



INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA

ECONOMIC POLICY PROPOSALS FOR FY 2022/23 BUDGET

The Institute of Certified Public Accountants of Uganda (ICPAU) successfully held its 9th Economic Forum virtually from the 1-3 September 2021 under the Theme: Stimulating Economic Growth and Development for Sustainability. This Paper highlights Economic Policy Recommendations emanating from participants' discussions at the Forum, giving the Current Challenges and the Recommended Measures.

The Policy Recommendations included within the Paper are listed under the following Sub-themes;

1. SMEs for Sustainable Growth and Wealth Creation
2. Public Debt Management: Sustainability Concerns and Way Forward
3. Quality Control and Value Addition in Agriculture: Harnessing the Benefits
4. Health Financing: Capacity Building & Infrastructure Development
5. A Tax Framework that Works: Business and Economic Competitiveness
6. Accountability for Economic Empowerment and Service Delivery
7. Disruptions & Recovery of the Education Sector: Optimizing the Opportunities
8. Rationalization of Public Sector Agencies for improved Service Delivery

ICPAU ECONOMIC POLICY RECOMMENDATIONS FOR FY 2022/23 BUDGET

SMEs for Sustainable Growth and Wealth Creation

Challenges

The impact of the lockdown measures instituted to contain the global COVID-19 pandemic on trade and commerce translated into general reduced business activity. This consequently resulted into:

- Depletion of capital for most businesses as it was eaten up during the lockdowns;
- Businesses not being able to service their loans (both principal and interest) because of decreased cash flows. The suggested loan restructuring with interest accruals has only resulted into more defaults. Even when the CBR has been reduced by BOU, interest rates remain high because of the anticipated high default rates for private borrowers. Banks have opted to restructure their operations, and instead of lending more to private sector, they are trading more in government securities.
- Many landlords are still asking for rent for periods ended from traders/ retailers, which has resulted into more rent defaults. Some traders have lost their merchandise to landlords due to non-payment.
- Traders are struggling with maintaining stock levels and are assessing how long they are likely to last.
- Methods of sourcing goods have also changed to e-commerce;
- Government emphasis on import substitution has also changed the tax structures which are now geared towards more protectionism of local producers than ever before.

Proposed Recommendations

Given the important role that MSMEs play in the economy, including their contribution to GDP and provision of employment opportunities to many Ugandans, Government needs to ensure they are supported to avoid collapsing. We therefore recommend the following proposals:

- i. Ensure that MSMEs have access to low cost credit and financial support, and also reduce on internal borrowing to avoid crowding out effects on the private sector.
- ii. Build an enabling business environment i.e. improve the ease of doing business by reducing obstacles to business growth including; excessive regulation, multiple taxation, unfavorable taxes such as those on data that impede the growth of e-commerce enterprises, high cost of doing business, e.t.c.
- iii. Support the digital transformation of MSMEs by providing access to affordable ICT and internet infrastructure. This will promote creativity and innovation.
- iv. Government should encourage continental trade between other African nations and regions.
- v. Government should intervene in the area of loan restructuring with the Supervised Financial Institutions regarding interest accruals. Loan repayment restructuring should include extended grace periods for the most affected sectors.
- vi. Government must prioritize MSMEs as suppliers, given that government is the largest buyer in the country.

Public Debt Management: Sustainability Concerns and Way Forward

Challenges

- The public debt has continued to grow and is currently around UGX 68 trillion. The rate of increase has been faster given an increase of about 35% from UGX 49 trillion in December 2019 to about UGX 65 trillion by December 2020. This was mainly attributed to the Covid-19 Pandemic and other natural disasters such as locusts and floods. According to MoFPED Budget Framework Paper FY 2021/2022, as government continues to support economic recovery through provision of economic stimulus packages to various sectors, debt is projected to increase further over the near term amounting to 49.9% of GDP by end June 2021. The increase is expected to cover for both the revenue shortfalls and the COVID-related expenditure needs.
- While external debt has remained sustainable, there are significant increases in the thresholds towards the upper limits. Domestic debt has also risen significantly. Debt financing in the FY 2021/22 will take a lion's share of the national budget resources at 34% to debt servicing, including: shs 1.8 trillion- external debt repayments (amortization), shs 4.7 trillion in interest payments, shs 8.5 trillion- domestic debt refinancing (rollover) and shs 400 billion- domestic arrears.

