement service delivery standards in the public sector, as a benchmark for the rest of the economy. Standards can reduce operational costs by establishing procedures that reduce expenses for repeated activities. Standards are also thought to support innovation by establishing the playing field for technologies on which new products and services can be built. 2) Enforcement of standards must be emphasized and encouraged by
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<p>access; help in the promotion of exports and substitution of imports; are critical in research and innovation/ entrepreneurship; are important in industrialization and enterprise development; in the health and safety of citizens and environment; and important in fighting counterfeits and protection of intellectual property.</p> <p>The reasons for the non-compliance with Standards include the lack of ethics, perceived high cost of investment in quality infrastructure, knowledge, technology and skills gaps; lack of capacity of Regulators and Enforcement Agencies.</p> <p>The implications of non-compliance to standards to the economy included dumping tendencies in our market destroying local entrepreneurs’ competitiveness; high health/disease burden especially from toxicity and radiation; and poor standards of living.</p>	<p>the government. Sub-standard low quality, low-priced imported goods are disrupting the BUBU policy intentions.</p> <p>3) Government through its standards agency UNBS should deepen synergies and partnerships with other stakeholders to improve upon the standards through education and training, mentorship, and other advisories, including using professional bodies such as the ICPAU.</p>
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Transport as a Driver for Economic Development

<p>Transport is often considered the lifeblood of an economy as it moves people and products in the economy. On the other hand, transport infrastructure is considered to be the bedrock on which any economy is built. Hence, good quality transport infrastructure, facilities, and services are fundamental for the functioning of an economy. Effective, efficient, and sustainable transport systems are becoming increasingly important for increasing connectivity, allowing access to markets, and enabling countries to benefit from global trade.</p> <p>However, the availability of transport alone is not enough, and</p>	<p>Proposed Recommendations</p> <ol style="list-style-type: none"> 1. In FY 2023/2024 and over the medium term, Government’s fiscal policy will prioritize improving competitiveness in the economy by lowering the cost of doing business, while maintaining macroeconomic stability and debt sustainability.³ Transport has long been an easy target for taxation and levies, which increases the costs of doing business, hence reducing competitiveness. The government needs to build a seamless and integrated multi-model transport system, especially through the development of the railway systems, because currently Uganda majorly relies on road transport (90%). 2. Government should prioritize the rehabilitation of the old Meter
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³ MoFPED Budget Strategy for FY 2023/24, September 2022

<p>the absence of a well-developed transport system constrains economic growth and development. The efficiency of the transport system is critical as this helps to keep the cost of doing business low. Transport is the highest contributor to the cost of production. It should therefore be reduced if one is to reduce the cost of production and improve competitiveness. Transport goes hand in hand with logistics, which supports the entire spectrum of the supply chain.</p>	<p>Gauge Railway (MGR) over the Standard Gauge Railway (SGR). The cost of maintaining the old MGR is lower, and it would still achieve/ accommodate the country's current load needs. When compared with the SGR, especially because Kenya stopped their railway construction in Naivasha, this makes the cost of the SGR so high.</p> <p>3. The PDM should also incorporate transport in the infrastructure pillar. For instance, District and other local government roads should be included under the PDM infrastructure pillar.</p>
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Value Addition and Commercialization of Agricultural Innovations

<p>Agriculture, the sector that currently employs the largest share of Ugandans, should not be ignored. Some of the major challenges to the agricultural sector in Uganda include low agricultural levels, lack of linkages between research and farmers, low coverage of irrigation, land fragmentation, low level of value addition, and high costs of finance.</p> <p>Raising productivity will be important in this sector. To do this, Ugandans will need to use more inputs. But, as recent research has shown, the big challenge here is the prevailing issue of fake inputs including substandard fertilizers and seeds that are sold on the market which do not produce higher yields. This means that farmers, rightly so, do not want to invest in them.</p> <p>Innovation along the agriculture value chain will be required to take different forms including market innovations as well as policy innovations. Value-addition in the sector can be achieved by Grading/Sorting; Packaging; Processing; Cooling; Drying; Extracting; Size reduction; and Moulding, among others.</p>	<p>Proposed Recommendations</p> <p>Tackling the challenges highlighted earlier and providing an enabling environment for farmers will raise agricultural productivity. The government needs to undertake and accelerate production and productivity strategies and interventions as highlighted in the respective NDP III Programme Implementation Action Plans (PIAPs), especially in the Agro-industrialization Programme, along the entire value chain. Our proposals include:</p> <ol style="list-style-type: none"> 1. Organized and regulated access to improved inputs to address the issue of sub-standard agriculture inputs and ensure quality. 2. Government must create markets for the agricultural products that it seeks to promote. It is not enough to distribute free seedlings which are not demand-driven, the markets where the product is going should also be regulated. 3. Market-driven modernization - modernizing agriculture and market-mediated mechanisms including clear post-harvest management practices are important mechanisms for the growth of the sector, for protection against climate shocks, and for driving competitiveness in regional markets.
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	<ol style="list-style-type: none">4. Government should put up knowledge information centers (say in each Constituency so as to improve access to market information and support to research & development. Research is critical for agro-industrialization across the value chain. Investors should be able to carry out some trials first before they scale up production. This can help inform potential investments in the sector.5. Pest and Disease Control policies and practices should be deepened and consolidated.6. Farmers' sensitization, capacity building, and education should be undertaken on producing before scaling is done.7. In addition, better connectivity through investments in roads and electricity as well as appropriate trade policy will bolster an enabling environment. Larger agribusiness could emerge, employing more people.
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