POLICY PAPER ON BUDGET

TOPIC: Analyzing the Practicability and Sustainability of Uganda's FY2024/25 Budget: Challenges, Implications, and Policy Recommendations

About this Policy Brief

This policy paper is a product of the 2nd East Africa Parliamentary Monitoring Organizations (PMOs) Conference, held on the 29th of February and 1st March 2024 with the support of the National Endowment for Democracy (NED). The conference served as a platform for stakeholders, policymakers, and practitioners in the field of parliamentary monitoring to convene, share insights, and collaboratively explore avenues for enhancing transparency and accountability in East African democracies.

As a continuation of the discussions and deliberations at the 2nd East Africa PMOs Conference, this policy paper delves deeper into the theme of Advancing Democratic Governance: Leveraging Digital Tools for Inclusive Parliamentary Monitoring in Africa and beyond. The insights gathered from the conference, coupled with additional research and analysis, inform the content and recommendations presented herein.

Introduction

The national budget of Uganda for the Financial Year 2024/25 marks a significant milestone in the country's fiscal planning, presenting both ambitious goals and considerable challenges. On May 16, 2024, the Ugandan Parliament passed a budget of Shs72.136 trillion, following the approval of the Appropriations Bill 2024. This budget, formally presented to the nation by the government on June 13, 2024, represents a substantial increase of Shs14.050 trillion from the initial proposal of Shs58.34 trillion.

The FY 2024/25 budget allocates [1]Shs18.9 trillion for recurrent expenditure and Shs34.7 trillion for development expenditure, with the total amount, including statutory expenditure, standing at Shs72.136 trillion. The government has outlined an ambitious resource envelope, projecting domestic revenues of Shs31.982 trillion, of which Shs29.366 trillion is expected from tax revenue and Shs2.616 trillion from non-tax revenue.

This paper critically examines the practicability of actualizing the FY 2024/25 budget, focusing on three key areas: the feasibility of revenue generation, the precedent set by the budget's unprecedented size, and its relationship to the performance of the previous FY 2023/24 budget. The analysis will evaluate the government's revenue projections against historical performance, particularly in light of the significant shortfall experienced in FY 2023/24. It will also assess the implications of increased borrowing on debt sustainability, scrutinize the alignment between budget allocations and stated national priorities, and explore the potential consequences of this budget on Uganda's economic stability and development trajectory.

As Uganda aims to balance its development aspirations with fiscal realities, this analysis seeks to contribute to the ongoing dialogue about the country's economic future. By examining the practicability of the budget's execution, both in terms of revenue generation and expenditure allocation, this paper aims to provide insights that can inform policy decisions and promote more effective fiscal management.

The subsequent sections will delve into the details of revenue projections, debt sustainability, sectoral allocations, and the overall implications of this expansive budget on Uganda's economic landscape. Through this comprehensive analysis, we seek to highlight both the opportunities and challenges presented by the FY 2024/25 budget, offering recommendations for a more balanced and sustainable fiscal approach.

Budget overview

Uganda's budget for the Financial Year 2024/25 represents a significant leap in fiscal planning, with a total expenditure of Shs72.136 trillion approved by Parliament on May 16, 2024. This figure marks a substantial increase of Shs14.050 trillion from the initial proposal, reflecting the government's ambitious agenda for the coming year.[2]

The budget is structured to address both immediate needs and long-term development goals. It allocates Shs18.9 trillion for recurrent expenditure, ensuring the day-to-day functioning of government operations, while Shs34.7 trillion is earmarked for development expenditure, signalling a strong push towards infrastructure and economic growth projects.[3]

[1]Budget Speech FY 2024/25
[2]Budget Speech FY 2024/25
[3]file:///C:/Users/CEPA/Downloads/Budget%20Speech%20FY2024%20web%20(1).pdf

To fund this expansive budget, the government has outlined a diverse resource envelope. Domestic revenues are projected to contribute Shs31.982 trillion, with tax revenue expected to bring in Shs29.366 trillion and non-tax revenue adding Shs2.616 trillion. The budget also relies on external support and borrowing, including Shs1.394 trillion in budget support and Shs9.583 trillion in project support from external financing.

Notably, the government plans to borrow Shs8.968 trillion domestically and issue Shs7.779 trillion in treasury bonds to settle outstanding obligations to the Bank of Uganda. An additional Shs12.022 trillion is allocated for refinancing maturing domestic debt, highlighting the significant role debt management plays in this budget.