Proposed Measures

We note that, while the country cannot grow entirely without borrowing, debt sustainability demands a good level of restraint and a strategy to invest in areas that would ensure sufficient economic returns to service the debt. The country must now look to new strategies to address public debt. Our recommendations include;

- i. Follow the well-established legislative procedures on acquiring extra funds including the management of supplementary budgets. Government must ensure strict adherence to the country's established laws and regulations such as the Public Finance Management Act, which provides guidance on public revenue and expenditure.
- ii. Minimizing increases of public administration by halting the creation of new administrative units, and rationalize public agencies. This may necessitate reduction of local administrative units to cut down on recurrent expenditure, as well as the careful merger of public agencies/ institutions that handle the same services.
- iii. Taming corruption especially that which is related to public debt contraction, and any corruption issues should be properly addressed.
- iv. Adequate preparation for debt. Public debt should only be obtained when adequate preparations have been made for the projects involved. This includes having all the necessary procurements and co-funding arrangements in place before acquiring the future loans to minimize interest payments.
- v. Increase budget transparency, especially publicizing debt related information. Government should also consider debt monitoring and evaluation to inform decisions on future debt contracting.
- vi. Government should advocate for extra debt cancellation since the current debt levels are already posing a big burden to the country.

Quality Control and Value Addition in Agriculture: Harnessing the Benefits

Challenges

- Agriculture is the backbone of Uganda's economy, and over 70% of the population are involved in agriculture - albeit the subsistence type.
- Some of the major challenges to the agricultural sector in Uganda include low agricultural levels, lack of linkage between research and farmers, low coverage of irrigation, land fragmentation, low level of value addition and high cost of finance.
- The lack of value addition is a cause and consequence of poverty - low incomes; export of raw materials; post-harvest losses; minimum payback; etc.

Proposed Recommendations

The following strategies should be used to make the country's agricultural sector more competitive:

- a) Aggressive agro-industrial production for domestic market and exports. Government should deliberately increase allocations to the agricultural sector in line with the NDP III's Agro-Industrialization (AGI) program intended to modernize the sector but also promote value addition and market access. The end result will be inclusive growth, creation of employment opportunities for citizens, enhanced export of high quality agricultural produce and increase in household incomes.
- b) Government should also amplify efforts to establish market research teams to help in investigating both fresh and processed markets for agricultural produce.
- c) The government should aim at making technology affordable in the agricultural sector, including investing in technological upgrading to achieve productivity growth within sector through, for example, use of modernized farming methods including improved crop and animal breeds, irrigation schemes & fertilizers. This will lead to the creation of competitive enterprises and consequently the production of high quality goods.
- d) Competitiveness in the agricultural sector starts with quality control. In developed countries, quality control measures ensure that food products meet certain safety and quality standards. These measures include testing for bacterial contamination, measuring the amount of fat and other nutrients and inspecting plants, livestock and production facilities. The agricultural sector value chain should be revolutionized and revitalized to enhance returns from agricultural activities. This can be achieved by improving quality at every level of the agricultural value chain. Efforts should be made to add value to agricultural products at source of production e.g. improving the packaging of the agricultural products.
- e) Government should also set up training facilities to render world-class

industrial skills and modern agricultural practices. Facilities such as manufacturing workshops should be set up to provide agricultural-related skills through apprenticeships.

f) Government should gazette specific regions for specific agricultural activities as these are endowed differently, and also increase agricultural extension services to farmers.

Health Financing: Capacity Building & Infrastructure Development

Challenges

1. The Government health financing and insurance is highly constrained on the domestic budget, and it has to rely heavily on external assistance through grants and loans.
2. Weak stewardship of off-budget resources. A significant portion of external funds flows off-budget hence the need to ensure accountability for such funding.
3. Furthermore, the bulk of the funds for healthcare are mainly taken up by non-communicable diseases (NCDs), reproductive health, HIV and malaria among others.
4. Inadequate flow of resources to Local Governments.

