MOFPED TIMES
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ISSUE No. 4 July - September 2021

UGANDA
ON THE RECOVERY PATH

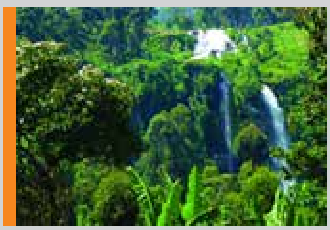
KEY HIGHLIGHTS

NATIONAL BUDGET CONFERENCE FY 2022/2023

GOVERNMENT STRATEGY
TO CLEAR & PREVENT DOMESTIC ARREARS

PS/ST
SETS AGENDA FOR THE MEDIUM TERM

Local Government Leaders List Service Delivery Constraints



Climate Financing: An Opportunity to address Climate Change

VISION

" A Competitive Economy for National Development"

MISSION

To Formulate Sound Economic Policies, Maximize Revenue Mobilization, Ensure Efficient Allocation and Accountabilty for Public Resources so as to Foster Sustainable Economic Growth and Development

CORE VALUES

Professionalism, Result - oriented, Efficiency and Effectiveness, Teamwork, Integrity, Transparency and Innovativeness

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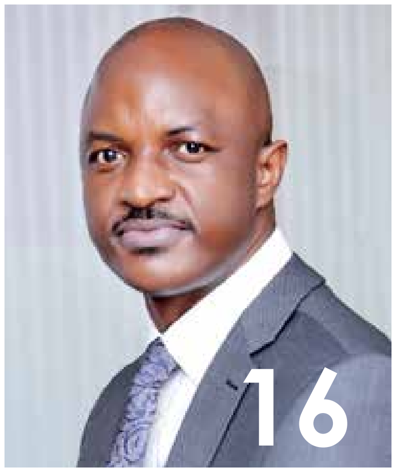

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Salutations

Dear Stakeholders,

I welcome you all to this Issue of the MOFPED TIMES, a quarterly Newsletter of Ministry of Finance, Planning and Economic Development (MOFPED).

Let me once again take this opportunity to thank H.E the President for entrusting me with the responsibility of leading the technical team at MOFPED to direct the economic policy of the country.

The task we have at hand occasioned by the COVID-19 pandemic is to ensure that our economy recovers to the pre-pandemic level in order to sustain the growth for socio-economic transformation through job creation, improving household incomes and wealth creation.

In the coming Fiscal Year 2022/23, the budget will focus on ending the pandemic, confronting related risks and uncertainties to avoid the reversal of the socio-economic gains registered over the years. We are now realigning the NDP III and the budget to the COVID-19 realities.

Like I have always said, my task is to lead the team in charge of the economy to pursue economics that works for all Ugandans. Restoring budget discipline, effective implementation of government projects and accountability with results as opposed to paper accountability are going to be sacred. Going forward, Government will adopt a comprehensive and integrated audit approach to ensure accountability with visible results.

Enjoy your Reading!

Ramathan Ggoobi

Permanent Secretary and Secretary to the Treasury

Kayoola Bus

The first Ugandan built luxurious executive coach.

Apollo Munghinda
Principal Communications Officer

Ministry of Finance, Planning and Economic Development.

Greetings

It is always a pleasure to share with you privileged insights from MOFPED through this platform.

A lot of work is on-going at the Ministry especially at this time of shaping the budget for the FY 2022/23. We are optimistic that our economy will bounce back from the effects of the COVID-19 pandemic as spelt out in the budget strategy for next financial year.

In this Issue, we bring you PS/ST's Agenda for the short and medium term, highlights of the Budget Strategy for FY 2022/23 and key messages by Finance Minister to stakeholders ahead of budget execution for next financial year.

You will also find highlights on the new Charter for Fiscal Responsibility and the Government strategy to clear and prevent domestic arrears.

I wish you pleasant reading! ■

Apollo Munghinda

Principal Communications Officer

National Budget Conference FY 2022/23

By MOFPED COMMS TEAM

Uganda's economy expected to rebound, grow at 6% in Financial Year 2022/23 says Finance Minister Kasaija.

Uganda's economic growth is expected to rebound to 4.2% in FY 2021/22, 6% in the FY2022/23 and to at least 7% in the medium-term, the Finance Minister Matia Kasaija has said.

He said this during the Financial Year 2022/23 National Budget Conference at Kololo Ceremonial Grounds on 9th September 2021. According to Kasaija, economic policy seeks to achieve objectives such as mitigation of COVID19 impact on business activity and livelihoods, speed up socioeconomic transformation and sustain macro-economic stability.

"The Government strategic interventions to achieve the economic policy objectives above will be; restoration of business activity by increasing access to capital, industrialization particularly focusing on agro-industry and light manufacturing, enhancement of the wellbeing of Ugandans by improving health infrastructure and systems and learning of students," he stated.

> **"Next financial year, it will be important that you all support Government poverty alleviation and wealth creation programs such as the Parish Development Model," said the Premier.**

Gov't measures on boosting aggregate demand

In a bid to boost aggregate demand, Kasaija said the Government will prioritize enabling small businesses to access low cost capital to recover, Emyooga funding, UDB capitalization, strengthening private sector and industrialization among others.

"The Government will also fast-track the approval of the Financial Sector Development Strategy (FSDS) by Cabinet to ensure a sound and integrated financial sector. This aims at increasing formal savings to 53% of GDP, and the percentage of adults using formal financial services to 80% by 2025, with 79% female inclusion, 89% inclusion of youths, and 77% of rural adults."

Effects of COVID 19 on the economy

The Minister said Private Sector Credit (PSC) growth declined from 12.2% in FY2020/21 to 7.2% in the first quarter of FY2021/22.

He added that Private Sector Credit is likely to remain subdued in the short-term due to weak economic growth and increased risk aversion of lenders.

"Relatedly, the proportion of Non-Performing Loans (NPL) to gross loans has increased to 5.4% in March 2021 from 5.15% in September 2020," said Kasaija.

Vaccination is the only answer to COVID 19

Prime Minister Robinah Nabbanja said Uganda is focussed on getting vaccines that will cover all Ugandans who must be vaccinated.

She said the budget strategy must target at economic recovery and acceleration of socio-economic transformation.

"Next financial year, it will be important that you all support Government poverty alleviation and wealth creation programs such as the Parish Development Model," said the Premier.

'Ensure sanctions on Accounting officers over perennial creation of domestic arrears'

Civil Society Organisations (CSOs) expressed concern over the perennial creation of domestic arrears beyond the commitment control system, saying it distorts the budget process, hence calling for sanctions on accounting officers involved.

Julius Mukunda, the Executive Director Civil Society Budget Advocacy Group said by the end June 2019, domestic arrears stood at UGX 4 trillion of which UGX 2.25 trillion was validated by Ernest and Young.

"Enforcement should be made for the proposed action to enforce penalties and sanctions to those who continue to create arrears following the finalization of the validated arrears stock," he stated.

'Supplementary budgets being misused'

On fiscal discipline, he said the national budget should be executed according to how it was planned if results are to be achieved. Mukunda said although Covid is being used as an excuse for supplementary budgeting, it has been misused.

"Only activities that are unavoidable, unabsorbable and unpredictable qualify for a supplementary budget. But when purchasing vehicles, paying for salaries and compensations are under a supplementary budget, it is a clear sign of poor planning."

Francis Kisirinya, the Acting Executive Director Private Sector Foundation Uganda said the FY 2022/23 National Budget should look at taxes that hinder business growth. He said such taxes should be discouraged.

"There is a belief that the business can transfer taxes to consumers. There is a limit to price increase. The budget has been growing, but we have not seen a proportionate growth in GDP," he stated.

'Suspend creation of new administrative units'

Lomonyang Joseph, the Chairperson Uganda Local Government Association (ULGA) said Government should suspend the creation of new administrative units to manage and reduce the administrative and increasing recurrent expenditure in favour of an increase in the development budget allocation to Local Governments and Cities.

Finance Minister Hon. Matia Kasaija

"We therefore encourage government to increase services for Local Government services such as roads and water. We say agriculture is the backbone of our economy. We need to walk the talk. We urge government to strengthen inspection and monitoring other than getting involved in direct execution of decentralized mandates," he said.

Development Partners applaud Gov't on increased social spending

Mukami Kariuki the World Bank Country Manager on behalf of Development Partners lauded Government for improvements in the FY 2022/23 budget, especially the increase in social spending that is planned.

According to Development Partners, the next budget should focus on addressing Covid-19, human capital development and increasing expenditures in health and education, agriculture and social protection measures.

"We are pleased to note that Government has developed a Domestic Arrears Strategy which should help to deal with the problem of arrears going forward," she said.

Gov't has to undertake prudent fiscal and monetary policies to maintain the economic stability,

says President Museveni

By MOFPED COMMS TEAM

To put the economy back on track, the Government has to undertake prudent fiscal and monetary policies to maintain the economic stability, President Yoweri Museveni has said.

In a written speech delivered on his behalf by the Vice President Jessica Alupo during the FY 2022/23 National Budget Conference on 9th September 2021, Museveni said that the Government has aligned the budget to the NDP III objectives, outputs and interventions required to achieve the development agenda.

According to him, full alignment of the Budget to the NDP III Programmes necessitates restructuring of Government Ministries, Departments and Agencies. He said the Government is expediting the on-going rationalization of Government Agencies and restructuring of Ministries in line with the NDP III Programmatic Planning Approach.

"All Ministries, Departments and Agencies should ensure that their respective Strategic Plans and Budgets are aligned to the aspirations of Government as stipulated under the NDP III to achieve the vision of transforming Uganda into a Modern and Prosperous Country by 2040," said President Museveni.

He said the re-alignment of the MDAs' strategic Plans and Budgets will enable Gov't to take advantage of the growth opportunities in the short-to-medium term, in areas such as implementation of the import substitution strategy, Foreign Direct Investment inflows towards major infrastructure development, improved access to exports market and jobs and efficiency gains from enhanced digitalization.

Gov't focus to remain on structural change agenda

President Museveni said, looking ahead, the Government priorities in the new five-year term will remain focused on the structural change agenda.

"I wish to emphasize that the broad objectives of the Budget Strategy for FY2022/23 will focus on sustaining macro-economic stability and national security, mitigating the COVID-19 impact, preparing for the possibility of a third COVID-19 wave, ensuring full recovery of the economy and building a resilient base for socio-economic transformation and inclusive growth."

Additionally, Museveni explained that further emphasis will be put on improving production and productivity to improve farmers' incomes, particularly small holder farmers, through implementation of the Parish Development Model (PDM

During the alignment of the Budget, according to him, there will be a redistribution of funds within and across NDP III Programmes of Government for FY 2022/23 and over the medium term in a bid to direct funds to key priority areas of Government.

Measures to address COVID 19 pandemic

The President said Government has taken steps to procure vaccines, expand hospital capacity through the recruitment of additional staff/ volunteers to assist with the management of the pandemic.

He was optimistic that the economy would soon recover, provided the population complies with the Standard Operating Procedures and the corresponding directives set out by the Government to mitigate the spread of the Coronavirus.

Museveni added that the Government Annual Performance Report shows that despite the challenges caused by the COVID-19, some sectors of the economy remained resilient and registered significant performance.

H.E Yoweri Kaguta Museveni

President of the Republic of Uganda

Uganda on recovery path, challenge remains sustaining growth - PS/ST Ggoobi

By MOFPED COMMS TEAM

Despite the effects of COVID 19 second wave, Uganda's economy is projected to grow at 3.5% - 4% in the FY 2021/22, the Ministry of Finance Permanent Secretary/ Secretary to Treasury Ramathan Ggoobi has said.

He said this while making a keynote address on September 1st 2021, during Certified Public Accountants (CPA) Economic Forum.

Before Covid-19 pandemic, Uganda's economy had achieved some momentum. It was growing at 6.3% and 6.4% in FY2017/18 and FY2018/19 respectively.

Now that the economy is on a recovery path, Ggoobi said the only challenge is sustaining and accelerating growth further, while ensuring that it's inclusive.

"To deal with this challenge, we need to emphasize not only policy but also implementation and accountability to boost production and productivity in all sectors. We need to ensure that there's the right balance between growth-enhancing public expenditures and hard-won debt sustainability," he stated.

Short term strategies to support economic recovery from the Covid-19 Pandemic, according to the PS/ST include maintaining households' economic welfare, boosting aggregate demand by creating jobs for the most vulnerable among others.

'Ensure accountability with results'

He called for a review of public sector reporting to enable the Office of Auditor General (OAG) to provide audit opinions that relate to accountability with results and value for money such that the people of Uganda can get the value for money.

"Paper accountability without field inspections is not accountability at all. We need to review public sector reporting to enable the OAG to provide audit opinions that relate to accountability with results and value for money," said Ggoobi.

He added that audits should be able to reflect on both paper and real life, there's need for a public sector reporting to show the actual detail and influence of government programmes on everyday lives"

"It is about effective government, delivering better outcomes while using public money in the best way possible. Accountability is important, though it's still weak in Government. We still have weak mechanisms for reporting and measuring the results."

'Support recovery of businesses'

John Walugembe, the Executive Director Federation of Small and Medium-sized Enterprises in Uganda (FSMEs) said, to enhance recovery of businesses, the government should focus on financial reforms that are pro-Ugandan to support sustainability synergies for them.

He called for reduction in excessive regulations around starting and running a business. He believes the many licenses that are needed to start and run a business are unfair to businesses and deter many from formalising their businesses

"Governments recognize the importance of small and Medium-size enterprises (SMEs) in the economy and regularly offer incentives, including favorable tax treatment and better access to loans to help keep them in business," said Walugembe.

On SMEs' contribution to employment, he said many people in emerging economies like Uganda find work in SMEs as they contribute roughly 45% of total employment and 33% of the country's GDP.

"Though small in size, small and mid-size enterprises (SMEs) play an important role in the economy. They out number large firms considerably, employ vast numbers of people and are generally entrepreneurial in nature, helping to shape innovation," said Walugembe.

Dr. Fred Muhumuza, a Senior Economics Lecturer at Makerere University said developing countries like Uganda will need to sharply reduce their reliance on foreign trade taxes, without at the same time creating economic disincentives, especially in raising more revenue from personal income tax.

"The best strategy for sustained investment promotion is to provide a stable and transparent legal and regulatory framework and to put in place a tax system in line with international norms. We need policies of a tax system that promote the growth of a country's resident multinational corporations without regard to whether they produce at home or overseas, he explained.

PS/ST Ramathan Ggoobi

PS/ST Sets Agenda for the Short and Medium Term

PS/ST Ramathan Ggoobi set his agenda for the short and medium term during a luncheon hosted by the Ministry to welcome him to MOFPED which was held at Serena Hotel Kampala on September 3, 2021

I would like to begin by thanking H.E the President for entrusting me with the responsibility of leading the technical team that is going to direct the economic policy of our country, first to recover the economy to its pre-pandemic state and ultimately push for socio-economic transformation through creation of well-paying jobs as well as enhancement of household incomes and wealth creation.

As I informed you at the handover held on August 18th, I received a very gracious call from my predecessor, my Senior Mr. Keith Muhakanizi. We had a long and very cordial conversation. He congratulated me upon my appointment and gave me authentic guidance to ensure a smooth transition. I thank him wholeheartedly.

Mr. Muhakanizi together with Bank of Uganda Governor Prof. Emmanuel Tumusiime-Mutebile, among others, are arguably the grandparents of Uganda's modern economy. They endured sacrifices to rebuild Uganda. We are better off today because of the reforms they crafted and the service they've rendered.

Mr. Muhakanizi told me he joined this Ministry in June 1982 (I was 4 years old then). I congratulate him for all he has achieved, and I look forward to working with him to make our economy better, bigger, healthier and most importantly with increased opportunities for the people of Uganda in the months and years ahead. He has promised to give me all the support to ensure we move faster to recover the economy.

My interactions with the Ministry staff, our supervisors the Hon Ministers, and other stakeholders over the last month, during my induction, have suggested to me that a number of things need urgent attention:

First, the need to motivate, facilitate and effectively supervise staff to generate ground-breaking ideas that match the demands of a dynamic environment we are operating in.

Secondly, the need for internal realignment and reorganization of the functions and staffing to fit our mission and mandate. We are tasked with formulation of transformative policies; mobilization of enough financial resources for public expenditure; regulation of the economy and ensuring efficiency; and spearheading national planning and strategic development for economic growth.

Furthermore, we need to reorganize ourselves with minimal disruptions, but with necessary recommitment. We should all prove ourselves to making a difference in what we are tasked to do. The Ministry should be ready and able to take up its lead role in informing government decisions of a development nature.