The FY2024/25 budget is anchored on seven key priorities, reflecting the government's focus areas. A substantial Shs10.204 trillion is allocated to investing in human capital through education, health, and water, sanitation, and hygiene initiatives. Peace and security receive a significant boost with Shs9.107 trillion, including provisions for salary enhancements for lower-ranking security personnel.

Infrastructure development remains a priority, with Shs4.989 trillion dedicated to road maintenance, strategic road construction, and railway projects. The government's commitment to economic growth is evident in the Shs2.641 trillion allocated to various wealth creation initiatives, including support for commercial agriculture, value addition, and youth empowerment programs like the Parish Development Model and Emyooga.

The energy sector sees an allocation of Shs982.6 billion for electricity transmission and distribution, while Shs146.1 billion is set aside for natural disaster response. The budget also acknowledges Uganda's international obligations, with Shs31.1 billion allocated for regional and global partnerships.[4]

This comprehensive budget seeks to balance immediate needs with long-term development goals, addressing key sectors such as agriculture, education, health, and infrastructure. However, the ambitious nature of both the expenditure and revenue projections raises questions about the practicability of its implementation and its potential impact on Uganda's fiscal stability. The substantial increase in the budget size, coupled with significant reliance on borrowing, underscores the need for careful execution and monitoring to ensure it achieves its intended objectives without compromising the country's economic health.

Revenue generation concerns

The ambitious revenue projections for Uganda's FY2024/25 budget raise significant concerns when viewed against the backdrop of recent fiscal performance. A critical examination of the previous year's revenue collection efforts reveals troubling shortfalls that cast doubt on the feasibility of the current budget's targets.

In FY2023/24, Uganda's tax revenue collections fell short of the half-year target by a staggering UGX 876.98 billion. This shortfall was further exacerbated by additional deficits in grants and non-tax revenues, ballooning the total revenue gap to approximately UGX 2.1 trillion. To bridge this gap, the government resorted to domestic borrowing of UGX 1.3 trillion,

[4]Budget Speech FY 2024/25

surpassing the planned target by UGX 1.8 trillion. This significant underperformance in revenue collection, coupled with increased reliance on borrowing, paints a concerning picture of the government's fiscal management and raises questions about its ability to fund essential services and projects.[5]

Despite these challenges, the FY2024/25 budget projects an even more ambitious domestic revenue target of Shs 31.982 trillion, with Shs 29.366 trillion expected from tax revenue. This projection represents a substantial increase from the previous year's target, which was already proving difficult to achieve. The stark contrast between the recent revenue shortfalls and the new, higher targets raises serious doubts about the realism of these projections.[6]

The implications of these ambitious targets for the Uganda Revenue Authority (URA) are profound. The URA, tasked with meeting these heightened expectations, faces immense pressure to dramatically improve its revenue collection efforts. However, given the recent performance and the prevailing economic conditions, there's a real risk that the URA is being set up for failure. The gap between projections and reality could lead to a significant credibility issue for the authority and potentially impact its operational strategies and public perception.

Moreover, the potential failure to meet these ambitious revenue targets has far-reaching implications for overall budget execution. If revenues fall short, as they did in the previous year, the government will likely face difficult choices. It may need to increase borrowing further, potentially exacerbating an already concerning debt situation. Alternatively, it might be forced to cut spending in critical areas, potentially undermining key development objectives and service delivery.

The ripple effects of unrealistic revenue projections could extend to various sectors of the economy. Shortfalls in revenue collection might lead to delays in government payments, affecting suppliers, contractors, and even public sector employees. This could, in turn, slow down economic activity and create a cycle of reduced tax revenue, further complicating the fiscal situation.

Furthermore, consistently missing revenue targets could erode investor confidence and potentially impact Uganda's credit ratings. This could make future borrowing more expensive, further straining the country's financial resources.

In light of these concerns, it becomes crucial for policymakers to reassess the revenue projections for FY2024/25. A more conservative and realistic approach to revenue forecasting, based on recent performance and current economic indicators, would provide a more solid foundation for budget planning. This would allow for more accurate resource allocation and reduce the risks associated with overly optimistic projections.

Additionally, there's a pressing need for strategic reforms and capacity building within the URA to enhance revenue collection efficiency. This could include improving tax compliance measures, broadening the tax base, and leveraging technology for better tax administration.

[5] Uganda CSO position paper of FY 2024/25 Budget
[6] Budget Speech FY 2024/25

Ultimately, addressing these revenue generation concerns is vital for ensuring the successful execution of the budget and maintaining Uganda's fiscal health. Failure to do so could lead to a cycle of missed targets, increased borrowing, and compromised development objectives, undermining the very goals the ambitious budget seeks to achieve.

