development initiatives

November 2017

pro-poor orientation of the 2017/18 Uganda Budget

what will the ‘industrialisation’ focus mean for the poorest and most vulnerable people?

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report

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Executive summary

This paper analyses Uganda's budget for the 2017/18 financial year in the context of issues surrounding Uganda's development, including poverty and resource availability and use, alongside its medium-term development framework and commitments to end poverty. The budget is the main instrument at the disposal of government in financing activities that can address these challenges. Hence this paper takes an in-depth look at how the budget is structured in terms of resource allocation to determine whether key decisions on resource investments are made towards the goal of addressing these challenges.

This paper details how the government budget responds to the needs of the poorest people and how it is tackling wider issues around reducing poverty and vulnerability in the country. Assessing all dimensions of the budgetary process, however, is a wider exercise beyond the scope of this paper.

The analysis focuses on five sectors: agriculture, health, education, social protection and related social sectors, and infrastructure. Besides having clear associations with the livelihoods and wellbeing of the poorest, these sectors have been identified as of relevance and concern in recent country assessments. Analysis focuses on expenditure because recent research by the International Monetary Fund (IMF) and Commitment to Equity[1] argues that Uganda's budget spending is not sufficiently redistributive in nature nor leading to inclusive growth since revenues are not well targeted at the poorest. This paper seeks to understanding who is benefiting from recent and planned budget allocations via different sectors.

A review of budgets for the past three years reveals that Uganda's budget and resource allocation have prioritised infrastructure spending. Uganda's strategic development documents such as the National Development Plan and Uganda Vision 2040 emphasise transformation and industrialisation, but also stress the importance of 'inclusive growth' to create sustainable development.

The following conclusions and recommendation are based on analysis of the 2017/18 budget and review of available evidence on policy, resource allocations and progress on poverty reduction.

Government revenue mobilisation is below regional neighbours and is constraining fiscal space, which limits the resources it can allocate to fund all areas of responsibility. While it is seeking to improve this, it has continued to provide progressive reforms in 2017/18 in areas that reduce the burden of taxation on the poorest. In the longer term it would do well to ensure that it is mindful of the impacts of the tax reforms on the poorest in its search for increased revenue collection.

Government is borrowing heavily from non-concessional sources to drive its industrialisation policy. This is causing public debt to rise, which – unless the investment leads to increased growth – will result in further constriction in the already-constrained fiscal space (e.g. rising interest payments) and debt vulnerability. Therefore, the government could ensure financing is appropriate, both in the type of financing used (e.g. manageable repayment schedules with low risk from currency fluctuations) and the investment decisions made (e.g. either directly or indirectly leading to inclusive growth).

Focus on 'industrialisation' has left key sectors relevant for the poorest de-prioritised – overall Uganda trails regional neighbours in funding key social and economic sectors disproportionally benefiting the poorest. However, in 2017/18, sectors like education and agriculture have only seen marginal increases, while environment and water, social development and health sectors have seen cuts in funding. The government calls this funding level 'adequate, but tight', yet there are key programmes in each sector that are highly relevant to the poorest (e.g. National Agricultural Advisory Services, youth livelihood projects) that are seeing cuts. Therefore, cuts could bear clear efficiency gains rather than impacting programme implementation. Also, the government could ensure that this de-prioritisation is short term and commit to the increases in funding needed to meet medium-term expenditure framework, the 'National Development Plan II', goals.

Although the government is **reducing dependence on development partners** in key sectors relevant to the poorest, it is still significant. This is a vulnerable position given the current policy environment around official development assistance, and the reduction in external support to water and environment in 2017/18 – a key concern given the issues created by drought in 2016/17. Therefore, development partners could be cognisant of needs by supporting priority areas, disbursing in a timely fashion and providing predictability of funding over the medium term to help government planning. Also, to tackle issues around climate change, the government could look at alternative sources of funding to support mitigation and adaptation efforts.

Introduction

On 8 June 2017, the Uganda budget for the 2017/18 financial year was read to parliament, marking an important milestone as the country's Medium-Term Development Framework – referred to as National Development Plan II (NDPII) – is halfway through its implementation. The NDPII aims to propel Uganda into middle-income status by 2020 by strengthening Uganda's competitiveness for sustainable wealth creation, employment and inclusive growth.