We also need to realign the plan (the NDP III) and the budget to the Covid-19 pandemic realities. The national development plan is pre-pandemic, yet Covid has disrupted the major foundations and assumptions that informed it. I'm happy the team at the Ministry and colleagues, the PSs, have embraced my proposal to have a budget strategy that is fully adjusted for the new realities. The same should happen to the plan and programmes, the programme implementation action plans (PIAPs), and the tax policy. These proposals need to be presented to Cabinet and Parliament sooner than later.

Importantly, we need to address the weak enforcement of accountability with visible/ measurable results. We need to change the way we measure and report results. Paper accountability (i.e. quarter one, semi-annual and annual budget performance reports) without field inspection of outputs and outcomes and verification of their value/quality should be stopped.

This also should have implications on the way audits are carried out. We need to enforce a comprehensive and integrated approach to auditing. The people of Uganda must get the value they pay for. This is what has created unnecessary discontent that is undermining social and political harmony required for sustaining inclusive growth and economic transformation.

PS/ST setting his Agenda for the short and Medium Term during Luncheon to welcome him at Kampala Serena Hotel

The need to make plans and policies fully informed by empirical research, stakeholder and political economy analysis to ensure that evidence-based interventions inform the policies, the plan and the budget. We should stop spending on projects that are not thoroughly studied and job mainstreamed.

We also need to improve on the implementation of the Private Sector Development (PSD) programme to build a strong and vibrant private sector capable of taking full advantage of the opportunities generated in the economy.

We need to put more emphasis on pro-business policies as opposed to pro-market reforms per se. We need to go beyond removing impediments to markets for the benefit of new entrants (foreign direct investors) and consumers. These are pro-market policies. In order to facilitate growth of local businesses and home-grown development, we need to emphasise more the pro-business policies.

Another issue that requires urgent and collective attention is the alleged corruption in the Ministry and the larger government. H.E the President recently said corruption starts in our Ministry. Being the primary consumer of intelligence, this is a serious indictment on us all. We must address this by ensuring that we serve with integrity as we address the causes of the vice.

Our immediate and medium-term tasks

i) Recovery of the economy. How do we bring the levels of aggregate demand and output back? Then we should pursue growth-with-jobs in the medium term.

ii) Building capability of the economy to create opportunities, employ our youthful population, raise household incomes, add value to what the people of Uganda are producing and industrialise the country; and raise exports;

iii) Robust analysis of the economy (both macro and micro-economy) to understand its growth drivers, linkages and leakages, market failures, and any policy-induced distortions (government failures)

iv) Mobilization of financial resources, particularly domestic resources to finance;

v) Expenditure management to increase allocative efficiency.

vi) Effective policy coordination and complementarity to ensure the fiscal and monetary policies support the fulfillment of our shared overall policy objectives, particularly the deficits and debt, and macro-economic stability;

DST Ocailap and URA Commissioner General Musinguzi at the luncheon

vii) Re-building fiscal space so that we can raise spending without endangering market access and debt sustainability;

viii) Supporting the reform process of the larger government to facilitate delivery of services by ensuring implementation discipline, including implementation of an E-Government and E-Procurement without further delay; and

ix) We must agree on how to reduce the fiscal deficit in the medium term which has increased almost unsustainably to above 9% yet it should be kept within 3%.

My personal values:

a) Honesty and decency: High ethical and moral standards which are the cornerstone of freedom, perpetual happiness, self-worth and a living legacy.

b) Professionalism and good work-ethic: The bedrock of career success and impact.

c) Teamwork and good human resource relations: The ability to harmoniously work with others, including our immediate supervisors, the Hon. Minister and Hon. Ministers of State.

d) Integrity, reliability and credibility: These are like toothpaste; once pushed out of the tube you cannot retrieve it.

In conclusion, I want us all to remember that we come from communities whose entire existence depend on a prayer that the economy we are in charge of, works for them. It is therefore imperative that we embark on building an economy that can and should not only improve the quality of life of our people, but is able to transform our country into a modern Uganda that we can all be proud of. I know it can be done and I encourage you to believe in your massive abilities to create the change we all cherish. The future is bright and we're lucky to be in charge of it. I thank you.■

First, the need to motivate, facilitate and effectively supervise staff to generate ground-breaking ideas that match the demands of a dynamic environment we are operating in

Highlights of Government Concerns During FY 2022/23 LG Budget Consultations

The Ministry of Finance Planning and Economic Development from September 20th to October 8th carried out FY 2022/23 Local Government Budget Consultations in different regions countrywide. The workshops took place in Mbarara, Fort Portal, Hoima Mbale, Arua, Gulu, Lira Mukono, Jinja and Masaka.

In separate engagements with Local Government leaders, Finance Minister Matia Kasaija, State Minister in charge of Planning Amos Lugoloobi, State Minister for Microfinance Haruna Kasolo Kyeyune and Henry Musasizi the State Minister for General Duties as well as Permanent Secretary and Secretary to the Treasury, Ramathan Ggoobi presented government key expenditure priorities, budget execution and other service delivery concerns that Local Government leaders must put into consideration during FY 2022/2023.

Below is an extract of the speech presented by Ministers and PS/ST.

INTRODUCTION

1. I wish to take this opportunity to welcome you to this Budget consultative workshop for FY 2022/23. On 9th September 2021, we held the National Budget Conference, during which strategic guidance was provided on key priority areas for the budget of FY 2022/23. The broad objectives of these consultations, therefore, are to further seek your contribution on the budget for FY 2022/23, and also:

i. Discuss challenges affecting service delivery, and agree on measures for improvements at the Local Government level;

ii. Discuss the alignment of the Budget to the Third National Development Plan (NDPIII) programmes, objectives and interventions;

iii. Present the proposed Budget Strategy for FY 2022/23; and

iv. Disseminate the Indicative Planning Figures (IPFs) for FY 2022/23, and Grant Guidelines.

IMPACT OF THE COVID - 19 PANDEMIC

2. Ladies and gentlemen, similar to other economies in the World, the Ugandan economy has suffered major setbacks due to COVID-19 pandemic. We have recorded over 120,990 infections, 95,697 recoveries and lost about 3,074 people as at 15th September, 2021. We commiserate with all those who have either lost their loved ones or directly been affected by this pandemic.

3. In addition, the Covid-19 Pandemic has directly affected operations at both National and Local Governments levels. Since March 2020, it has:

i) Directly impacted on people's livelihoods, their source of income since many critical services were disrupted, and schools are closed increasing poverty levels in the country;

ii) Nationally, there has been a reduction in Tax to GDP, from 12.2% down to 11.4% between FY 2019/20 and FY 2020/21within the same period, 83 Local Governments failed to collect their projected Local revenues inFY 2020/21;

4. To tackle the impacts of the pandemic, Government, since FY 2019/20 has implemented deliberate measures, which have yielded positive results. Some of these include:
i. Since the start of the Pandemic in March 2020, Ushs. 3,978.4Bn has been allocated for COVID-19 interventions between FY2019/20 and FY2021/22. The bulk of these funds have been used to Purchase Medical Equipments for ICU and Emergency Units, established isolation centers, procurement of PPEs for Health Personnel, and establishment of Regional COVID -19 case management centers, relief cash and food for the vulnerable, purchase of testing kits, procurement of vaccines and scale up surveillance and research; and

ii. The combination of the above efforts has resulted into the reduction of the number of positive cases, but also made us more ready and prepared to tackle any new cases.

5. Despite the visible negative impacts, the pandemic has provided great opportunities for improved service delivery, including the following:

i) A fast rate of digitization of services, including meetings, Government transactions, and logistics which have led to significant savings of resources and time in the delivery of services to the ordinary Ugandan.

ii) The integration of business processes and systems, strengthening Governance and e-Commerce, use of e-Conferences/ meetings, Telemedicine in most areas of the country where application, e-Learning platforms, among others has improved efficiency in Government; and

iii) Boosting local production of essential medical supplies like PPEs, testing kits and essential drugs, that were formerly imported. The H.E the President launched the construction of a vaccine production facility in July 2021 in Matuga, and a herbal based medicine plant to treat COVID-19 is planned to be constructed in Soroti Industrial Park.

6. With the above interventions, I urge you to embrace the opportunities presented by the impacts of COVID-19 pandemic for continued service delivery.

THE BUDGET STRATEGY FOR FY 2022/23

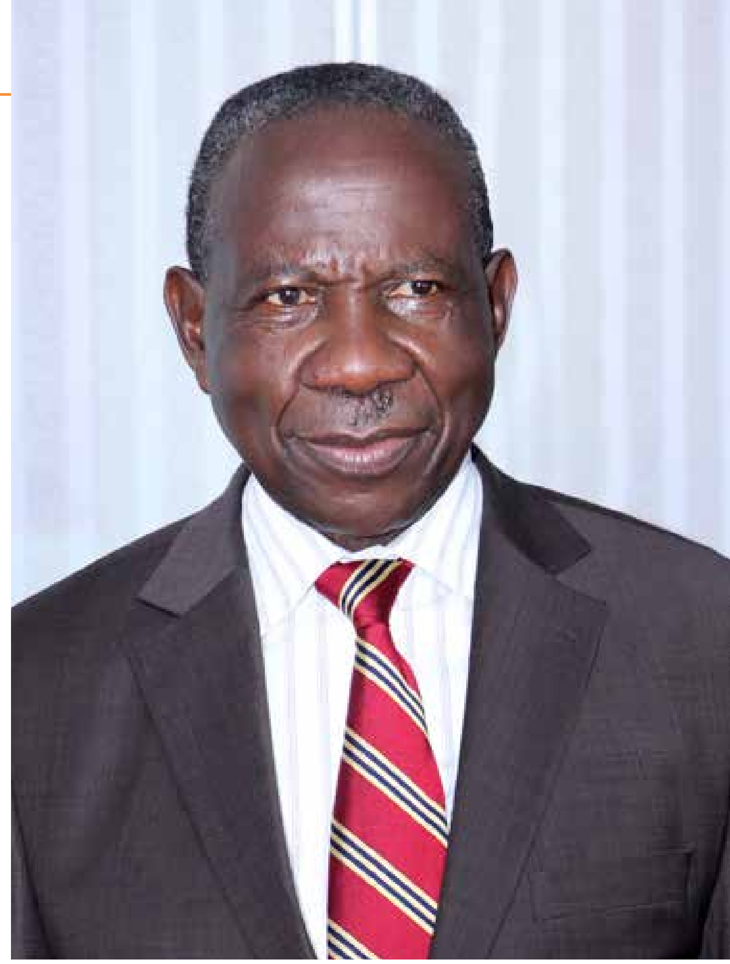
7. The theme for the Budget of FY 2022/23 is ***Industrialization for Inclusive Growth, Employment and Wealth Creation.*** The Budget Strategy addresses key interventions to achieve three broad outcomes, namely:-

i) Sustaining macro-economic stability and national security;

ii) Mitigating the COVID-19 impact, preparing for possibility of a third wave and bringing the economy to normality as much as possible; and

iii) Recovering of the economy and building a resilient base for socioeconomic transformation.

8. Specifically for the Local Governments, these outcomes will be achieved through the implementation of the following strategic interventions:-



BUDGET

Restoring Business Activity & Deepening Financial Inclusion

9. To restore business activity, the Government shall; i) Avail EMYOOGA funding to provide seed capital for special interest enterprising groups; and ii) Increase the revolving fund of the Parish Development Model.

Industrialization (Agro-industrialization & Light Manufacturing)

10. This programme will focus on sustaining the resilience of agriculture along the value chain, agro-processing, and support to light manufacturing in Local Governments, through:-

i) Expanding storage and processing capacity for agricultural commodities within the 18 zones of the country;

ii) Supporting industries that use locally sourced raw materials to produce most of the goods that we import; and

iii) Strengthening standards for quality assurance to improve access of Uganda's export to regional and international markets.

Enhancing the Wellbeing of Ugandans

11. With widespread vaccination far from being achieved, the immediate priority of the Government during FY2022/23 will be:-

i) Countrywide vaccination drive for COVID-19;

ii) Maintaining resources in the budget for increasing the capacity to handle other communicable and non-communicable diseases;

iii) Fast-tracking the national health insurance policy, including the national ambulance systems to reduce the cost of the services on the government; and

iv) Sustainably bringing back education to normality and attaining pre-COVID19 levels of access to education through the blended approach of online and contact learning.

Improving maintenance, availability & affordability of Productive Infrastructure

12. Ladies and gentlemen, the focus of this programme will be to;

i) Maintain a good transport infrastructure, complete existing contracts, and establishing infrastructure corridors for future investments;

ii) Implement last mile connectivity/rollout broadband infrastructure in key government service delivery units such as schools, Local Governments, hospitals, post offices, tourism sites, policeetc) are connected; and

iii) Support the roll-out of e-services such as e-extension, e-education, e-health as well as remote collaboration solutions, to digitally transform public service delivery.

Harnessing Opportunities under Minerals, Petroleum & Tourism

13. Under this programme, priority investments will be for import replacement, export promotion; and improvement in domestic resource-based royalties especially in exploration and quantification for steel and minerals in Karamoja, as well incentives for import replacement of iron and steel, among others.

14. Relatedly, the priority focus under tourism will be: - (i) Sustaining upstream investment in ongoing product development and tourism-related infrastructure – roads, electricity, internet, security; (ii) Increasing access to recovery financing; and (iii) Intensification of domestic tourism.

Public Sector Effectiveness and Efficiency

15. Public sector effectiveness and efficiency will be improved through; (i) continued rationalization of Government Ministries, Departments and Agencies; and (ii) Phased salary enhancement for scientists and health workers who are engaged in research and innovation, the implementation of which will commence in the FY2022/23.

16. In addition, to sustainably develop and transform the economy, we need to take urgent actions against climate change and ensure the efficient development of urban centres, through; Climate change mitigation actions, eviction of wetland encroachers, and restoration of the wetlands, improving the quality of air especially in urban areas; and the enactment of by-laws by local government authorities, among others.

Local Government leaders - Central region

KEY POLICY ISSUES

Parish Development Model

17. Having availed special categories of funds over the years like Emyooga, Youth Livelihood Fund, the Women Enterprise Fund and the Social Action Grant for the Elderly (SAGE) for the youths, Women, and the elderly among others. Government has since FY 2021/22 operationalized the Parish Development Model. This Model is the vehicle aimed at bridging the gap between the middle class and the ordinary person still engulfed in subsistence agriculture at the parish level by ensuring that local households at the grassroots actively participate in the selection of appropriate investments for elevation of their personal incomes and welfare.

18. The Model has been structured along seven (7) pillars. And as part of its implementation, Government provided Ushs200bn in FY2021/22 for implementation of prior actions to among others cater for recruitment of Parish Chiefs across all Local Governments. Additional funding will be provided as we finalize the Budget process for FY 2022/23 for full scale implementation of the Model. Am reliably informed that, the Ministry of Local Government will provide further details on the implementation guidelines of the Model later during this meeting, and I request you all to pay keen attention.

Local Government leaders - Northern region

19. I encourage you all together with other stakeholders, to put in place the relevant structures and modalities to allow for full scale implementation of the PDM in FY 2022/23.

Presidential Directive on Education and Health Projects

20. Ladies and Gentlemen, H.E the President directed that with effect from FY 2021/22, all new construction projects under Health facilities and Schools must be undertaken by the Army Construction Brigade. This was occasioned by delays by a number of Local Governments in implementing Government construction projects.

21. I therefore request that, the Public Procurement and Disposal of Public Assets Authority (PPDA) works closely with the Local Governments, Ministries of Health, and that of Education and Sports, and other stakeholders, to expedite finalization of the required guidelines for the implementation of this presidential directive.

Delayed recruitment and Non-payment of Salary, Pension, and Gratuity Arrears

22. Government has overtime, provided you with substantial resources for recruitment of critical staff; with recent funds being for recruitment of Teachers and Health Workers under UGIFT. However, there has been limited absorption of these resources on account of delayed recruitments. On the other hand, some claimants for salaries, Pension and Gratuity arrears still go unpaid despite my Ministry releasing the required resources on time.

23. Effective FY 2022/23, therefore, the status of recruitment, utilization of funds for Wage, Pension and Gratuity as well as accountability and timely payment of arrears will be allotted higher weights to be put into consideration during appointment and/or re-appointment of Accounting Officers.
Adherence to Grant Guidelines

24. There is increased reluctancy in the use of grant guidelines by the Local Governments, and as such some of your budgets are not aligned to Government priorities, and in some cases allocations and selection of projects are done in a subjective manner instead of utilizing the guidelines. As such, any Local Government Budgets that will not be prepared within the issued guidelines will be REJECTED.