Debt Sustainability

Uganda's debt sustainability has become a pressing concern, with recent figures and projections painting a worrisome picture of the country's fiscal health. The current debt stock has reached alarming levels, and discrepancies in reported figures add a layer of complexity to the issue.

According to the Auditor General's report from December 2023, Uganda's public debt stock peaked at UGX 97.4 trillion. This figure contrasts with the Ministry of Finance's lower estimate of Shs 93.38 trillion for the same period. This discrepancy of over 4 trillion shillings raises questions about transparency and accuracy in debt reporting, potentially undermining public trust and complicating economic planning.[7]

Looking ahead, the International Monetary Fund (IMF) projects that Uganda's public debt will continue to rise, reaching approximately UGX 110.6 trillion by the end of FY2024/25. This projected increase signals a concerning trend of rapidly accumulating debt, which could pose significant challenges for future economic stability and growth.[8]

The debt-to-GDP ratio has emerged as a critical indicator of Uganda's fiscal health. As of December 2023, the Auditor General's report places this ratio at 53%, raises red flags about the sustainability of Uganda's debt burden and its potential to constrain economic growth.[9]

While the Auditor General's report presents a more alarming picture, the Ministry of Finance continues to paint a relatively optimistic view. The Ministry estimates the debt-to-GDP ratio at 46.9% as of June 2023, projecting it to reach 47.9% by June 2024. This divergence in figures and interpretations complicates the assessment of Uganda's true fiscal position and may hinder effective policy responses.

The impact of this burgeoning debt on Uganda's development expenditure is profound. In the FY2024/25 budget, a significant portion is allocated to debt servicing. Out of the total budget of Shs 72.136 trillion, statutory expenditure - which includes debt repayments - amounts to Shs 34.756 trillion. This massive allocation for debt servicing constrains the resources available for crucial development initiatives and essential services.

Furthermore, the budget proposes additional domestic borrowing of UGX 8.9 trillion for FY2024/25. This continued reliance on borrowing, despite the already high debt levels, risks exacerbating the debt sustainability issues and could lead to a vicious cycle of borrowing to service existing debt.

The substantial debt servicing requirements are crowding out investments in key sectors such as healthcare, education, and infrastructure. This redirection of resources from productive investments to debt repayment could hinder Uganda's long-term economic growth and

[7] Auditor General's report from December 2023
[8] International Monitory Fund report 2023
[9] Budget Speech FY 2024/25

development prospects. It also limits the government's fiscal flexibility to respond to economic shocks or invest in emergent opportunities.

The situation calls for urgent attention and a comprehensive strategy to address debt sustainability. This may include reassessing borrowing plans, improving debt management practices, enhancing domestic revenue mobilization, and prioritizing high-impact development expenditures. Additionally, reconciling the discrepancies between different government bodies' debt figures is crucial for accurate planning and maintaining credibility with both citizens and international partners.

As Uganda continues to navigate its development path, balancing the need for investment with debt sustainability will be crucial. Failure to address these debt concerns could not only impede economic growth but also jeopardize the country's ability to provide essential services and respond to future crises. A more transparent, cautious, and strategic approach to debt management is essential for securing Uganda's economic future.

Budget overview

Uganda's FY2024/25 budget presents a complex picture when examining the alignment between stated priorities and actual allocations. This discrepancy becomes particularly evident when analyzing key sectors such as agriculture and digital transformation, which are touted as cornerstones of Uganda's economic development strategy.

The government has consistently emphasized the importance of agriculture as the backbone of Uganda's economy. However, the budget allocation for this crucial sector falls significantly short of both rhetoric and international commitments. For FY2024/25, the government has allocated Shs 1.878 trillion towards deepening agro-industrialization, with a focus on commercialization and value addition. While this amount may seem substantial at first glance, it represents a mere 2.60% of the total Shs 72.136 trillion budget.

This allocation starkly contrasts with Uganda's commitment under the Maputo Declaration of 2003 and the subsequent Malabo Declaration of 2014, where African Union member states pledged to allocate at least 10% of their annual national budgets to agriculture. The current allocation not only falls far short of this target but also raises questions about the government's genuine commitment to transforming the agricultural sector.[10]

Similarly, the government's emphasis on digital transformation as a key priority area is not adequately reflected in the budget allocations. For FY2024/25, the government has provided approximately Shs 246 billion for ICT and digital transformation initiatives. While this allocation covers various aspects including internet connectivity expansion, digital service rollout, and cybersecurity, it represents a minuscule fraction of the overall budget. Given the transformative potential of digital technologies in modern economies, this allocation seems inadequate to drive significant change or position Uganda as a competitive player in the digital era.