Policy recommendations on the framework for health financing

- 1. Mobilization and pooling of funds**
 - a) Expand the insurance role of Government via domestic health financing. This could be done through increased budget allocation for health and welfare.
 - b) Establish health insurance for high cost healthcare through increasing public awareness of health insurance, provision of subsidies to the poor, minimize administrative costs of insurance fund and innovative informal sector contributions.
 - c) Reduce off- budget finance through encouraging basket funding for donors. Government must strengthen its stewardship role in coordinating donor funding and ensure alignment to country strategies in line with the Paris Declaration principles for more effective aid.
- 2. Purchasing and provider payment**
 - a) Strengthen strategic purchasing for healthcare through defining benefit packages, setting performance targets and standards, investing in expansion of provider competency and capacity.
 - b) Improve literacy for health-costs through ensuring adequate health workforce, compensation of production costs, ensuring autonomy of providers, among others.
 - c) Reduce administrative costs of purchasing healthcare through digitalizing claim processing, timely payments and reducing fraud and corruption.

	<p>3. Service provision</p> <ul style="list-style-type: none"> a) Reduce the cost burden on households through ensuring financial risk protection and making private healthcare affordable. b) Invest in specialized and critical care capabilities such as intensive care units, cancer and chronic care. This in turn will reduce on treatment costs abroad. c) Regulate costs of healthcare provision through adoption of new technologies and standardizing protocols for healthcare. d) Make prevention interventions a priority in health financing. This can be done through reducing on the unnecessary consumption of healthcare, managing population growth, controlling malaria, improving maternal child programs, expansion of vaccinations and making family planning acceptable, safe and universal. Savings can be made through working on the prevention side than curative approaches. Promoting life style changes to prevent many Non-communicable diseases. <p>4. The National Health Insurance Policy Scheme</p> <ul style="list-style-type: none"> a) Should be considered urgently as it will contribute to reducing the financial risks faced by the population during times of health care. This will require infrastructure and readiness for quality healthcare to be delivered. b) Moving forward we need to prepare, learn as we go and increase on public awareness about the policy, and keep public expectations with in what can be achieved. Equity should always be central to ensuring that no one is left behind in the provision of healthcare.
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A Tax Framework that Works: Business and Economic Competitiveness

<p>Challenges</p> <p>An undesirable tax framework consequently results into;</p> <ul style="list-style-type: none"> • Bad trade practices such as smuggling and other tax evasion approaches • High unemployment levels • Deters innovation and creativity • High costs of capital 	<p>Proposed Recommendations</p> <p>A good tax system should be:</p> <ul style="list-style-type: none"> a) Data driven policy that looks at policy impact end to end, and minimizes knee jack reactions with policy that is hard to implement or whose impact is regressive. b) Allow a gestation period prior to policy implementation - The gestation period prior to policy implementation should be extended to at least 12
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<ul style="list-style-type: none"> • High levels of informality • Increased costs of compliance 	<p>months before any tax law is effective to enable adequate preparation, configuration and tax education.</p> <p>c) Establish a central data depository for policy purposes</p> <ul style="list-style-type: none"> • URA data should only be used for comparatives • MDAs being the biggest beneficiaries of the taxes collected should be the sources of data at regulation stage. <p>d) Ensure stability in tax rates and regimes - predictable tax regimes should lead to less distortion of the market signals to businesses and households saving and investment decisions. It is desirable that tax should not distort decisions on how to finance investment, including the choice between debt and equity.</p> <p>e) MDAs and other regulatory bodies need to act on their respective sectors and allow URA to concentrate on implementing tax policies based on data from these regulators. Tax enforcement is easily done in collaboration with regulators.</p> <p>f) Avoid too much national debt as that signals a hostile tax regime in future.</p>
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Accountability for Economic Empowerment and Service Delivery

<p>Challenges</p> <ul style="list-style-type: none"> • The ability to promote meaningful participation of citizens is crucial for enhancing their ability to influence service delivery. • The ability to influence service delivery largely depends on the responses of government officials and service providers. • Participation may not necessarily result in the citizens' ability to influence or control service delivery, but rather, it is contingent upon the willingness of service providers and government agencies to respond to citizens' claims and feedback, and ensure fair and effective concern redress. 	<p>Proposed Recommendations</p> <p>To strengthen accountability for economic empowerment and service delivery, government should ensure that:</p> <p>a) Policy decisions are tagged to clear and systematic accountability structures.</p> <p>b) The accountability sector responses are tagged towards empowering the citizens to make economic and investment choices, and adopt the accountability of response to demands of the general population other than a few individuals.</p> <p>c) Promote citizen participation at all levels - in the design, implementation, monitoring and communication of accountability results.</p> <p>d) It adopts and implements the recommendations within the Auditor General's Report so that findings do not re-occur.</p>
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Disruptions & Recovery of the Education Sector: Optimizing the Opportunities