Non declaration of Off Budget and Other Government Transfers (OGTs)

25. My Ministry has noted with concern that, in total disregard of Sections 29 and 44 of the PFM Act 2015 (as Amended), a number of you do not declare off budget receipts from Development Partners. Failure to capture such resources at budgeting, has led to numerous requests for supplementary budgets, revoting of unspent funds, low absorption of such funds and overall delays in service delivery.

26. In addition, there are funds that are appropriated at the Centre, but whose activities are implemented in the Local Governments. Such funds are released late without clear guidelines causing unspent balances, at the expense of service delivery. Therefore, in order to avoid disruptions during execution, you are required to engage all Development Partners and Central Government Votes to ensure that these are properly captured in your respective budget estimates in the Program Budgeting System (PBS) by the time of submitting your BFPs.

OUTSTANDING CHALLENGES

27. Ladies and gentlemen, the just concluded Government Annual Performance Report (GAPR) findings by the Office of the Prime Minister, showed that Local Governments performed poorly during FY 2020/21 assessment.

28. This is partly due to the fact that, majority of the Local Governments do not have approved Development Plans, and as such, their budgets are not aligned to the NDP III programmes. In addition, there is late submission of reports which is contrary to section 21 (3) of the PFM Act (as Amended). To-date, only 134 out of 176 Local Governments have submitted their Annual Budget Performance reports for FY 2020/21 on the Programme Budgeting System (PBS) as of 15th September, 2021. Implying that 42 Votes have not submitted their reports as required by Law. Therefore, any late submission must be accompanied with a written and justifiable explanation as this will from now onwards form part of the requirements for appointment or reappointment of Accounting Officers, and youshould ensure that, you have approved Development Plans which are properly aligned to the NDP III objectives, and priority areas by the time you submit your BFPs for FY 2022/23.

29. Ladies and gentlemen, there are concerns over the low share of the Local Budget as a percentage of the National Budget. While I am aware that, the allocation is insufficient to fund all the Service Delivery needs, I wish to inform you that over the years, nominally financing to Local Governments have greatly improved from Ushs.2,009bn in FY 2013/14 to Ushs.4,835.5bn in FY 2021/22, in addition to approximately Ushs1,300bn that is appropriated to Central Government Votes, but transferred to Local Governments.

30. Covid-19 Pandemic notwithstanding, Government will ensure that, substantial re-

sources are provided to Local Governments for improved service delivery over the medium term.

31. However, while Government is committed to increasing Local Government funding, it is quite unfortunate that, funds are returned unspent at the end of the financial year. For example, at the end of FY 2020/21, a total of Ushs.589Bn was returned to the Consolidated Fund. Of this; Ushs.119Bn, Ushs. 18.9Bn, Ushs.7.7Bn, Ushs. 35.5 Bn, and Ushs. 407.9 Bn was for Wage, Gratuity, Pension, Non-Wage Recurrent and Development respectively, despite my Ministry releasing funds on time. This is partly attributed to late procurement, poor monitoring and supervision of projects, and delayed recruitment, among others by the Local Government leaderships.

32. Going forward, this cannot be tolerated anymore and I will not approve any supplementary for unspent balances without clear justification on how the funds were not absorbed. In addition, you should make adequate provisions to cater for investment service costs including monitoring and supervision, and ensure timely recruitment of staff as per the provided wage bill in your respective Local Governments.

33. Dear Participants, in FY 2018/19, Government took a decision to streamline the collection of Non-Tax Revenue including local revenues in accordance with PFM Act 2015. As such, you were requested to make revenue projections for appropriation by Parliament. During execution, release advances were made on the understanding that, these would be offset by the end of the first quarter against which more releases would be made based on recoveries.

34. This modality however, was faced with a number of challenges. Accordingly, effective FY 2021/22, a decision was made to have Local Revenue releases on a daily basis once a given Vote has remitted, and no more advances. Therefore, you are advised to provide realistic projections for FY 2022/2023 to avoid understating or exaggerating the local revenue budgets in the coming financial year.

35. I am aware that, a number of newly created Sub Counties, Parishes, Divisions and Wards have for long not been coded nor operationalized, thus affecting service delivery. Starting FY 2022/23, Government will, in a phased manner operationalize the newly created Lower Local Governments depending on resource availability. In future, however, Government has taken a decision to put a halt on any further creation of new Administrative Units.

36. Relatedly, you may recall that Government created fifteen (15) new cities, and ten (10) of these became operational in FY 2020/21 with the other remaining five cities expected to be operationalized in FY 2022/23. Therefore, in FY 2022/23, the Districts whose Lower Units were annexed to these cities will have their IPFs adjusted just as it was the case for the others. I urge you to prioritize funding operationalization of the new cities and ensure that these cities become model centers of production and industrialization.

FINANCING OF THE BUDGET STRATEGY FOR FY 2022/23

37. Ladies and gentlemen, while a number of interventions have been affected by the COVID – 19 pandemic, in FY 2022/23, Government will continue to implement the Domestic Revenue Mobilization Strategy (DRMS), but in a phased manner in order to deliver essential public goods and services required to achieve the National Development Plan III.

38. Government's revenue target is to increase domestic revenues to GDP ratio from 13.1% in FY 2020/21 to between 18% and 20% of GDP over the medium term.

39. I request you to strengthen your revenue administration and collection measures by having in place the right policies, by-laws and ordinances that promote Local Revenue Enhancement and Tax Collection, skilling and generation of expertise in the areas of planning and overall management of tax administration.

CONCLUSION

40. My Ministry attaches great importance to these workshops and I call upon you to have candid discussions during the Programme Working Groups later today and come up with specific actionable points and detailed priorities in line with your Development Plans and the NDP III. I will take keen interest in the issues that shall emerge during this workshop.

41. As indicated in the 1st BCC for FY 2022/23, you are reminded to submit your BFPs and draft Budget Estimates to my Ministry by the 12th of November, 2021 to allow for consolidation and onward submission to Parliament.

42. Finally, I implore all of us to embrace the efforts towards the implementation of the Parish Development Model, and all Accounting Officers requested to help their respective Political Leaders to effectively participate in the budget preparation and execution process.

43. I wish you fruitful deliberations, and I declare the workshop open.

FOR GOD AND MY COUNTRY

Local Government leaders - Eastern region

BUDGET

Local Government leaders list Service Delivery Constraints, call for urgent intervention

Local Government leaders have listed service delivery constraints such as low local revenues, corruption, delays in release of funds and absenteeism of civil servants among others, calling for urgent intervention from the Centre.

They said this during the FY 2022/23 LG budget consultative workshop at Ridar Hotel in Seeta on September 27th 2021.

"Of course we have challenges, some Local Government revenues are still very low, some don't actually; so when we are budgeting, the Centre must know that resources expected from local revenue are almost not there," said Fred Bamwine, the Nakaseke Resident District Commissioner.

According to him, Central Government funding to Local Governments should be increased.

'Institute harsh punishments to corrupt, lazy civil servants'

Bamwine said the Government should be tough on people who waste public resources such that corruption is a risky venture.

"As far as I am concerned, we need to have those laws which are harsh such that implementers of Government programs know that it's not business as usual so that we transform our people through better service delivery," he stated.

Late release of finances

Stephen Asiimwe, the Masaka Resident City Commissioner said the issue of return of unspent funds to consolidated funds is brought about by late release of money by the central government, which affects local governments' budget plans.

"There's a problem of late release of funds, but also local governments have a challenge of absenteeism by critical district staff members such as district engineers. We have always seen this issue, I am just wondering what the finance ministry is doing over it," he stated.

Adrian Ddungu the LC5 chairman Buvuma said, in addition to late release of funds, there's a challenge of meagre local revenues collected. He said the district, being an island, depends on fishing, but boat licensing and collection of other levies has been taken over by the agriculture ministry.

"Initially, we used to get money from boat licensing, levies from fish dealers but this time around, the ministry of agriculture has centralised all that money from those people. We are not benefiting from the levies, the ministry should remit our percentage," he stated.

He said the Government should increase funding to Buvuma so that they can offer better services to the people. He added that the island district right now has three sub-counties without health center IIIs, and public schools.

'Address persistent audit queries'

During the consultations, Civil Society Organisations expressed concern about the persistent audit queries on some districts, calling for sanctions on people involved.

Viola Musiimenta the director of programmes at African Centre for Trade and Development (ACTADE) said Nakaseke district received sh223m for COVID-19 interventions and sh223 million was utilized, whereas sh37.6M was used at source contrary to the law.

She noted that Buvuma district has issues with low compliance with repayments Schedules for Youth Livelihood (YLP) as sh364m is not yet repaid. According to her, sh114m under Uganda Women Entrepreneurship Programme (UWEP) is yet to be repaid.

Parish Development Model applauded

Florence Namayanja, the Masaka City Mayor said the newly introduced Parish Development Model (PDM), once well implemented will be pivotal in the socio-economic transformation of Ugandans. However, she said government should not rush the implementation.

"...but don't hurry to implement some activities under PDM, first invest in data. How have you built the capacity of the parish chiefs," she said.

At Masaka during the LG budget consultations presided over by Permanent Secretary/Secretary to the Treasury, Ramathan Ggoobi, Chief administrative officers in the central region said they were still in the process of recruiting the parish chiefs apart from the districts of Lwengo and Mubende which had completed the recruitment exercise.

However, the Lwengo District Chairperson, Ibrahim Kitatta asked government to take action against some civil servants who are bent on frustrating government programmes.

In Northern Uganda, Local Government leaders were eager to implement the Parish Development Model. Their concerns however were funds appropriated under central government votes to do work in local governments such as the Road Fund, DRDIP and UWEP. They want those funds to be appropriated directly to the respective local governments.

At the budget consultative workshop in Mbarara, Bushenyi District education officer, Saul Rwampororo asked government to address the plight of teachers in private schools who have not earned a salary since the schools were closed during the first wave of COVID-19.

Rubirizi district education officer Biru Warufu asked government to provide more funds for construction of more classrooms and recruitment of more teachers.

Local Government leaders irked by unfunded administrative units

District leaders also expressed concern about the continued failure by Gov't to fund the newly created administrative units, saying it's affecting service delivery. They urged the Gov't to consider putting a halt to new creations.

"The key issue that I would like to point out regarding the service delivery is the lower local governments that have existed for a long time; for over three years and have not been funded. The entities are there and they have largely been abandoned by even their mother entities," said Moses Bukenya, the Chief Administrative Officer Sironko District.

According to him, these entities have elected leaders such as LC3 chairpersons and councillors who have not been given money in form of honorarium and ex gratia. Money hasn't been released from the Finance Ministry to have them remunerated.

"In my district, I have 42 lower local governments and out of that, 10 are town councils. Of the 10 town councils, only two are funded; others remain unfunded. We also have 13 sub-counties in Sironko which remain funded," said Bukenya.

The Acting Busia District Education Officer Harriet Mwesigwa said; "I want to thank the Government for the support through sending funds to us. My concern is on the UgIFT project in our district especially for the phase 2, the procurement process had started and has reached evaluation.

Thereafter, we got the Presidential pronouncement of giving construction to the army brigade, we are afraid that up to now, 4th quarter money for last FY went back to Consolidated Fund because there were no activities."

Mwesigwa said the district also received quarter one funds for FY 2021/22 under UgIFT but there's no construction going on. She requested that construction should start.

"The other issue for me is about the need to increase grants for Government funded schools to fit in the new normal. There are many things that are needed to implement operating procedures under this COVID 19 pandemic. Looking at what is required, we need new grants to operate," she stated.

"And they normally say that our role as RDCs is to ensure that we close any gaps in service delivery but there's low facilitation."

Wibule also pointed out the issue of landslides in Sironko. According to her, landslides have washed away roads, making transport in the district hard. On creation of administrative units, she wondered why the government creates them when it's not ready in terms of funding.

The Budget Policy Specialist at CSBAG, Ronald Mugobera explained that the Government should always conduct a thorough financial implication before creating new administrative units.

"I understand that every bill that is brought in Parliament is accompanied by a certificate of financial implication. Now the question would be, if we have done a due diligence of understanding the financial implication of these units, how effectively do we adhere to them?

Mugobera added that there should be a level beyond which creation of new administrative units becomes counterproductive because most funds go to recurrent expenditure as opposed to service delivery in the form of development.

ESAAMLG

Uganda hands over Presidency

of Regional Anti-Money laundering group to Zambia as Minister Kasaija lists top achievements

By MOFPED COMMS TEAM

Uganda, on September 7th, 2021 handed over the Presidency of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) to Zambia during the 21st Council of Ministers virtual meeting.

Finance Minister Matia Kasaija has been the President of the Council since December 2020, after taking over Presidency of the Kingdom of Eswatini. The main objective of Uganda's presidency was to ensure that ESAAMLG continues to be an active and effective member of the Financial Action Task Force global network for combating money laundering and financing of terrorism.

According to Kasaija, there has been several achievements during Uganda's Presidency of the ESAAMLG and they include, finalization and adoption of mutual evaluation reports of Tanzania, Mozambique and South Africa, Standards E-Training Course for the ESAAMLG Region, continued review of progress made by countries among others.

ESAAMLG is a Regional Body that adheres to global standards on combatting money laundering and terrorism financing. Established in 1999, it currently has 18 Member Countries across Africa and includes several regional and international observers, such as AUSTRAC, FATF, and IMF. The UK and the U.S. also cooperate with and support the nations of the organization.

Kasaija also lauded the Financial Action Task Force (FATF) for the continued cooperation and support extended to ESAAMLG over the years. According to him, this support has enriched the organization as well as our member countries in developing Anti Money Laundering, Combating Financing of Terrorism and Proliferation systems that meet international standards.

"It is our hope that this cooperation will continue into the future. Members of the ESAAMLG Task Force of Senior Officials have been meeting since 26th August to prepare for this meeting. The Task Force has prepared a comprehensive Report with recommendations that will assist us to take decisions on a range of issues in the agenda before us," he said.

'Mutual Evaluations of Eswatini and Namibia going on'

The Mutual Evaluations (MEs) of Eswatini and Namibia are ongoing and that of Kenya commenced during the Uganda Presidency. According to Kasaija, Pre-Assessment – Training Workshop for Kenya was held in March 2021 to prepare the country for its assessment.

He also informed the Council of Ministers that Eritrea is expected to join ESAAMLG as a member during our meeting following a successful High Level Mission undertaken in June 2021.

"The Task Force adopted the post evaluation Follow Up Reports (FURs) with TC Re-ratings of Botswana, Ethiopia, Madagascar, Mauritius, Seychelles, Uganda and Zimbabwe."

Good progress in interpretation of money laundering work

The Finance Minister also said the ESAAMLG Secretariat and the Task Force have made good progress in typologies of Money Laundering work.

"The FATF's global typologies study on Illegal Wildlife Trade and Money Laundering (IWT/ML) was completed and a Plan to Implement the Recommendations of the Report by ESAAMLG Countries was approved."

'Compliance to FATF recommendations remains a challenge'

Kasaija said major challenge affecting ESAAMLG is ensuring that countries remain fully compliant with the FATF Standards. According to him, previous assessments focused on technical compliance with the FATF Standards.

"As you all know, in February 2013, the FATF adopted a new Methodology which still includes the assessment of technical compliance, but it goes a step further and focuses as well on assessing the effectiveness of the systems we have put in place to combat Money Laundering and the financing of terrorism and proliferation."

He added: "So far 11 of our member countries have been assessed under Second Round of Mutual Evaluations with a schedule to complete the Second Round of Mutual Evaluations by 2024. When we include the Assessment of South Africa adopted by the FATF in June and which we will also approve at our meeting the total number of assessed countries under the second round would be twelve."

> "I encourage member states to continue in the fight against money laundering and financial terrorism," he said while handing over Presidency

Finance Minister Kasaija (C) after the Virtual meeting

DOMESTIC ARREARS

GOV'T STRATEGY TO CLEAR AND PREVENT DOMESTIC ARREARS

Background

Over the years, the accumulation of expenditure arrears has become a persistent problem in Uganda. In the past several interventions have been implemented. However, the amount of arrears has continued to increase almost eight times since FY 2006/2007. This is an untenable situation which has serious financial consequences. Nevertheless, this is an issue that can be controlled and prevented by addressing the underlying causes.

There are multiple definitions of what an arrear is. For purposes of this strategy, arrears are defined as financial obligations of the Government of Uganda (GOU) that remain unpaid beyond the fiscal year in which they were incurred and due.