[10] Maputo Declaration 2003

The implications of these misalignments between stated priorities and budget allocations are far-reaching. In the agricultural sector, the underfunding may hinder efforts to modernize farming practices, improve productivity, and achieve food security. It may also slow down the transition from subsistence to commercial agriculture, a key goal in Uganda's development strategy. The limited investment in agricultural research, mechanization, and irrigation systems could constrain the sector's growth potential and its ability to provide employment and income for a significant portion of the population.

For digital transformation, the modest allocation may impede Uganda's ability to bridge the digital divide, both internally and in comparison, to regional and global competitors. It could slow down the adoption of e-governance solutions, limit the expansion of digital infrastructure to rural areas, and hinder efforts to create a skilled workforce ready for the digital economy. This underfunding may ultimately affect Uganda's competitiveness in attracting tech-based investments and participating fully in the global digital economy.

The disconnect between rhetoric and actual budget allocations could erode public trust in government priorities and commitments. It may also affect Uganda's credibility with international partners and investors who look to budget allocations as indicators of a country's true development priorities.

The situation calls for a critical reassessment of budget allocation strategies to ensure they align more closely with stated national priorities and international commitments. This may involve reallocating funds from lower-priority areas, improving efficiency in resource utilization, or exploring innovative financing mechanisms to bridge the funding gaps in key sectors.

To achieve its stated goals, Uganda needs to demonstrate a stronger commitment to its priority sectors through more substantial and targeted budget allocations. This would involve not just increasing the quantum of funds but also ensuring that these allocations are strategically directed towards high-impact initiatives within each sector.

Therefore, the current misalignment between budget allocations and stated priorities poses a significant challenge to achieving Uganda's development goals. Addressing this discrepancy is crucial for realizing the transformative potential of key sectors like agriculture and digital technology, and for maintaining Uganda's credibility in its development agenda. A more balanced and priority-aligned budget approach is essential for translating Uganda's development vision into tangible economic and social progress.

Recurrent Expenditure concerns

Uganda's FY2024/25 budget reveals significant concerns regarding recurrent expenditure, particularly in terms of the wage bill and other operational costs. These allocations, while necessary for the day-to-day functioning of the government, are placing considerable strain on the country's fiscal resources and potentially hampering development efforts.

The budget projects wages and salaries to amount to Shs 7.926 trillion, a substantial figure that reflects the government's obligations to its extensive public sector workforce. This allocation, while essential for maintaining government operations and services, represents a significant portion of the overall budget. When combined with non-wage recurrent expenditure, which is set at Shs 17.454 trillion, the total recurrent costs consume a large share of the available resources.

These recurrent expenditures, totaling Shs 25.38 trillion (combining wages and non-wage recurrent costs), account for approximately 35.2% of the total budget of Shs 72.136 trillion. This high proportion of recurrent costs raises concerns about the sustainability of Uganda's public expenditure and its impact on long-term development goals.

The substantial allocation to recurrent expenditure directly affects the resources available for development initiatives. While the budget allocates Shs 34.7 trillion for development expenditure, which appears significant at first glance, the reality is more complex. Of this amount, only Shs 6.152 trillion is sourced from the government's own resources, with the remainder relying heavily on external project financing of Shs 9.584 trillion.

This reliance on external financing for development projects underscores the constraints imposed by high recurrent costs. The government's ability to self-fund critical infrastructure and social development projects is severely limited, potentially compromising the country's long-term growth prospects and sovereignty in development planning.

Moreover, the high recurrent expenditure leaves little fiscal space for responding to unforeseen circumstances or economic shocks. This lack of flexibility could prove problematic in times of crisis or when opportunities for strategic investments arise.

The impact of these recurrent expenditure concerns extends beyond mere budgetary constraints. It affects Uganda's ability to invest in crucial areas such as healthcare, education, and infrastructure – sectors that are vital for long-term economic growth and social development. The limited resources available for development expenditure may lead to delays in implementing key projects, potentially slowing down the country's progress towards its development goals.

Furthermore, the high wage bill and recurrent costs could contribute to inflationary pressures in the economy. If not matched by corresponding increases in productivity and economic output, these expenditures might lead to macroeconomic instability.

Addressing these concerns requires a multi-faceted approach. The government needs to critically examine its public sector size and structure, potentially implementing reforms to enhance efficiency and reduce unnecessary costs. This could involve streamlining government operations, leveraging technology to improve productivity, and reassessing the necessity of certain public sector roles.