<p>Challenges</p> <p>Uganda’s Vision 2040, speaks to a transformed Ugandan Society from a peasant to a modern and prosperous country within 30 years, with a focus on accelerating Uganda’s Socio-economic Transformation. The plan was to have a knowledgeable and skilled population that is able to exploit and use its resources gainfully and sustainably.</p> <p>However, the following issues have been exacerbated by the pandemic:</p> <ul style="list-style-type: none"> • The resource disparities between rural and urban areas, which inequities create barriers to quality education. The immediate response to the need to close physical campuses was to pivot into online delivery and distance learning solutions but issues of infrastructure/technology platforms, broadband capacity, and pedagogical capacity emerged as challenges. • The Pandemic has attacked an already technologically weak Sector - The Digital Divide is still real for Africa despite recent developments. Even where smart phones have penetrated fast, electricity is still a problem, and the loss of instructional time affects the poor worst. • Institutional challenges - operations and systems changes, diminishing resources for institutions, instructional operations and modification of assessment modalities, curtailing of international mobility for international students and staff. 	<p>Proposed Recommendations</p> <p>Government should:</p> <ol style="list-style-type: none"> 1. Explore approaches which utilize ICTs to extend teaching and learning opportunities to learners that are separated by time and space from their alma-mata, facilitators and fellow learners, such as blended learning, distance learning or online/ mobile learning. 2. Conduct rapid technology assessments to establish the technology ‘debt’ and what it would take to sustain continued teaching and learning, including infrastructure/equipment, connectivity, etc. 3. Identify weaknesses in infrastructure, including power, data and equipment to strengthen where possible or work around where possible, such as through providing access to hotspots, tablets, etc. 4. Explore the use of social media to distribute learning materials. 5. Skill and retrain instructors on how to teach remotely and develop capacity to develop multiple media training/ learning material. <ul style="list-style-type: none"> - Study best practices of conducting online exams and have students sit for exams in a phased manner to uphold the Covid-19 SOPs. 6. Consider expanding short course options and certification programs to provide rapid skills-oriented options for affected tertiary students. 7. Consider provision of no-cost educational resources for institutions serving disadvantaged student populations, through; 8. Strategic allocation of incentive funding for institutions dedicated to expanding and updating technological infrastructure for digital pedagogy, investments in learning science, and for adequate training of faculty members; 9. Dedicated (financial, logistical, pedagogical) support programs for at-risk students.
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Rationalization of Public Sector Agencies for improved Service Delivery

<p>Challenges</p> <ul style="list-style-type: none"> • Uganda has an estimated 157 constitutional agencies, statutory bodies and semiautonomous agencies. This has been the largest 	<p>Proposed Recommendations</p> <ol style="list-style-type: none"> 1. In principle, rationalization of agencies can solve our current public service delivery crisis by:
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<p>expansion of Government since Independence.</p> <ul style="list-style-type: none"> • The presidency alone has expanded by creating operational units that mirror the rest of government agencies covering land, corruption, poverty eradication, AGOA, etc. • Since 1995, the cabinet has expanded to an unknown number in the range of some 200 people with at least 80 cabinet ministers and a host of presidential advisors. • Expansion of Parliament, Districts and associated administrative units - 146 in 2021. • Fiscal indiscipline - there is widespread fiscal indiscipline at every level of government with regard to dealing with public funds. The obscene spending by the President's Office and State House, a transactional legislature and poorly funded local governments create transactional culture that characterize the public service system. • The local government system which is supposed to be the frontline of service delivery is dysfunctional or simply ignored by the central government - central government agencies treat local governments simply as agents to implement and "monitor" "government programmes". • Broken politics which has caused institutions to deny responsibility and accountability of service delivery. 	<ul style="list-style-type: none"> ○ Improving coordination and reducing mandate overlap; ○ Creating a clear system of institutional responsibility and accountability; ○ Eliminating wastage and stealing of public funds. <ol style="list-style-type: none"> 2. Negotiate a non-partisan national consensus on the standards of public service delivery. This would require creation of a platform for inclusive dialogue to move into the future together. 3. Restore the confidence of citizens in the government and its programs - there is a widening trust deficit between the Government and the citizens. Like political leaders, citizens have become increasingly transactional. The "I don't care" attitude suggests a near breakdown of trust and loss of confidence in government. The single most important action for political leaders therefore is to consider the range of confidence building measures that Government can implement to restore that confidence
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