Arrears can arise in many categories of public expenditure including compensation of employees, purchases of goods and services, court awards, development/ capital projects. Generally, the main causes of accumulation of arrears are failure to comply with existing regulations or policies and lack of proper control in the public finance management systems.

Arrears are a form of debt and pose a serious risk to the financial management, sustainability, and reputation of the country.

Economic Impact of Arrears Accumulation

The creation and accumulation of arrears reflects serious fiscal management issues such as weaknesses in the internal control environment, Public Finance Management (PFM), and management inefficiency.

The continuous creation of arrears jeopardizes the overall credibility of the budget, the country's financial reputation, and perpetuates the perception of an inadequate system of governance.

Arrear accumulation can disguise the true size of the government's deficit, significantly reduce the impact of fiscal policy, and potentially undermine macroeconomic stability. They also translate into:

a) Reduced economic activity. Businesses and suppliers may become hesitant to do business with the government because of delayed payments and liquidity constraints that put them at risk of failure or closure.

i) Specific impact to small and medium sized businesses which do not have the funds to operate without timely government payment for services rendered.

b) Reduced confidence in GOU's fiscal policies. Arrears are a signal to investors the government may not be managing its obligations properly and the true extent of the liability may be disguised.

c) Higher costs to GOU. More expensive government operations due to interest and penalties on outstanding payments. Suppliers are inclined to bid higher to mitigate against risks of delayed payments, resulting in higher costs to GOU.

d) Secondary implications. Suppliers may withhold payment of taxes and deductions until payment from the government is received.

e) Negative impact on livelihoods. The welfare of pensioners and existing employees to whom emoluments are owed.

f) Budget implementation. Increases challenges in budget planning and execution because some arrears maybe off-budget and may not meet the GOU priority areas.

g) Reputational risk. Perpetuates the impression with investors, creditors, and donors that GOU is not well managed and does not honor its obligations. It may lead investors to increase borrowing costs and donors to decrease contributions due to the potential of mismanagement of funds.

The accumulation of expenditure arrears is a persistent problem the Government has been trying to solve. Several assessments have been done over the years and solutions implemented accordingly. Previous attempts to curtail the arrears accumulation met with varying degrees of success. With the publication of this document, resolution efforts will focus on the enforcement of the strategy.

Even though, GOU has made annual budget provisions to pay arrears, the stock continues to rise. In fact, arrears in FY 2019/2020 were eight times higher than in FY 2006/2007 which represents an increase of almost 700 percent or sh3.6Trillion. The problem of arrears impacts the implementation of the budget which results in the potential delay of planned services to the public. It also disguises the true level of the liabilities the government has to resolve.

The escalation in the arrears stock signifies the lack of fiscal discipline, poor financial management and leadership, and weak system controls. Discussions of solving the problem of arrears has been going on for more than a decade. However, until the underlying issues of financial management, budget planning, and leadership are addressed, the problem will persist.

A robust framework for reporting and preventing arrears must be implemented. Solving the issue involves implementing several remedies and it will require the discipline to live within the means of a realistic revenue forecast. A clearance strategy needs to be implemented after the analysis and validation of the stock of arrears is done.

The strategies contained in this framework, provide multi-level interventions ranging from legislative changes to the development of reporting and tracking solutions. A two-pronged arrears strategy is being implemented. One prong focuses on the phased clearance of the existing stock of arrears in the medium term. The second prong focuses on management control measures to stop the accumulation of new arrears.

While it is recognized the issue of the arrears can be remediated by providing funds to clear them,the underlying gaps in the PFM process that allow them to be created need to be addressed inline with this strategy.

Government measures to address domestic arrears

The GOU has implemented several measures to tackle the problem of arrears following several assessments completed over the years. Arrears became a problem in the late 1990s, which led to the implementation of a commitment control system (CCS) to monitor and control the growth of arrears.

Initially the CCS was quite effective in controlling commitments and new arrears

Training of new PS's and Accounting Officers on PFMA (2015) at Sheraton Hotel, Kampala

up until the mid-2000s, when the problem resurfaced. A study conducted by the International Monetary Fund (IMF) in 2017 indicated the level of expenditure arrears to be around 1.5 percent of Gross Domestic Product (GDP) at the end ofJune 2015.

It also pointed out that despite the clearance of known arrears in 2014/2015, the domestic arrears stock had increased and was larger than previously thought. The evaluation concluded that current weaknesses in the PFM cycle contributed to the persistent accumulation of arrears. These included: lack of budget realism, ineffective expenditure planning and controls, and lack of regular and comprehensive reporting of arrears.

As stated in PFM Reform Strategy, "Improved commitment controls are needed to prevent further accumulation of arrears, information technology systems need to be secure, integrated and monitored to protect data integrity and mitigate fiduciary risk, with internal audit providing internal assurance".

Additionally the 2016 Public Expenditure and Financial Accountability assessment (PEFA) states, "The current compliance-based approach does not support continuous improvement in the control environment. There is weakness in commitment controls and associated compliance with rules and procedures." If the control factors are not addressed, expenditure arrears will likely continue to occur.

Below are highlights of the specific measures that will be implemented:

• The stock of arrears will be compiled, and a baseline of valid arrears will be established.

• Once the stock of arrears has been finalized, Accounting Officers who subsequently accumulate arrears will be subject to sanctions allowable by Sections 79 and 80 of the PFMA, 2015 (as applicable) and subject to termination or not be reappointed.

• Establishment of a Database
• Establishment of a Payment Plan
• Establishment of an Oversight Team
• Enforce Accountability
• Ensure Budget Realism
• Improve Financial System Control
• Improve Organizational Budget Planning

The clearance of validated arrears will target the most overdue arrears first for payment. Only the validated arrears from the E&Y 2019 report, the Internal Auditor General, and the Accountant General are eligible for payment.

Once the stock has been verified, resources will be allocated over a pre-determined time period to clear all the arrears. Penalties and sanctions will be applied to those who continue to create arrears following the finalization of the validated arrears stock.

The first in, first out philosophy will be used to make payment in each category. However, within each category, small businesses and suppliers and high interest earning arrears will be given priority for payment. The prioritization for clearance of arrears will take into consideration the following factors:

• Payroll related
• Taxes and deductions
• Classified
• Critical directives
• Small and medium sized businesses and suppliers
• High interest related arrears
• Compensation and other related arrears
• Counterpart funding
• Utilities and rent

It is recognized that good fiscal management and budget planning will prevent arrears from being created. Improving fiscal transparency provides greater understanding of the financial position and the exposure to fiscal risks.

The accumulation of arrears is unacceptable.

Arrears can be prevented from being accumulated. Each Accounting Officer is responsible for their own budget and accurate record keeping. Thus, managing the Vote's expenditure within the appropriated budget is a direct reflection on an Accounting Officer's performance.

Legal Implications of domestic arrears

The law explicitly prohibits the accumulation of domestic arrears: According to the Public Finance Management Act, 2015 (PFMA), Section 21(2):There are several other provisions of the PFMA, 2015 that can be applied to address this issue, including sanctions and penalties.

While funds have been provided to clear arrears, the level of arrears continue to increase. As such, resolving this perennial issue, will take more stringent measures such as applying sanctions and penalties on individuals who continue to create arrears.

Multi-Year Commitments

The failure to operate within the approved expenditure levels is evident in the over commitments made in multi-year contracts or projects. To resolve this issue, multi-year commitments should be considered in the planning and budgeting of the resource envelope.

Once a contract is executed, it becomes an obligation of payment and should be included in revenue and expenditure forecasts.
In line with the PFMA, 2015, multi-year commitments must be approved by Parliament as stipulated below:

a) Section 23 assigns responsibility to the Vote not to enter a contract, transaction, or agreement that binds the Government to a financial commitment for more than one financial year or which results in a contingent liability, except where the financial commitment or contingent liability is authorized by Parliament.

b) Parliament authorizes multi-year commitments through the approval of the Annual Budget and Medium-Term Expenditure Framework (MTEF)

The need to finance unplanned expenditures within the fiscal year puts additional strain on financial resources. At times, institutional budget lines are suppressed to make room for the unplanned but critical expenditure. In cases such as these, the Accounting Officer is required to notify the PS/ST if there is a potential of creating arrears.

Local Governments and State-Owned Enterprises

Local Governments and state-owned enterprises are also not to accumulate arrears. Accordingly, it is required that bills be paid timely, and through comprehensive monitoring, reporting of liabilities is done.

Understanding the Stock of domestic arrears

Uganda has conducted various assessments on arrears. The most recent report released by Ernst & Young (E&Y) on the review of Uganda's arrears as at the end of June 2019 revealed failures in the system, including tracking and recording of arrears.

For example, the report indicated that out of shs 4 Trillion in arrears, the total amount of valid arrears was shs 2.3 Trillion, shs 710 billion was contestable, while shs 517 billion was rejected. Subsequently, the Internal Auditor General reviewed the arrears that remained contestable and expanded the scope to include arrears up to end June 2020. This review is still in progress, but preliminary findings indicate that the stock of arrears is continuing to grow.

From FY 2013/2014 to FY 2020/2021 the total amount provided to settle arrears was shs 2.077 Trillion. Additionally, for FY 2021/2022 shs 400 billion has been earmarked to address outstanding arrears.

Trend of Arrears

Arrears are eight times higher than it was in FY2006/2007. This increase reflects an astounding and undisciplined approach to financial management. In fact, from FY 2006/2007 to FY 2019/2020 arrears are estimated to have increased by 700 percent or shs 3.6 Trillion.

Training of new PS's and Accounting Officers on PFMA (2015) at Sheraton Hotel, Kampala

NATIONAL BUDGET CONFERENCE FY 2022/2023 PICTORIAL

NATIONAL BUDGET CONFERENCE FY 2022/2023 PICTORIAL

CFR

Cabinet approves Charter for Fiscal Responsibility FY 2021/22 – 2025/26

By MoFPED Communications Team

Cabinet on August 23rd 2021 approved the FY 2021/22-2025/26 Charter for Fiscal Responsibility which is now before Parliament, awaiting approval. The Charter for Fiscal Responsibility presents the Government's strategy for operating a fiscal policy which is consistent with sustainable fiscal balances over the medium term and the maintenance of prudent and sustainable levels of public debt.

The purpose of the Charter is to provide the Government's fiscal policy objectives in the next five years that will ensure sustainable delivery of Uganda's strategic goal of social economic transformation, resulting in increased household incomes and improved quality of life of Ugandans.

This Charter sets out Government's commitment in managing fiscal policy in accordance with clear and measurable objectives that are consistent with fiscal principles such as sufficiency in revenue mobilization to finance Government programmes, maintenance of prudent and sustainable levels of public debt, ensuring that the fiscal balance when calculated without petroleum revenues is maintained at a sustainable level over the medium term, management of revenues from petroleum resources, and management of fiscal risks in a prudent manner.

Other fiscal policies include consistency of the Medium Term Expenditure Framework with the National Development Plan and efficiency, effectiveness and value for money in expenditure.

The Charter takes into consideration the start of commercial production of oil in FY 2024/25, therefore the measurable fiscal objectives are mindful of the existence of petroleum revenues in the medium term fiscal framework.

MOFPED Top Management meeting

Fiscal policy objectives

To support the socio-economic transformation agenda while ensuring macro-economic stability and fiscal sustainability during the period of FY 2021/22 - FY 2025/26, the Government shall adopt the following measurable fiscal objectives.

Public debt

Total Public debt in Nominal terms to be reduced to below 50% of GDP by Financial Year 2025/26.

Public debt has been maintained at sustainable levels, despite a significant investment in infrastructure during the first and second National Development Plans. However, the advent of COVID-19 constrained tax measures and created additional expenditure pressures, leading to an increase in nominal public debt from 35.3% of GDP in 2018/19 to an estimated 49.9% by the end of FY 2020/21.

This ratio is projected to go slightly above the 50% threshold by the end of FY 2021/22 and to peak at 53.1% in FY 2022/23, before gradually reducing to below 50%.

Fiscal balance

The overall fiscal balance including grants should gradually adjust to a deficit not exceeding 3.0% of non-oil GDP by FY 2025/26. To achieve this, the Government will enhance revenue effort through closing loopholes in collection, as well as improve choice and timely implementation of public projects that will generate revenue and create jobs.

Petroleum Fund Transfers to the Budget and Petroleum Investment Reserve (PRIR)

A maximum of oil revenue worth 0.8% of the preceding year's estimated non-oil GDP outturn shall be transferred to the Consolidated Fund for budget operations. The balance shall be transferred to the Petroleum Revenue Investment Reserve (PRIR) for investment in accordance with Public Finance Management Act (2015) as amended.

The third measurable fiscal objective is meant to ensure prudent management of revenues from petroleum resources by insulating the budget from volatile oil revenues that could cause harmful macroeconomic effects, and ensure that both current and future generations benefit from proceeds of the petroleum natural resource.

Economic and fiscal update

For the past two financial years, the COVID 19 pandemic has had a prolonged and adverse impact on the global, regional and Ugandan economies. The global and domestic response to the pandemic, weaker consumer confidence and uncertain business prospects combined to dampen economic activities.

As a result, the pace of economic activity slowed to the lowest level in more than 30 years. Weaker economic activity proved challenging for revenue mobilization and together with increasing fiscal spending pressures to mitigate effects of the pandemic resulted in increased fiscal deficit and consequently, in the public debt.

Despite these challenges, the economy has remained resilient and macro economic stability has been maintained.
Economic growth

During the first Charter period (FY 2016/17- FY 2020/21), economic growth averaged 4.4% which is lower than the 6-7% that had been projected mainly due to several unforeseen events and shocks. These included locust infestations, droughts, floods, and non-tariff trade barriers against Ugandan products within the region and more recently the COVID-19 pandemic which negatively affected economic activity.

In the FY 2020/21, easing of lockdown measures coupled with Government's intervention measures to mitigate against the impact of the pandemic on the economy supported a modest recovery in economic activity. The economy is estimated to have expanded by 3.3% which is both higher than 3.0% recorded during FY 2019/20 and also exceeded the projection of 3.1%.

The major drivers for economic growth in FY 2020/21 included the following:

a) Gradual recovery in private sector consumption and investment activity due to easing of lockdown measures and Government policy measures to support livelihoods and business activity through availing loanable funds at affordable rates.

b) Improved performance by the industry sector supported by a recovery in manufacturing, construction and mining. Under manufacturing, there was an increase in production of processed and preserved meat, manufactured tea, sugar and plastic

CFR

products while public construction activities supported growth in the construction sector. Overall, the industry sector expanded by 3.4% in FY 2020/21 compared to 3.3% in the previous year.

c) Agricultural sector performance was boosted by favorable weather conditions and the Government-led efforts to increase production and productivity. This was achieved through focusing on improving the quality of inputs and post-harvest handling, provision of extension services, and irrigation equipment among others. During the year, the sector grew by 3.5% and its share to the national output increased to 23.7%.

d) The performance of the services sector was supported by real estate activities, health services, financial services, information and communications, and public administration. Output from the sector increased by 2.5% and its total share in national output was the largest at 41.5%.

Annual inflation

During FY 2020/21, annual headline inflation averaged at 2.5%, which was a slight increase from 2.3% the year before and is attributed to the higher prices of non-food related goods and services, as food prices remained subdued. Core inflation averaged at 3.5% during the year, having increased from 2.3% in FY 2019/20. The increase was as a result of increase in the cost of inputs and services like transportation due to pandemic related containment measures.

On the other hand, both food crops and related items inflation such as energy, fuels and utilities (EFU) inflation declined to averages of minus 4.2% and minus 0.9% in FY 2020/21 from 3.9% and 1.5% in FY 2019/20 respectively.

Financial Sector

Exchange rate

In the foreign exchange market, the shilling strengthened against major trading currencies for most of FY 2020/21. The shilling traded at an average midrate of Shs3,661.06 / US dollar in FY 2020/21 which translates to a 1.4% appreciation when compared to the average midrate of Shs3, 714.60/US dollar in FY 2019/20.

Interest Rates

In a bid to bolster economic recovery, Bank of Uganda eased monetary conditions by maintaining Central Bank Rate (CBR) at 7.0% for most of the year and reduced it further to 6.5% in June 2021.

Inspite of the low CBR, commercial bank lending rates for shilling denominated loans reduced only slightly from a weighted average of 19.26% in the FY 2019/20 to an average of 18.97% in FY 2020/21.

Private Sector Credit

The stock of outstanding private sector credit amounted to shs18,187.86 billion at the end of FY 2020/21, representing a 7.1% annual growth. This is a considerable slowdown when compared to the average annual growth rates of 12.6% for the two previous years. The slowdown reflects subdued economic activity and an increase in risk aversion in commercial banks due to uncertainties associated with impact of COVID-19 pandemic on the economy.