Additionally, there's a need for improved prioritization in budget allocation. While recurrent expenditures are necessary, finding a better balance between these costs and development expenditures is crucial. This may involve making difficult decisions about which programs and services to prioritize and which to scale back or eliminate.

The government should also focus on enhancing domestic revenue mobilization to reduce reliance on external financing for development projects. This could involve broadening the tax base, improving tax administration, and exploring innovative financing mechanisms.

The high recurrent expenditure in Uganda's FY2024/25 budget , therefore poses significant challenges to the country's development agenda. While these costs are essential for government operations, their current level is constraining resources available for crucial development initiatives. Addressing this issue is vital for ensuring Uganda's long-term economic growth and social progress. It requires a careful balancing act between maintaining necessary government functions and creating fiscal space for investments in the country's future.

Policy Recommendations

In light of the challenges and concerns identified in Uganda's FY2024/25 budget, a series of policy recommendations are crucial to enhance fiscal responsibility, ensure sustainable development, and improve overall economic management.

Firstly, there is an urgent need for more realistic revenue projections. The government should adopt a conservative approach to forecasting, basing projections on historical performance and current economic indicators rather than overly optimistic scenarios. This could involve developing a robust revenue forecasting model that incorporates various economic factors and potential risks. Additionally, the Uganda Revenue Authority should be empowered to provide independent revenue projections, free from political influence, to ensure more accurate and reliable estimates. Regular reviews and adjustments of revenue projections throughout the fiscal year would also allow for more agile and responsive fiscal management.

Addressing debt management and sustainability is paramount. The government should establish a clear debt ceiling, aligned with international best practices, and strictly adhere to it. Implementing a comprehensive debt management strategy that prioritizes concessional loans over commercial borrowing could help reduce the debt burden. Furthermore, conducting regular debt sustainability analyses and making these publicly available would enhance transparency and inform policy decisions. The government should also consider establishing an independent debt management office to oversee borrowing activities and ensure they align with long-term economic interests.

To better align budget allocations with stated priorities, a thorough review of the budgeting process is necessary. The government should implement a performance-based budgeting system that links allocations directly to measurable outcomes in priority sectors. For instance, if agriculture and digital transformation are indeed priorities, their budget allocations should reflect this, potentially by reallocating funds from lower-priority areas. Moreover, instituting a mandatory alignment check between the national development plan, sector strategies, and budget allocations would ensure consistency between stated goals and financial commitments.

Improving budget transparency and accountability is crucial for building public trust and ensuring effective use of resources. The government should publish detailed, citizen-friendly budget documents that clearly explain allocations, sources of funding, and expected outcomes. Establishing a robust monitoring and evaluation framework for budget implementation, with regular public reporting, would enhance accountability.
Additionally, strengthening the role of parliamentary oversight committees and the Auditor General's office in budget scrutiny could improve fiscal discipline.

To address the recurrent expenditure concerns, the government should undertake a comprehensive public sector review aimed at optimizing the workforce and improving efficiency. This could involve implementing performance-based remuneration systems, digitalizing government processes to reduce operational costs, and potentially outsourcing non-core functions to reduce the wage bill.

In terms of revenue generation, diversifying the tax base and improving tax administration should be prioritized. This could include measures such as broadening the scope of digital taxation, improving property tax collection, and strengthening measures against tax evasion and avoidance. Investing in capacity building for tax officials and modernizing tax collection systems could also yield significant returns.

To enhance development expenditure, the government should explore innovative financing mechanisms such as public-private partnerships, especially for large infrastructure projects. This approach could help reduce the burden on the national budget while still driving development.

Lastly, to address the discrepancies in debt figures, the government should establish a unified debt reporting system that reconciles data from various sources, including the Ministry of Finance and the Auditor General's office. Regular public debt audits and the publication of comprehensive debt reports would enhance transparency and allow for more informed public discourse on debt management.

Conclusion

Uganda's FY2024/25 budget presents ambitious goals but faces significant challenges in terms of revenue generation, debt sustainability, and alignment with stated priorities. Key findings reveal unrealistic revenue projections, a concerning debt-to-GDP ratio, and misalignment between budget allocations and priority sectors like agriculture and digital transformation. To address these issues, main policy recommendations include adopting more conservative revenue forecasting, implementing a comprehensive debt management strategy, aligning budget allocations more closely with stated priorities, and enhancing budget transparency and accountability. Additionally, optimizing recurrent expenditures, diversifying the tax base, and exploring innovative financing mechanisms are crucial steps. Implementing these measures will be essential for Uganda to achieve sustainable economic growth, improve public service delivery, and maintain fiscal stability in the face of domestic and global economic challenges.