External sector

International trade activities improved during FY 2020/21 as global supply disruptions caused by the pandemic dissipated. The improving domestic economic conditions during the financial year also resulted into improvement in private consumption and demand, which contributed to higher demand for imports while rising production partly led to an increase in exports.
The trade deficit widened by 27.6% to US$3,083.31 million in FY 2020/21 from US$2,417.24 million recorded in FY 2019/20, as the import bill increased faster than export earnings.

Merchandise Exports

Export earnings increased by US$1,459.32 million from US$3,799.80 million in FY 2019/20 to US$5,259.12 million in FY 2020/21. Of this, more than 70% is attributed to exportation of mineral products. Mineral products were Uganda's main export items in the financial year.

Merchandise imports

Just like export earnings, the import bill increased during FY 2020/21. The import value of the country increased by 34.2% from US$6,217.04 million in FY 2019/20 to US$8,342.44 million in FY 2020/21. The increase in imports was partly attributed to the easing of restrictions that were put in place to contain the spread of COVID 19 in the fourth quarter of FY 2019/20.

Import categories that performed strongly included Gov't project imports; base materials and their products, machinery equipment, mineral products, vehicles and accessories, chemical related products, vegetable products, animal, beverages, fats and oils.

Fiscal performance in FY 2020/21

Government operations in FY 2020/21, the last year of implementing the first Charter resulted in an overall budget deficit estimate of Shs13,412.1 billion against a planned deficit of Shs13,033.5 billion (8.6% of GDP). The higher deficit was mainly due to revenue and grants shortfalls amounting to Shs 2,523.1 billion as well as the supplementary expenditures required to mitigate against health and economic challenges posed by COVID-19 pandemic.

Revenue

Domestic revenue for FY 2020/21 was projected to amount to shs21,809.7 billion in the appropriated budget. Out of this, tax collections would be Shs20,218.7 billion while Non-Tax Revenue would be Shs1,591.0 billion. As at end of June 2021, cumulative collections amounted to Shs19,739.3 billion which amounted to a shortfall of Shs2,070.4 billion or 9.5% against the target.

Expenditure

Government expenditure (excluding domestic debt refinancing and external debt amortization) amounted to Shs34,418.6 billion which was 5.9% lower than the planned spending of Shs36,563.1 billion.
This was largely attributed to the lower planned spending on externally financed development activities which performed at 61.5%.

Overall Fiscal Deficit and Financing

The overall deficit for FY 2020/21 was Shs 13,412.1 billion which was financed through borrowing from both the domestic financial market and External Development Partners. A total of Shs.7,441.7 billion was disbursed from external sources out of which Shs 3,322.2 billion was in form of general budget support.

Economic Outlook

Frequent indicators of economic activity like the Purchaser Manager's Index show decline in economic activity, as the survey indicated declines in output, new orders and employment occasioned by the Covid-19 related restrictions.

The weak pace of economic activity in July 2021 is expected to affect real GDP growth for the first quarter of FY 2021/22. However, given Government interventions through the capitalization of the SME recovery fund, boosting the Emyooga funds and the on-going vaccination efforts, the impact on the overall GDP is expected to be less severe. The economy remains on course to achieve a growth rate of between 3.5% to 4.0% during FY 2021/22.

Over the medium term, the economy is projected to grow by at least 7% supported by recovery in consumption and investment demand, increased oil related activities, industry and agriculture productivity and increased regional trade.

The biggest risk facing the outlook on economic growth is the possibility of new waves and variants of Covid-19 which would again necessitate adoption of containment measures (lockdown), thereby slowing down the projected economic recovery.

Inflationary pressures are expected to remain benign in the short term owing to the existence of spare capacity in the economy. In the medium term, as demand continues to recover following the opening of up of the economy, inflation is expected to rise gradually but stabilize around the 5%

Bank of Uganda policy target.

In the Financial sector, growth of non-performing loans is expected to decline as the economy recovers and this will lead to growth in the stock of private sector credit, as lending institutions will lend to recovering and new businesses.

The next five years under the second charter for Fiscal Responsibility will focus on increasing efficiency and effectiveness in public spending to deliver goods and services to the people, help businesses to recover and foster socio-economic transformation.

Total Public debt in Nominal terms to be reduced to below 50% of GDP by Financial Year 2025/26

Revenue Performance For Financial Year 2020/21

By Susan Nakagolo

Over the past decade, nominal revenues have been growing at an average of 14.8% per annum, growing from Shs 5,954.12 billion in FY 2011/12 to Shs 19,598.31 billion in FY 2020/21. In terms of revenue to GDP ratio, Uganda's revenue effort has risen from 10.1% in FY 2011/12 to 13 % in FY 2020/21, which is below the National Development Plan III (NDP III) objective of revenue to GDP ratio of 17% by the end of FY 2024/25.

Uganda's taxation system

The structure of Uganda's tax system has been changing over the last decade. The share of domestic taxes has increased from 49% of total revenues in FY 2011/12 to 56.1% in FY 2020/21 while the share of international trade taxes to total revenue has reduced from 48.7% in FY 2011/12 to 37.6% FY 2020/21. The share of NTR to total revenues has averaged at 4% over the same period.

During FY 2020/21, domestic taxes contributed 56.1% to total revenues while taxes on international trade and NTR contributed 37.6% and 6.3% respectively to total revenues. This is an indication of Government's deliberate effort to enhance its domestic revenue capacity while at the same time gradually reducing the reliance on international trade taxes.

Revenue target for FY 2020/21

The approved revenue projection for FY 2020/21 was Shs 21,723.89 billion, of which tax was Shs 20,218.68 billion and NTR of Shs 1,505.21 billion. This projection was based on the following assumptions.

i. The base – which was the projected revenue outturn for FY 2019/20 of Shs. 17,285.86 billion;

ii. The base of Shs. 17,285.86 billion was subjected to a revenue forecasting model to derive revenue gains on account of macroeconomic assumptions (buoyancy). The revenue gains on account of buoyancy amounted to Shs 3,669.92 billion.

iii. The proposed tax policy and administrative measures for FY 2020/21 of Shs. 854.88 billion.

This projection was derived prior to the outbreak of the Covid-19 pandemic, in December 2019. With the advent of Covid-19 pandemic, it was necessary to adjust the revenue projection to reflect the estimated impact of the pandemic on the economy and on revenue.

In that regard, the revenue projection for FY 2020/21 was revised downwards to Shs 19,302.86 billion, of which tax was Shs 17,819.29 billion and NTR of Shs 1,483.58 billion. Net revenue collections for the period July 2020 to June 2021 amounted to Shs. 19,598.31 billion against the approved projection of Shs. 21,810.66 billion registering a shortfall of Shs. 2,212.35 billion. Despite this shortfall, there was a year on year growth in revenues of 13.4% compared to FY 2019/20.

Major deficits were registered under PAYE (Shs. 315.51 billion), corporate income tax (Shs. 239.93 billion), rental income tax (Shs. 168.32 billion), excise duty on spirits/ Waragi (Shs. 118.25 billion), excise duty on beer (Shs. 107.64 billion), import duty (Shs. 171.74), VAT on imports (Shs. 107.76 billion) and infrastructure levy (Shs. 151.57 billion).Some surpluses were registered under excise on mobile money transfers (Shs. 35.11 billion), excise duty on mobile money withdraws (Shs. 29.59 billion) and VAT on cement (Shs. 87.22 billion).

This under performance is mainly attributed to low economic activity occasioned by the lockdown measures on account of COVID- 19 pandemic, the decision by Parliament to reject some revenue enhancement measures worth Shs. 356 billion and the delay in approval of the tax revenue measures such as; - the increase in excise duty on fuel (projected at Shs. 261.73 billion), withholding tax on insurance and advertising agents (Shs. 10 billion).

It should also be noted that there were delays in the implementation of tax administration reforms by URA. These include Electronic Fiscal Receipting and Invoicing System (EFRIS) – (Shs 187 billion) and Rental Income tax solution by RippleNami (Shs. 170 billion).

The above not withstanding, the performance of revenue for the period

Ag. Director Economic Affairs Moses Kaggwa

THE PROJECTED REVENUE FOR FY 2020/21 WAS Shs. 21,723.21 BILLION OF WHICH TAX WAS Shs.20,218.68 BILLION & NTR Shs. 1,505.21 BILLION

THE PROJECTED REVENUE IN FY2020/21 WAS REVISED DOWNWARDS TO Shs.19,302.86 BILLION OF WHICH Shs.17,819.29 BILLION & NTR OF Shs. 1,483.58 BILLION

COMPARED TO THE REVISED PROJECTION OF Shs.19,302.86 BILLION NET COLLECTION FOR THE PERIOD JULY 2020 TO JUNE 2021 REGISTERED A SURPLUS OF Shs. 295.45 BILLION

AVERAGE ANNUAL GROWTH IN INCOME TAXES WAS 14.2% FOR FY2016/17 TO FY2018/19

THIS GROWTH DECLINED TO 6.7% IN FY2019/20 ON ACCOUNT OF THE PANDEMIC

BUT HAS GROWN BY 12.6% IN FY 2020/21

July 2020 to June 2021 is an indication the economy remained resilient despite the Covid-19 pandemic and its negative impact on the economy.

Compared to the revised projection of Shs 19,302.86 billion, net revenue collections for the period July 2020 to June 2021 registered a surplus of Shs 295.45 billion.The resilience of the economy influenced revenue performance positively by posting a growth of 13.4% in FY 2020/21 compared to the growth of 1.2% registered in FY 2019/20. The gross underperformance of revenue in FY 2019/20 was on account of the outbreak of the coronavirus pandemic and the subsequent lockdown measures aimed at curbing its spread.

It observed that whereas NTR have been growing at an average rate of 25% per annum, for FY 2020/21, they declined by 8.2%. This under performance was on account of closure of tertiary education institutions (which generate substantial revenues from student tuition fees), lower than anticipated collections from the tourism sector (due to closure of the borders and hence low tourists' visits) and closure of offices which issue regulatory permits such as drivers permits, passports and trading licenses.

PERFORMANCE FOR THE DIFFERENT TAX HEADS DURING FY 2020/21

Income Taxes

The tax base for income tax in Uganda is broad, covering income from personal employment, including all wages, salaries, bonuses, and allowances, business income, and property income.Income tax collections amounted to Shs. 6,619.40 billion against the projection of Shs 7,494.07 billion registering a deficit of Shs. 874.67 billion. Despite the deficit,there was a growth of 12.6% compared to FY 2019/20, which is above the average growth for the past FYs of 12.3%.

The average annual growth in income taxes was 14.2% for the period FY 2016/17 to FY 2018/19. This growth declined drastically to 6.7% in FY 2019/20 on account of the pandemic, but has grown by 12.6% in FY 2020/21. Major shortfalls were registered in PAYE (Shs. 315.51 billion), CIT (Shs. 239.93 billion), rental income tax (Shs.168.32 billion), withholding tax (Shs.131.42 billion) and WHT on Treasury Bills (Shs.24.62 billion).

Performance of income taxes is because:

i. The deficit of Shs 315.51 billion in PAYE is attributed to:

Private sector: collections amounted to Shs 2,139.57 billion against a target of Shs 2,437.04 billion registering a deficit of Shs 297.46 billion. This reflects a growth of 1.9% compared to last FY which is below the average growth of 11.3% for the last 4 Financial Years. The performance of PAYE from the private sector is mainly on account of the impact of Covid-19 pushed some companies, like Banks into downsizing on their staff and full automating some of their branches.

Public sector collections amounted to Shs 969.57 billion against a target of Shs 987.62 billion registering a deficit of Shs 18.05 billion.

SERVICE SECTOR COLLECTIONS AMOUNTED TO Shs. 988.45 BILLION AGAINST A TARGET OF Shs.805.67 BILLION REGISTERING A SURPLUS OF Shs.182.78 BILLION

COLLECTIONS FOR FY 2020/21 AMOUNTED TO Shs. 2,992.92 BILLION AGAINST A PROJECTION OF Shs.3,293.62 BILLION REGISTERING A DEFICIT OF Shs.300.70 BILLION

REVENUE

This represents a growth of 3.2% compared to FY 2019/20 which is below the average growth of 5% for the last 4 Financial Years. There was a deficit in Corporate Income Tax of Shs 239.93 billion due to companies scaling down on operations due to COVID-19 pandemic. Despite the shortfall, there was a growth of 20.4% in revenue compared to the same period FY 2019/20.

Service sector collections amounted to Shs 988.45 billion against a target of Shs 805.67 billion registering a surplus of Shs 182.78 billion. This reflects a growth of 52% compared to FY 2019/20. This was attributed to growth in the transport and communication sector;industry collections amounted to Shs 539.62 billion against a target of Shs 631.72billion registering a deficit of Shs 92.10 billion. This represents a growth of 52% compared to last FY.

The mining and quarrying sector contribute to the good performance with a growth of over 2000% compared to last FY; Agriculture and forestry: collections amounted to Shs 13.63 billion against a target of Shs 31.06 billion registering a deficit of Shs 17.42 billion whereas other CIT amounted to Shs 25.94 billion against a target of Shs 339.13 billion registering a shortfall of Shs 313.19 billion.

Consumption Taxes

These are taxes levied on the consumption of goods and services. These are Value Added Tax (VAT) and Excise Duty. Collections amounted to Shs 4,472.90 billion against the projection of Shs 5,028.62 billion, registering a deficit of Shs 555.72 billion. Despite the deficit, there was growth of 15.4% compared to FY 2019/20. Thisgrowth is above the average growth of 12.7% for the last 4 Financial Years.The growth for the period FY 2016/17 to FY 2018/19 was on average 16.6% per annum. This declined to 0.1% in FY 2019/20 but recovered by 15.4% in FY 2020/21.

Value Added Tax

Collections for FY 2020/21 amounted to Shs 2,992.92 billion against a projection of Shs 3,293.62 billion registering a deficit of Shs 300.70 billion. Despite the deficit,there was growth in collections of 14.7% compared to FY 2019/20. This growth is above the average growth of 11.1% for the past four Financial Years, which is an indicator of robust aggregate demand in the economy.

Performance of VAT is attributed to:

i. Hotels and restaurants; the sector continues to be affected by the Covid-19 travel related restrictions. The sector is mainly dependent on hotel occupancy by tourists, as well as residential conferences by Government and other Non-Governmental and private organizations. All these were halted to curb the spread of corona virus hence a deficit of Shs 82.88 billion; and

ii. Delays in the implementation of Electronic Fiscal Receipting and Invoicing System (EFRIS), which negatively affected the performance of VAT by approximately Shs. 168 billion.

Local Excise Duty

Excise duty collections amounted to Shs. 1,479.98 billion against a target of Shs. 1,735 billion, hence a deficit of Shs. 255.02 billion. Despite the shortfall, there was growth in revenues of 16.9% compared to FY 2019/20.

The performance of Local Excise Duty is attributed to:

i. The surpluses of Shs 29.59 billion and Shs 35.11 billion on levy on mobile money withdrawals and excise duty on mobile money transfers respectively is on account of increase in the number and value of mobile money transactions;

ii. The surplus of Shs 20.30 billion on excise duty on phone talk time was on account of a one off payment after an out of court settlement with MTN Uganda Limited of Shs 18.22 billion;

iii. The decision of Parliament to reject modest increases on excise duty on beer, spirits and soft drinks meant to generate revenue to support the implementation of the digital tax stamps; and

iv. It was also observed that apart from sugar, all the excise items registered growth in production and sales volumes. This further affirms the robust aggregate demand in the economy.

International Trade Taxes (Customs Duties)

For FY 2020/21, trade taxes collections amounted to Shs 7,505.86 billion against a target of Shs 8,001.35 billion registering a shortfall of Shs 495.48 billion. Despite the shortfall, there was growth of 16.4% compared to FY 2019/20, which is above the average growth of 7.1% of the last 4 FYs. Surpluses were registered in excise duty on fuels (Shs 18.42 billion) and surcharge on used imports (Shs. 17.44 billion) while major deficits were registered under VAT on imports (Shs 107.76 billion), import duty (Shs 171.74 billion) and excise duty (Shs 39.74 billion).

The performance of trade taxes is attributed to;

i. There was a delay in the implementation of the increase in excise duty UGX 100 per litre, leading to a revenue loss of Shs 84 billion. Despite the loss, excise duty on fuels registered a surplus of Shs 18.42 billion on account of the growth in volumes on diesel by 7.7% and petrol by 15.9%.

ii. There was also growth of 16.1% in revenues from Import Duty on account of: growth of 19.5% (7,091) in the number of personal cars imported which led to a growth of 30% in revenue collected on cars compared to FY 2019/20; growth of 57.1% in revenue collected on electrical machinery and equipment compared to FY 2019/20; and a growth of 34.6% in revenue collected on iron and steel compared to FY 2019/20.

Imports from the East African Community (EAC)

Uganda's imports from the EAC countries during the FY 2020/21 grew by 65.58 % (Shs 3,006.26 billion). This is attributed by the increase in imports from Tanzania by 165.79 %, Kenya by 12.26 % and Burundi by 32.16 % mainly contributed by the import of high valued processed gold from the three countries of Tanzania, Kenya and Burundi. Other products that were significantly imported from the region were; rice, rolled iron/non alloy steel, Portland cement, malt extract, scrap and hides and skin.

Uganda's Imports from the Rest of the World

Uganda's imports from the rest of the world increased by 36.80% (Shs 9,049.66 billion) during the FY 2020/21. The increase in the absolute value of imports is attributed to the increase in the import of exempts/zero rated goods like medicaments, military weapons, motorized tanks and armoured vehicles and electrical apparatus among others.

Uganda's Re-exports

Uganda's re-exports to the rest of the world during FY 2020/21 increased by 7.5% (Shs 84.61 billion) from Shs 1,128.31 billion in FY 2019/20 to Shs 1,212.92 billion in FY 2020/21. Increase in re-exports were registered in re-exports to DRC by 7.52 %, Ethiopia by 824.54 % and UAE by 187.54 % while the re-exports to South Sudan andKenya reduced by 2.98 %.

The top items that registered significant increase in re-exports were; motor cycles, bulldozers, malt beer, goods motor vehicle and malt extract among others.

UGANDA'S IMPORTS FROM EAC COUNTRIES DURING FY 2020/21 GREW BY 65.58% (Shs. 3,006.26 BILLION)

UGANDA'S IMPORTS FROM THE REST OF THE WORLD INCREASED BY 36.80% (Shs. 9,049.66 BILLION) DURING THE FY 2020/21

Non Tax Revenues (NTR)

NTR is revenue collected from charges, fees and dividends. Such charges and fees include passport fees, license fees, driving permit fees, mining and royalty fees, migration fees and company registration fees among others.NTR collections amounted to Shs 1,261.53 billion against a target of Shs 1,590.98 billion registering a deficit of Shs 329.45 billion.

The performance of NTR in FY 2020/21 is attributed to:

i. Due to the COVID-19 pandemic and the SOPs put in place to curb the virus, the main contributors to NTR such as Ministry of Tourism, Public Universities which combine account for nearly 60% of NTR collected have been closed for the majority of the FY;

ii. Despite the shortfall, there were one off payments of Airtel and Tangerine NTO licenses in the month of December 2020 and April 2021 of Shs 237.45 billion and Shs 8.98 billion respectively.

Sectoral Revenue Performance during FY 2020/21

During the FY 2020/21, Wholesale and retail; repair of motor vehicles and motorcycles, Manufacturing, Information and communication, Financial and Insurance activities and Public administration and defence; compulsory social security were the top 5 sectors generating 75.65 % of the total revenue. This represents a slight growth in contribution by 2.68 per-cent compared to FY 2019/20, where they contributed 72.97 % of the annual revenue. Additionally, the revenue contribution by top five sectors grew by 75.02 %.

Wholesale and retail trade sector contributed 29.43 % (Shs 5,783.70 billion) to revenue in FY2020/21. The contribution increased by 1.08 % compared to the same period in 2019/20. The Manufacturing sector followed with a share of 22.70 % (Shs 4,461.29 billion) grew by 27.52 % and Information and Communication sector 10.48 % (Shs 2,059.83 billion) grew by 25.73 %, compared to the same period in FY2019/20. Like the past three years, the Wholesale and retail trade; repair of motor vehicles and motor-cycles" sector, had the biggest share of total revenue contribution with 29.43 % (Shs 5,783.70billion).

Of this, 31.24 %% (Shs 1,807.19 billion) came from the subsector of Wholesale of solid, liquid and gaseous fuels and related products with most revenue collected from Vivo Energy Uganda Limited (Shs 534.67 billion) followed by Total Uganda Limited (Shs 486.66 billion). 12.66 % (Shs 731.97 billion) of the revenue came from the sub-sectors retail sale of automotive fuel in specialized stores and 11.34 % (Shs 655.93 billion) from sale of motor vehicles.

Mining and quarrying sector had the highest proportionate growth during the end of FY 2020/21 of 174.83 % compared to last year. The growth in revenue is attributed to contributions by Tullow Uganda Operations PTY Limited payment of income tax worth Shs 54.65 billion resulting from capital gain on the sale of its interests (assets) to Total Uganda Limited worth 14.6 Million US dollars on 1st January 2020.

There was a decline in revenue collected from some sectors in the FY 2020/21, compared to 2019/20. Revenue from Accommodation and food service activities declined by 37.38 per-cent, education sector by 10.35 %, Arts entertainment and recreation by 31.39 %. The decline is attributed to slow down in business in these sectors resulting from COVID-19 pandemic impact.

REVENUE OUTLOOK FOR FINANCIAL YEAR 2021/22

Parliament approved UShs 22,425.37 billion as domestic revenue estimated for FY 2021/22. This is broken down as follows: -

i. Tax revenue of UShs 20,876.95 billion and;

ii. NTR (including Appropriation in Aid) of UShs 1, 548, 42 billion.

This further translates into a nominal growth of 16% compared to the projected outturn of FY 2020/21. This projection was approved before Government instituted another lockdown following the second wave of the Covid-19 pandemic.

Some of the assumptions underlying the revenue projection for FY 2021/22, include: -

i. The base – which is the projected revenue outturn of FY 2020/21 of Shs 19,302.86 billion.

It should be noted that the approved estimated revenue for FY 2020/21 was Shs 21,723.89 billion, of which tax was Shs 20,218.68 billion and NTR (including AIA) of Shs 1,505.21 billion.

The revenue estimate was derived prior to the outbreak of the Covid-19 pandemic, in December 2019. With the advent of Covid-19 pandemic, it was necessary to adjust the revenue projection to reflect the estimated impact of the pandemic on the economy and on revenue. There was also need to take into account the revenue enhancement measures that were dropped by Parliament.

In that regard, the revenue projection for FY 2020/21 was revised downwards by Shs 2,421.03 billion to Shs 19,302.86 billion, of which tax was Shs 17,819.29 billion andNTR of Shs 1,483.58 billion – which is the base for the FY 2021/22 projection.

The Writer is a Principal Economist in the Tax Policy Department. ■

TAX

Tax Policy Measures for FY 2021/22

	MEASURES	TAX HEAD	REVENUE IMPACT
A	**INCOME TAX**		
1	Reduce depreciation rates for automobiles (buses, mini-buses, specialized trucks, trailers and trailer mounted containers	Corporation tax	30.00
2	Discontinue concurrent deduction of initial allowances and depreciation in the first year of use of the qualifying asset	Corporation tax	20.00
3	Harmonise the tax regime for rental income derived by individuals and non-individuals with that of individuals with cap of 60% on expenses	Rental income tax	13.00
4	Capital Gains Tax - Provide for inflation indexing	Corporation tax	14.80
B	**EXCISE DUTY**		
5	Excise duty on Opaque beer - Reduce the excise duty on opaque beer to 30% or UShs.230 per litre whichever is higher. Also, introduce excise duty of 30% or Ushs.230 per litre whichever is higher on any other value alcoholic beverages (alcoholic kombuchas, mukama nayamba, kituzi, kazire, etc)	Excise duty on beer	5.00
6	Introduce excise duty of 60% or UGX 950 per litre whichever is higher on all other fermented beverages including cider, perry, mead, spears, near beer	Excise duty on beer	10.00
7	Replace excise duty of 120% or Ushs.10,000 per kg of plastic bags with an excise duty of 5% or USD 100 per tonne on local and imported plastic granules and all other plastics	Excise duty on local plastics and granules Excise duty on imported plastics and granules	25.00
8	Introduction of a harmonised excise duty rate of 12% on airtime, VAS and internet data - However, scrap off excise tax on OTT	Excise duty on phone talk time	60.00
C	**VALUE ADDED TAX**		
9	Remove the exemption on the supply of all production inputs into limestone mining and processing into clinker in Uganda and the supply of clinker for further value addition in Uganda	VAT on cement	10.00
D	**CUSTOMS AND NTR**		
10	Introduce export levy of UGX 70,000 per kg on fish maws	Export levy	6.00
11	Grant Uganda a stay of application of the EAC CET and apply a rate of 35% or USD 3 per kg of textiles	Import duty	32.00
12	Levy on processed and unprocessed tobacco leaf	Levy	10.00
13	Impose import duty of 10% on CPO of sub-heading 1511.10.00	Import duty	30.00
14	Increase in excise duty on diesel and petrol by UGX 100 per litre	Petroleum duty	193.20
15	Impose export levy of USD 200 per kg of 99.9% refined gold and 2% on other gold exports	Export levy	30.00
16	Increase in revenues from URBRA	URBRA	1.23
	ESTIMATED REVENUE (TOTAL 'USHS BN)		**460.63**

Tax Administration Measures for FY 2021/22

Uganda Revenue Authority is expected to implement administrative interventions in FY 2021/22. Some of the key interventions to be implemented include: -

i. Strengthen arrears management and recovery.
ii. Enhance data analysis through interfaces with other Government information systems, use of third-party intelligence, to enhance taxpayer compliance behaviour.
iii. Review the list of withholding tax agents and effectively monitor their compliance throughout the year.
iv. Leverage technology by ensuring and enforcing proper use of Electronic Fiscal Receipting and Invoicing System (EFRIS), Digital Tax Stamps (DTS), Rental Income Tax Collection Solution to enhance compliance management.
v. Implementation of international automatic exchange of information with over 102 cooperating jurisdictions globally.
vi. Improve the management of agents including clearing agents, bond operators, tax agents through enforcing enhanced licensing requirements that encompass all tax administration aspects, enhanced monitoring of performance of the Key Performance Indicators (KPIs) and instant cancellation of licenses in cases of non-compliance to KPIs;
vii. Emphasizing science facilitated audits by establishing enhanced forensic labs with specialised equipment such as chromatographers, Ed-X-Ray Fluorescence (XRF) spectrometer, etc. This will reduce revenue loss through mis-declarations and under-declarations.
viii. Enhance cargo management and accountability in bonded warehouses by implementing the bonded ware house information management;
ix. Boost non-intrusive inspection tools in terms of scanners and drones to reduce enforcement operational costs over time and improve revenue collection by improved detection of smugglers.

QUOTE

"I am happy to report that the Economy is promisingly improving amidst the challenge of COVID-19.It is not all lost, we are there," said Finance Minister Matia Kasaija during URA 30th Anniversary celebrations.■

"I have the pleasure to declare an interest of 12.15% to be paid in interest to members for the Financial Year 2020/2021.This new rate equals UGX 1.52 trillion shillings. It is above the 10 years average rate of inflation which currently stands at 5.43% and it is one of the most competitive rates in the market this year," said Finance Minister while announcing NSSF latest interest rate.■

"Covid-19 has negatively impacted our economy but has also presented opportunities we had taken for granted, for instance digitization, we are now able to do our work on zoom. I am addressing a workshop today of more than 200 people but less than 100 are in attendance. Our people have gone for e-learning and there are many things we used to import which we now manufacture ourselves," said State Minister for General Duties Henry Musasizi on a talk show at Radio Rupiny in Gulu.■

"It has been five days of action across Western Uganda implementing H.E the President,Yoweri Kaguta Museveni's directive to establish 25 Industrial parks across Uganda in this Kisanja.We received 620 acres from Kisoro, 200 acres in Rukungiri, 50 acres from Kabale and 500 acres in Kabarole," said State Minister for Investment, Hon. Evelyn Anite.■

"I want us to remember that we come from communities whose entire existence depends on a prayer that the economy we are in charge of, works for them. It is therefore imperative that we embark on building an economy that can and should not only improve the quality of life of our people, but is able to transform our country into a modern Uganda that we can all be proud of," said PS/ST Ramathan Ggoobi during Luncheon to welcome him at Kampala Serena Hotel. ■

"Many of these Enterprises failed to get profitable niches within the sectors where they operated," said PS/ST regarding exiting of Multinational Companies including Nakumat, Uchumi, Shoprite and Africell.■

"To implement the Programmatic approach and align the budget with the National Development Plan (NDP III), the Government is reconfiguring key public finance management systems which include the Integrated Financial Management System (IFMS) and the Programme Budgeting System (PBS)," said Deputy Secretary to the Treasury, Patrick Ocailap in a Circular to All Accounting Officers.■

Did you know?

1. The Preliminary Resource Envelope for FY 2022/2023 is Ushs.42,980.30 billion. Discretionary Resource Envelope (Less external Financing, Debt Repayments, and Local Revenue) for FY 2022/23 amounts to Ushs.21, 692.8 billion compared to Ushs.22, 266.5 billion for FY 2021/22.■

2. In order to meet the reduction in the Resource Envelope, a cut has been instituted on Travel Abroad, Workshops and Seminars across all MDA's to raise Ushs.203.4 billion.■

3. The NDPIII theme is "Industrialisation for Inclusive Growth, Employment and Wealth Creation"■

4. A breakdown of economic performance by sector in FY2020/21 shows all sectors recorded positive growth rates, as the pace of recovery continued. The industry sector grew by 3.4% during the year as compared to 3.3% registered the previous financial year, driven by a strong performance by the manufacturing sub-sector, whose activities expanded by 2.1% from 1.3% during FY2019/20.■

5. The Domestic Revenue Mobilization Strategy (DRMS) aims at achieving revenue to GDP growth of 0.5% every financial year.■

6. The Economy remains on course to achieve a growth rate of between 3.5% to 4% during FY 2021/2022.■

7. One of the Objectives in The Charter for Fiscal Responsibility FY 2021/22-FY 2025/26 to reduce Total Public debt in Nominal Terms to below 50% of the GDP by Financial Year 2025/26.■

8. MOFPED has developed and operationalized the Domestic Arrears Management Strategy 2021. This Strategy provides multi level interventions ranging from legislative changes to the development of reporting and tracking solutions.■

9. Following Cabinet directive on project financing, all agreements will be concluded only for projects that have finalised studies and all the required appraisals.■

10. According to International Coffee Organisation rankings FY2020/21 Uganda is now ranked 7th in the latest global rankings of the 10 top coffee producers in the World. Uganda's annual coffee exports that now stand at a record-high of over 6 million 60-kg bags, increased by 1 million bags for two consecutive years (FY2019/20 and FY 2021/22). (Good coffee plant)■

11. In nominal terms, 600,000 people in the monetized economy (formal and informal sectors) lost jobs after the onset of the 1st wave of COVID-19.■

12. The capacity of the Economy to generate jobs has reduced. The share of paid employment in total employment increased by a meagre 2% (from 38% in 2017 to 40% in 2020),yet the share of self-employment in total employment declined by 13% (from 54% in 2016/17 to 41% in 2019/20)■

13. Between 2016/17 and 2019/20 surveys, the share of persons living below the minimum income to meet the basic needs declined from 21.4% to 20.3% respectively. In 2019/20, the share of poor persons was significantly higher during COVID-19 (21.9%) compared to 18.7% before COVID-19.■

14. Only 4 of every 100 households (4%) earned an annual income (cash or in kind) of UGX 20 million in 2019/20. The majority of households (76%) earned an annual income of between UGX 5 and 10 million.■

15. Stiff completion from local retailers (informal dukas) which are near consumers offering convenience (smaller units,credit, lower prices) since they don't pay taxes and pay lower rent pose unfair competition to big stores. This in addition to growth and intensity of traffic jams in Kampala central business district and better road network in city suburbs may have disadvantaged retail stores (Nakumat, Uchumi, Tuskeys, Shoprite and Game forcing them to Exit. Over 21 multinational companies have tanked since 2012.■

CLIMATE FINANCE

Climate Finance: An Opportunity to address Climate Change

By Andrew Masaba

Climate Change is a very serious threat to Uganda as evidenced by the Notre Dame Global Adaptation Initiative Index (ND-GAIN) which summarizes a country's vulnerability to climate change and other global challenges in combination with its readiness to improve resilience. According to Notre Dame Global Adaptation Initiative Index report 2019, Uganda was ranked 15th most vulnerable country to climate change and 48th least prepared to combat it effects. To address this challenge, there is need for climate finance.

Currently, there is no internationally agreed definition for Climate Finance. However, the United Nations Framework Convention on Climate Change (UNFCCC)defines Climate Finance as 'the totality of local, national and transnational financing drawn from public, private and alternative sources of financing that seeks to support mitigation and adaptation actions that will address climate change.

OECD, MBDs (2018), explains that Climate Finance aims at reducing emissions, and enhancing sinks of Green House Gas Emissions and aims at reducing vulnerability, and maintaining and increasing the resilience of human and ecological systems to negative climate change impacts.

In simple terms, Climate Finance is the totality of resources in form of grants, loans, technical assistance channeled towards combating effects of climate change. Climate Finance is necessary to facilitate response to climate change through what we call Adaptation and Mitigation measures.

Flooding

Climate is the long-term pattern of weather in a particular area. Weather can change from hour-to-hour, day-to-day, month-to-month or even year-to-year. A region's weather patterns, tracked for at least 30 years are considered its climate.

On the other hand, Climate change is the long-term alteration of temperature and typical weather patterns in a place.The cause of current climate change is largely human activity. Climate change includes rising average temperatures, extreme weather events, shifting wildlife populations and habitats, rising seas, and a range of other impacts. All of these changes are emerging as humans continue to add heat-trapping greenhouse gases to the atmosphere.

The National Climate Change Act 2021 was assented to by H.E the President on 14th August 2021 to govern Uganda's national response to climate change. The Act gives the force of Law in Uganda to the United Nations Framework Convention on Climate Change, the Kyoto Protocol, and the Paris Agreement;

i) To provide for climate change response measures;
ii) To provide for participation in climate change mechanisms;
iii) To provide for measuring of emissions, reporting and verification of information;
iv) To provide for institutional arrangements for coordinating and implementing climate change response and,
v) To provide for financing for climate change and for related matters

In the National Climate Change Act 2021 Part VI, Article 21 on financing for climate change provides that the Minister responsible for finance shall, in consultation with the Minister of Ministry of Water and Environment (MWE) , provide for climate change financing, taking into account viable climate change financing mechanisms at the national level and international climate change financing referred to in article 9 of the Paris Agreement.

The financing shall be for purposes of research , data collection on climate change, financing projects for implementation of climate change actions and measures, including specific technologies, materials, equipment, techniques or practices necessary to implement such projects; and providing grants, loans and incentives to individuals, private entities and local Governments for climate change research and innovation in industry, technology, science, academia and policy formulation.

Government under the National Budget allocates funds to finance climate adaptation and mitigation efforts from both national and International revenue sources. The International funding mechanisms are housed under the United Nations Framework Convention on Climate Change (UNFCCC).

The United Nations Framework Convention on Climate Change (UNFCCC) is a Rio Convention with the ultimate objective to achieve the stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous interference with the climate system. The United Nations Framework Convention on Climate Change was adopted at the United Nations Headquarters, New York on the 9 May 1992. In accordance with Article 20, it was open for signature at Rio de Janeiro from 4th to 14th June 1992, and thereafter at the United Nations Headquarters, from 20th June 1992 to 19th June 1993. Currently, there are 197 Parties(196 States and 1 regional economic integration organization)to the United Nations Framework Convention on Climate Change.

Under this Convention, the Paris Agreement was adopted by 196 countries (including Uganda) at the climate change conference in Paris in 2015 (known as COP 21). The main goal of the agreement is to cut global greenhouse gases in order to limit global temperature increases as close as possible to 1.5 degrees Celsius.

Therefore, as party to the UNFCCC and a Signatory to the Paris Agreement, Uganda committed to reduce its Green House Gas (GHG) emissions by 22% before 2030 through implementation of a series of policies and measures in the energy supply, forestry and wetland sectors. In the business-as-usual (BAU) scenario the estimated emissions in 2030 will be 77.3 Million tons of carbon dioxide equivalent per year (MtCO2eq/yr.)

The Government of Uganda will continue to commit resources to climate change-relevant strategies. However, the full implementation of these actions is conditional on the support of international community coming from both climate finance instruments and international market mechanisms.

As set out in the Uganda National Climate Change Policy and its costed Implementation Strategy,national sources are assumed to cover approximately 30% of incremental costs of the activities in the next 15 years, with 70% assumed to originate from international sources.

The Climate Finance Architecture

The International sources of climate finance include the Green Climate Fund, Adaptation Fund, Global Environment Facility, as well as the Bilateral and Multilateral Development Partners.

The Global Environment Facility (GEF)

The GEF serves as the oldest financing Mechanism under the UNFCCC with over US$1.01 billion financial and Technical support to Uganda since 1991 (National-US$119.5million and Regional-US$953.6 million)

The Wetlands Restoration Project

'Building Resilient Communities, Wetland Ecosystems and Associated Catchments Project' in Uganda' is worth $44.5Million and funded by $24Million from GCF, $2Million from UNDP and $18Million from Government Co financing.

The project aims at eenhancing Ugandan subsistence farmers' ability to deal with climate impacts.An estimated 4 million people who live in and around Uganda's wetlands rely on them for food security. The impact of climate change, coupled with other environmental stresses, is increasing the degradation of wetlands and associated ecosystems.

This grant-based project will assist the Government of Uganda take climate change effects into account in managing wetlands. Climate effects include increased climate variability and extreme weather events, such as droughts, floods, high temperatures and violent storms.

Objectives;

- Restore critical wetlands to improve ecosystem services - such as replenishing ground water, improving flood control, and enhancing the livelihoods of subsistence farming communities through fishing and agriculture;
- Enhancing the skills of people to diversify their livelihoods and become more resilient to climate shocks; and
- Improve the ability of communities in sensitive wetland areas to reduce climate risks and prepare them for climate-related disasters (including through decentralized early warning systems).

This project is implemented by Ministry of Water and Environment in South Western Uganda (10 districts of Kabale, Rukiga , Rubanda, Buhweju, Mitooma, Rubirizi, Kisoro, Kanungu, Rukungiri, Bushenyi and Ntungamo) and Eastern Uganda (10 districts of Pallisa, Kumi, Ngora, Butebo, Kibuku, Bukedea, Namutumba, Butaleja, Budaka, Tororo, Kaliro, Ngora and Mbale)

The Green Climate Fund (GCF)

GCF was first replenishment between 2020-2023 as an important element of the financial commitments needed to deliver the UNFCCC and its Paris Agreement. The long-term vision is to build it to become a major global instrument for channeling public climate finance for both Adaptation and Mitigation so as to mobilize the larger shifts in global financial flows required to achieve the Paris Agreement goals. The Green Climate fund has so far provided funding of up to $74 Million for multiple projects in Uganda. Box 1: Case Study- 'Building Resilient Communities, Wetland Ecosystems and Associated Catchments Project' in Uganda.

The Adaptation Fund

The Adaptation Fund is an international fund that finances projects and programs aimed at helping developing countries to adapt to the harmful effects of climate change. Uganda has so far accessed $50Million for multiple Adaptation Projects.

Box 3: Case Study - Enhancing Resilience of Communities to Climate Change through Catchment Based Integrated Management of Water and Related Resources in Uganda (EURRECCA PROJECT)

Enhancing Resilience of Communities to Climate Change through Catchment Based Integrated Management of Water and Related Resources in Uganda (EURRECCA PROJECT)

The overall goal of the project is to increase the resilience of communities to the risk of floods and landslides of Awoja, Maziba and Aswa Catchments through promoting catchment based integrated, equitable and sustainable management of water and related resources.

The Specific objectives of the project are to:

- Increase the resilience of ecosystems by supporting the development and implementation of catchment based and community driven actions for sustainable management of natural systems including forests, wetlands, riverbanks and lakeshores in Awoja, Aswa and Maziba catchments
- Increase the resilience of agricultural landscapes by supporting stakeholders and communities in the development and implementation of sustainable water harvesting, soil bio-physical and flood control structures.
- Increase resilience of other livelihood systems by promoting new and off-farm activities through facilitating credit and market access
- Build the capacity of extension services and institutions at local, catchment, water management zone and national level to better support local stakeholders. Higher level capacity building to integrate climate change adaptation in national and sector-wide development plans and strategies. The project is being implemented in 9 sub catchments of Pager Matidi, Agago, Aswa 1 (in Aswa catchment – Upper Nile Water Managmenet Zone), Upper Maziba, Lower Maziba, Middle Maziba (in Maziba catchment – Victoria Water Management Zone) and KelimTaboki, OpetaBisina and Lake Kochobo (in Awoja catchment – Kyoga Water Management Zone)

The project activities are covering 8 districts of Awoja catchment of Bukwo, Kween, Nakapiripirit, Katakwi, Kumi, Serere, Soroti and Ngora; 4 districts of Maziba catchment of Rubanda, Kabale, Rukiga and Ntungamo; 12 districts in Aswa catchment of Kabong, Kotido, Kitgum, Agago, Abim, Pader, Lira, Amuria, Otuke, Aleptong, Napak, and Abim

CLIMATE CHANGE APPROPRIATIONS

The Ministry of Finance, Planning and Economic Development (MoFPED) with support from the World Bank jointly developed a Climate Change Budget Tagging system (CCBT) that aims to strengthen the planning, execution, and financing framework for the Government's climate response. The CCBT was carried out on a pilot basis for the 2019/2020 budget preparation with a selected number of Ministries, Departments and Agencies (MDAs)and Local Government's (LGs), notably the Ministry of Energy and Mineral Development (MEMD), the Ministry of Water and Environment (MWE), the Ministry of Public Works and Transport (MWT), the Ministry of Agriculture (MAAIF), as well as the LGs from Gulu, Mbale, Buikwe and Kasese.

The process to fully integrate the CCBT into the Performance Budgeting System (PBS) by introducing features to allow the tagging of climate change appropriations in the system as well as the automatic generation of financial climate data for reporting purposes is currently ongoing. After the PBS upgrade, MFPED will embark on a roll out process to enable all central and Local government agencies to ably tag climate change appropriations in the system as well be able to generate climate finance reports automatically.

REPORTING

In line with Uganda's reporting obligations under the Paris Agreement, the Country submitted its first National Communication in 2002, the Second National Communication in 2014, the Nationally Determined Contribution in 2015/2016 and the first Biennial Update Reports (BURs).

The third National Communication currently under preparation is in advanced stages and the second Biennial Update Report has commenced. These reports highlight information on the National Circumstances, National Greenhouse Gas Inventory which covers the Energy, Industrial Process and Product use (IPPU), Agriculture, Forest and Other Land Use (AFOLU) and Waste sectors, Mitigation actions and their effects, the Measurement, Reporting and Verification (MRV) system, constraints and gaps as well as support received and needed.

THE CLIMATE FINANCE WEB PORTAL

More information on Climate Finance in Uganda can be obtained at http://climatefinance.go.ug

The Writer is a Principal Economist in the Development Assistance and Regional Cooperation Department.

Drought

Kiira Vehicle Plant

H.E President Museveni laid a foundation stone for Kiira Vehicle Plant at Jinja Industrial and business Park on August 14th, 2021. The plant is expected to create over 100,000 jobs both directly and indirectly.

IT Security: Blame the Humans, Not the Technology!

By Byereeta Leone Samson

Cyber criminals know that people always want to take the easiest route to resolving any issue encountered in their day-to-day lives and that is why these "Virtual" criminals design their attacks to take advantage of this human weakness. IT Security attacks through Social Engineering, which is the psychological manipulation of people into performing actions or divulging confidential information, has become one of the major concepts that is taken advantage of.

Below are some of the attacks that the cyber criminals use to manipulate their victims.

1. Phishing attacks: Phishing is a type of social engineering attack often used to steal user data, including login credentials, ATM card pin codes and credit card numbers. It occurs when an attacker, masquerading as a trusted entity, dupes a victim into opening an email, instant message, or text message. This attack can have devastating results.

2. Baiting attacks: As its name implies, baiting attacks use a false promise to a victim's greed or curiosity. Baiting is in many ways similar to phishing attacks. However, what distinguishes them from other types of social engineering is the promise of an item or good that malicious actors use to entice victims. Baiters may leverage the offer of free music or movie downloads, for example, to trick users into handing their login credentials.

3. "Quid Pro Quo" social engineering attacks: 'Quid pro quo' means something for something: An attacker calls random numbers at a company, claiming to be calling back from technical support. Eventually this person will hit someone with a legitimate problem, grateful that someone is calling back to help them.

4. Pretexting attacks: This is a form of social engineering used to manipulate victims into divulging sensitive information. Hackers often research their victims in advance of their first conversation. The most common example of a pretexting attack is when someone calls an employee and pretends to be someone in power, such as the CEO or on the information technology team. The attacker convinces the victim that the scenario is true and collects information that is sought.

5. Piggybacking attacks: Our final social engineering attack type of the day is known as tailgating or "piggybacking." In these types of attacks, someone without the proper authentication follows an authenticated employee into a restricted area. The attacker might impersonate a delivery driver and wait outside a building to get things started.

How can you avoid falling a victim of the social engineering schemes!

- DO NOT open emails in the spam folder or emails whose recipients you do not know.
- DO NOT open attachments in emails of unknown origin.
- Use a reputable antivirus software –some of the recommend antivirus software are Kaspersky or Symantec etc.
- Perform a regular backup to an external medium (external hard drive or the cloud).
- After backing up, disconnect your drive. Current ransomware is known to encrypt your backup drive as well.
- DO NOT pay the ransom. The reason why the criminals keep utilizing this form of blackmailing attacks is that people keep paying. To try to get your data back, consult a professional or contact the Computer Emergency Response Team/Coordination Center (CERT.UG/CC), the official National Computer Security Incident Response Team [https://www.cert.ug/].

The Writer is Acting Systems Analyst, Accountant General's Office ■

A quick look at Guidelines For management of contingent liabilities

The guidelines for management of contingent liabilities are coming at a critical time when the Government of Uganda is seeking alternative sources of funding to support the country's development agenda. As a means of supporting public institutions and the Private sector, government may offer loan guarantees or authorizations to borrow especially where it is a pre-condition by the creditors to the institutions for accessing the funding.

The guidelines are in line with the Ministry of Finance, Planning and Economic Development's mandate to manage, monitor and report on contingent liabilities and their risks to fiscal sustainability, according to the Public Finance Management Act, 2015.

Government aims to limit and mitigate fiscal risks from contingent liabilities given the fact that these liabilities may materialize into actual spending which may in future affect public finance sustainability of Government of Uganda (GoU).

In addition, government is expediting relatively new project structures, such as public private partnerships, in order to share project risks with the private sector. Such arrangements between public and private entities may also entail contingent liabilities for central government, including guarantees and termination payments. Furthermore, potential legal claims from pending court cases are a major source of contingent liabilities of the GoU.

Aim of the guidelines

These guidelines aim to provide public officials of the Ministry of Finance, Planning and Economic Development with a systemized procedure and a set of standardized criteria for the approval, monitoring and reporting of loan guarantees and unguaranteed debt liabilities, as well as the management of contingent liabilities from PPP arrangements and legal action (court cases). These guidelines will form part of the broader Public Debt Management Framework of the GoU.

Scope of the guidelines

The scope of these guidelines has been limited to loan guarantees, authorizations for unguaranteed debt liabilities, and contingent liabilities from PPP arrangements and legal action (court cases).

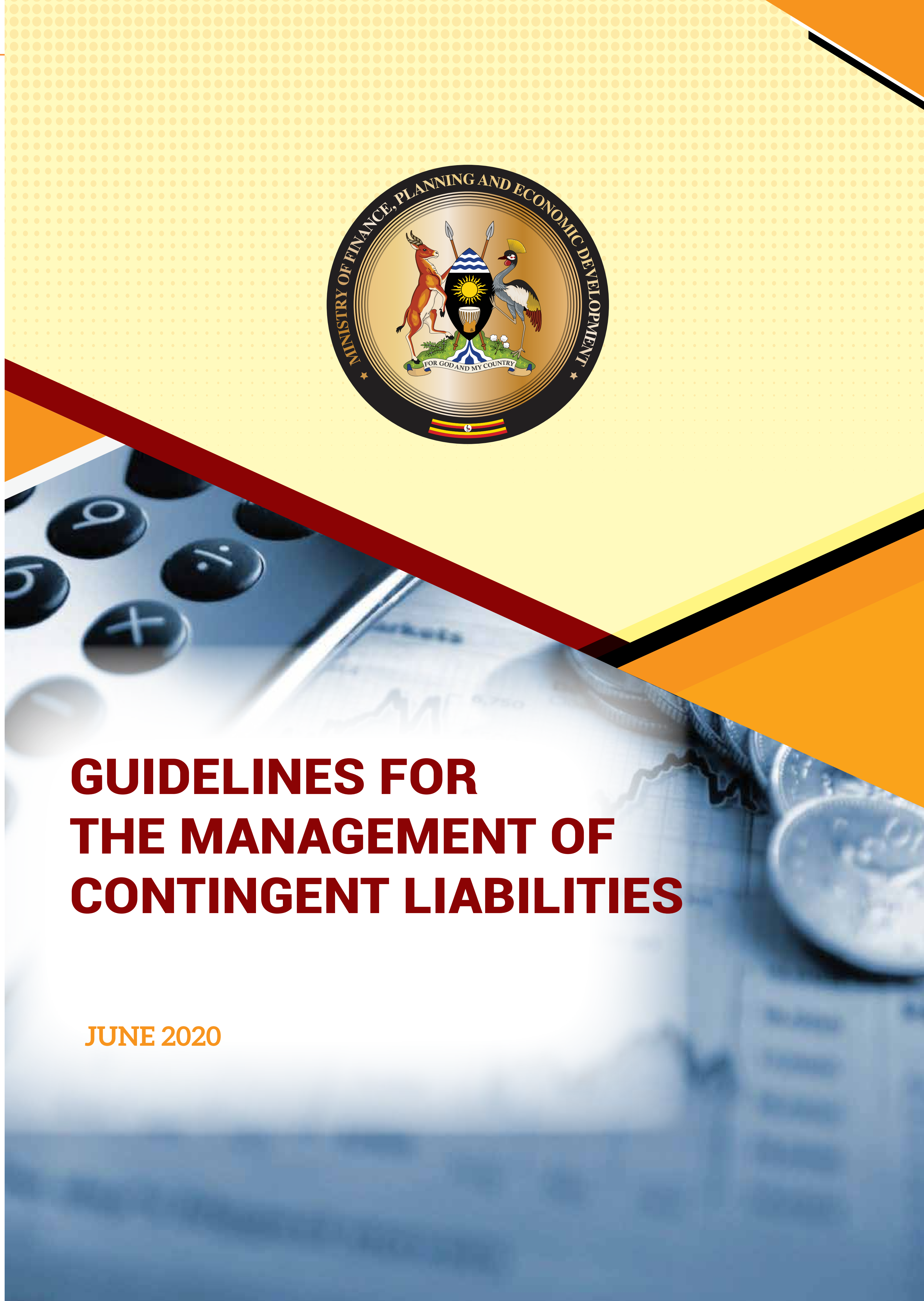
Review of the guidelines

These guidelines shall be reviewed periodically, and at least once every two years, and refined and revised to include a guiding framework for other contingent liabilities in the future as well.

Legal and policy framework pertaining to contingent liabilities

Uganda's current legal framework for debt management is anchored in the Constitution of the Republic of Uganda. Article 159(1) of the Constitution gives the GoU the authority to borrow from any source. Article 159(2) states that "Government shall not borrow, guarantee, or raise a loan on behalf of itself or any other public institution, authority or person except as authorized by or under an Act of Parliament."

The Public Finance Management Act (2015) Section 23(1) of the PFM Act (2015) states that "a vote shall not enter into a contract, transaction, or agreement that binds the Government to a financial commitment for more than one year or which results in a contingent liability, except where the financial commitment or contingent liability is authorised by



Parliament.

In addition, Section 36(1) states that the authority to raise money by loan and to issue guarantees for and on behalf of the Government shall vest solely in the Minister of Finance and no other person, public corporation, state enterprise or local government council shall, without the prior approval of the Minister, raise any loan, issue any guarantee, or take any other action which may in any way either directly or indirectly result in a liability being incurred by the Government.

The Public Private Partnerships Act (2015) provides the legal and regulatory framework for the participation of the private sector in the design, construction, maintenance and operation of infrastructure or services through PPP agreements. Several sections of the Act relate to the approval, management and

objectives such as supporting priority projects that may not be directly funded by the government, where government finds the issuance of a guarantee more cost effective than using other financial support mechanisms, like subsidies, on-lending facilities or capital injections among others.

Guarantee arrangements are formalised in agreements between the following three parties:

i. Guarantor: the government
ii. Guarantee beneficiary: the entity that intends to borrow
iii. Guaranteed entity: the creditor

Approval process of Loan Guarantees

The process for a loan guarantee to be approved has eight (8) steps.

Uganda's current legal framework for debt management is anchored in the Constitution of the Republic of Uganda. Article 159(1) of the Constitution gives the GoU the authority to borrow from any source

reporting on contingent liabilities from public private partnerships.

Procedure of approval for loan guarantees

A guarantee referred to in this context is a commitment by the government to repay the financial liabilities of another entity should that entity default. Since loan guarantees may impact debt sustainability, a guarantee request or proposal should be examined in a similar manner as a request or proposal for a loan, taking into account the credit worthiness of the borrower, the amount and risks sought to be covered, and the terms of the borrowing. It is a secondary obligation legally binding the government to take on an obligation, contingent upon the guarantee beneficiary's primary contractual obligation.

A guarantee is normally extended by the government for the purpose of achieving

Step 1: Submission of Application

The entity applying for a loan guarantee shall submit a request to the sector line ministry.

Step 2: Sector Ministry Analysis

Before any guarantee proposal is tendered, the sector line ministry shall thoroughly analyse the project and demonstrate that it is in line with the sector's strategic plan, priorities and the national planning framework and that the project cannot be financed without government's assistance (guarantee).

Step 3: MoFPED Analysis and Reporting

MoFPED shall receive the same documents as outlined above from the sector line ministry in order to carry out an assessment of the financial position of the entity. The assessment shall be carried

out in consultation with other stakeholder institutions.

Step 4: Preparation of Project Financing Documents by Sector Ministry

Where the Minister of Finance agrees to support a guarantee request, the MoFPED shall request the sector ministries to prepare the project's financing documents in liaison with the creditors and beneficiaries.

Step 5: Solicitor General

The documentation shall be sent to the Solicitor General for clearance, before approval by Cabinet and Parliament. If the guarantee agreement is cleared, the entity will prepare the final guarantee agreement and send it for Cabinet and Parliamentary Approval.

Step 6: Cabinet and Parliamentary Approval

When the documentation is prepared, the Minister of Finance shall proceed to Cabinet and subsequently table before Parliament (as required by the PFM Act 2015) for consideration.

Step 7: Signing of Loan Guarantee Agreement

The loan guarantee agreement will be signed between the GoU as guarantor, the guarantee beneficiary (borrower) and the guaranteed entity (lender).

Step 8: Record in Debt Management System

The loan guarantee will then be recorded in the Debt Management System (DMFAS), detailing the name of the beneficiary, the guarantee/transaction amount, the signature date, the issue and maturity dates

GoU shall charge a guarantee fee of 0.3% per year of the guarantee duration on the beneficiary. This shall be charged on the total nominal value of the guaranteed facility

Monitoring of Loan guarantees

Regular monitoring and reporting on loan guarantees ensure that the GoU is aware of the changing risks and conditions associated with guarantees and should influence decisions on risk mitigation measures oncurrent guarantees as well as on the approval of future guarantees. Furthermore, the government shall set

controls on risk-taking for the parties involved to limit moral hazard.

The measures for monitoring loan guarantees which must be included in all loan guarantee agreements include MoFPED, through the Accountant General ensuring that a register of loan guarantees is maintained. MoFPED is also required to keep a record of guarantees, retain information required from time to time in respect to guarantees and also keep a record of the periodical reviews.

This register shall include information on the contractual terms and conditions on guarantees and credit facilities and performance of underlying obligations in respect to guarantees

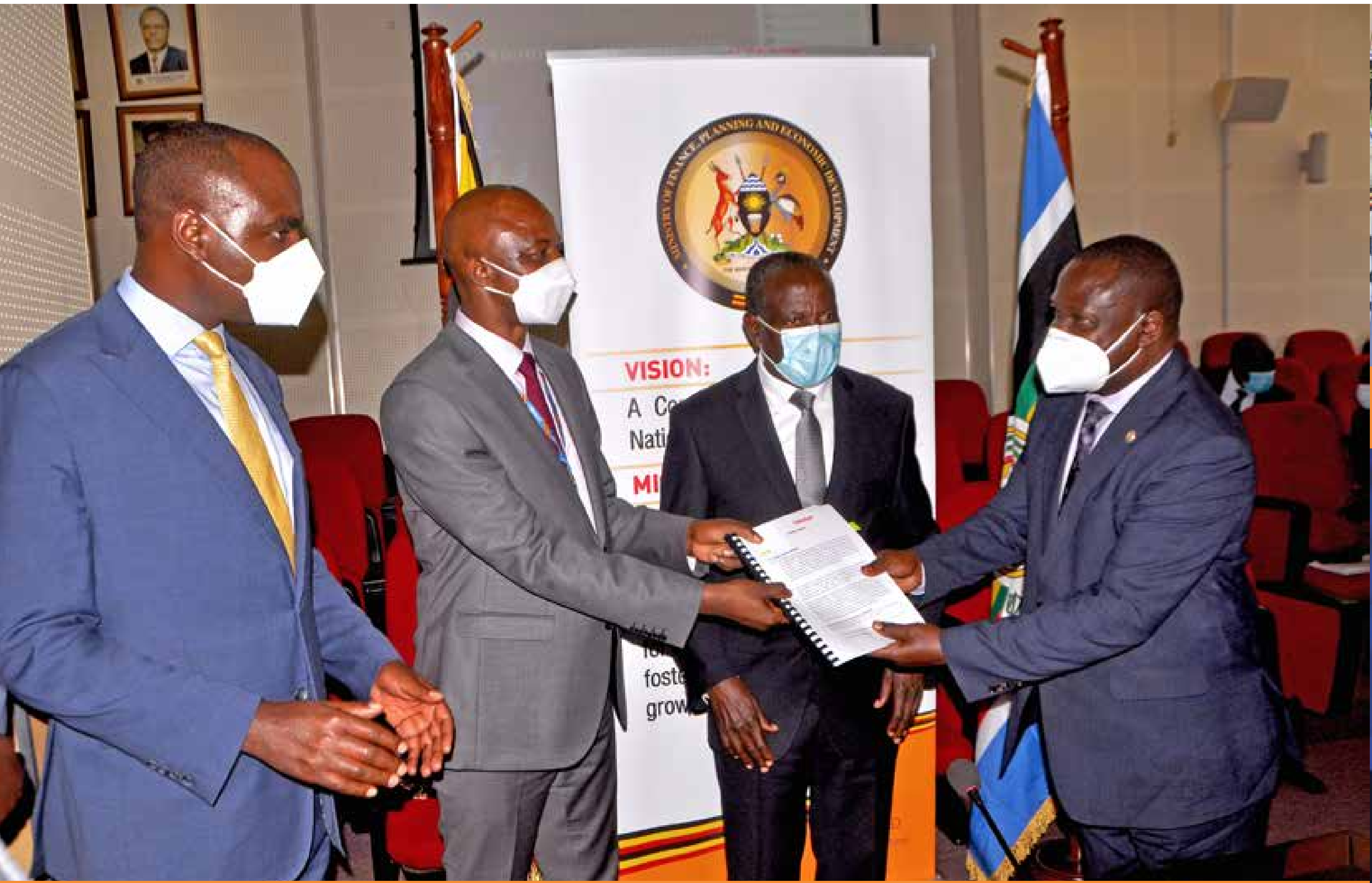
Required information sharing by beneficiaries

The guarantee beneficiaries shall provide periodic information, including audited financial statements, payment advice or any statements showing payments of the outstanding amount in both nominal and present value terms and an estimate of the nominal cash out-flows. The information is provided on a quarterly basis, or a period that may be agreed upon by MoFPED.

These guidelines can be accessed on MOFPED website: www.finance.go.ug

"Government shall not borrow, guarantee, or raise a loan on behalf of itself or any other public institution, authority or person except as authorized by or under an Act of Parliament.

PICTORIAL



Handover ceremony- DST Ocailap (R) hands over office to PS/ST Ramathan Ggoobi

Finance Minister Kasaija (R) signed Financing Agreement with French Ambassador for construction of water and sanitation infrastructure in Isingiro

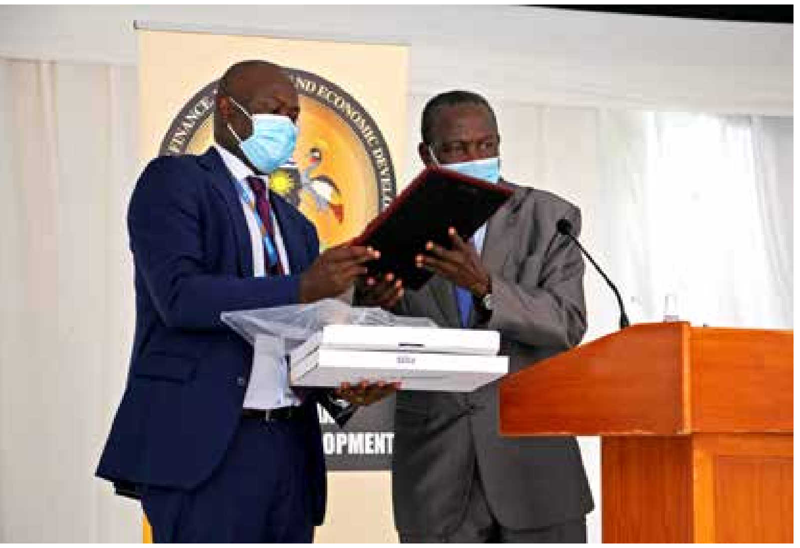
Minister of State for Planning Hon. Lugoloobi receives office from out going Minister of State Hon David Bahati (R)

Finance Minister Kasaija announces new NSSF interest rate

Hon. Henry Musasizi appearing for a talk show on issues of the Economy

Hon. Henry Musasizi (R) receives office from out going Minister of State for General Duties Hon. Gabriel Ajedra

PS/ST Inauguration- Finance Minister Kasaija with PS/ST Ggoobi, Ministers of State, DST Ocailap and Under Secretary Dr. Sengonzi pose for a photo after handover at MOFPED



STATUTORY BUDGET PROCESS CALENDAR FOR FY 2022/2023

NO.	ACTIVITY	PFM ACT 2015	PROPOSED DATES	RESPONSIBILITY CENTRE	DIRECTORATE
1	Issue the First Budget Call Circular for FY 2022/2023	15th September	Wednesday 15th September 2020	PS/ST	Budget
2	Submission of the National Budget Framework Paper FY 2022/2023 to Parliament [Section 9 (5)	By 31st December	Thursday 16th December 2021	Hon. MoFPED	Budget
3	Approval of the National Budget Framework Paper by Parliament [Sec. 9 (8)]	By 1st February	By Thursday, 20th January 2022	Parliament	Budget
4	Issue the Second Budget Call Circular FY 2022/2023	15th February	By Tuesday 8th February 2022	Budget Directorate	Budget
5	Presentation of the Ministerial Policy Statements to Parliament [Section 13 (13)	By 15th March	By Tuesday 8th March 2022	Line Ministries	Budget
6	Presentation of the Annual Budget in Parliament	1st April	By Thursday 17th March 2022	MoFPED, EOC and NPA	Budget
7	Approval of Annual Budget [Section 14 (1)]	By 31st May	Thursday, 19th May 2022	Parliament	Budget
8	Reading of the Budget Speech for FY 2022/2023 in Parliament	By 2nd Week Before 1st July	Thursday 9th June 2022	Hon. MoFPED	Budget, DEA, DCP

NDP III PROGRAMMES AND CORRESPONDING LEAD AGENCIES

No.	Program	Lead Agency
1	Agro-Industrialization	PS/MAAIF
2	Mineral Development	PS/MEMD
3	Sustainable Development of Petroleum Resources	PS/MEMD
4	Toursim Development	PS/MoTWA
5	Natural Resources, Environment, Climate Change, Land and water Management Development	PS/MoWE
6	Private Sector Development	PS/MoFPED
7	Manufacturing	PS/MoTIC
8	Intergrated Transport Infrastructure and Services	PS/MoWT
9	Sustainable Energy Development	PS/MEMD
10	Digital Transformation	PS/MoICT&NG
11	Sustainable Urbanization and Housing	PS/MoLHUD
12	Human Capital Development	PS/MoES
13	Innovation, Technology Development and Transfer	PS/MoSTI
14	Community Mobilization and Mindset Change	PS/MoGLSD
15	Governance and Security	SECRETARY/OP
16	Public Sector Transformation	PS/MoPS
17	Regional Development	PS/MoLG
18	Development Plan Implementation	PS/MoFPED
19	Administration of Justice	Sec/Judiciary
20	Legislature	Clerk/Parliament

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