Low income countries like Uganda are faced with numerous development challenges linked to building a strong economy, trade and investment as well as social challenges like increasing life expectancy and quality of life for poor and vulnerable people and environmental challenges like reducing impacts of climate change. Therefore, as the budget is the main instrument at the disposal of government in financing activities that can address these challenges, it is critical to take an in-depth look at how it is structured in terms of resource allocation to determine whether key decisions on resource investments are made towards the goal of addressing these challenges.

Given Uganda's high levels of poverty and vulnerability and the government's commitment to address these challenges while promoting inclusive growth, it is important to assess the responsiveness of the budgetary process to this commitment. Uganda's poverty and vulnerability challenges cut across economic, social and environmental themes. Therefore, understanding how the government budget responds to the needs of the poorest people and how it is tackling wider issues relevant to reducing poverty and vulnerability in the country is very important.

There is no standard approach to analysing budget responsiveness to the needs of the poorest. Some governments, through IMF programmes, track spending in a number of sectors termed pro-poor or poverty responsive. However, as detailed in our analysis of the 2016/17 budget in Uganda and similar work in Kenya, our approach is more holistic. It encompasses not only revenue and spending, but also fiscal prudence and linkages of the budget to stated plans and outcomes. As this approach covers a wide range of areas it is not possible to cover them all in this paper, which draws on existing assessments and government priorities to define its scope.

The paper sets out the existing development landscape and demonstrates why an assessment of the responsiveness of the budget to the poorest is of value. It then outlines the nature and scope of analysis before assessing the 2017/18 budget, and proposing conclusions and recommendations.

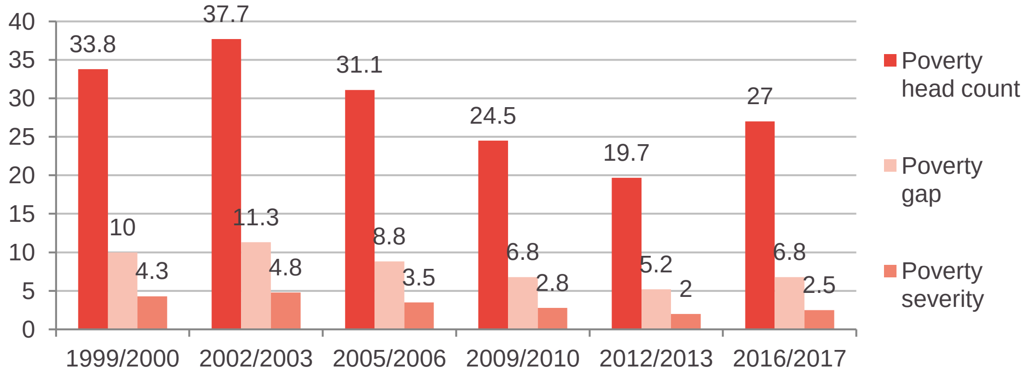
Defining a budget responsive to the poorest

The budget is an opportunity for the Government of the Uganda to respond to the needs of the poorest and most vulnerable people

Uganda embraced the Sustainable Development Goals (SDG) and aligned them with its medium-term development targets. For example, SDG 1 (end poverty in all its forms everywhere) is aligned with the target of reducing poverty rate from 19.7% in 2012/13 to 14.2% and achieving middle-income status by 2020. However, Uganda faces increasing poverty as revealed by the Uganda Bureau of Statistics (UBOS) in the Uganda National Household Survey (UNHS) 2016/17 report.[2] While government's strategy has been to achieve the NDPII targets through wealth creation as a new paradigm for growth and development, in fact poverty has increased from 19.7% in 2012/13 to 27% in 2016/17. This section provides analysis of poverty trends and vulnerability in light of government commitments to address poverty through targeted action and promotion of inclusive growth. It also attempts to point out how Uganda's resource allocation through the budget could be responsive to the poorest.

Uganda made impressive progress in reducing poverty from over 50% of the population living below the national poverty line in 1993 to less than 20% in 2013.[3] However, the UNHS 2016/17 report shows that poverty increased from 19.7% in 2012/13 to 27% in 2016/17 (see Figure 1). With population increasing at a rate of 3% per annum, this now represents an estimated 10.1 million people living below the national poverty line.[4] Over 33% of the population is estimated to be below the international poverty line of $1.90 a day,[5] compared with 41% for sub-Saharan Africa.[6]

Figure 1: Poverty, going by national definition, increased between 2012/13 and 2016/17



Source: Development initiatives based on UNHS 2016/17 data

While progress was made in reducing the proportion of people in poverty between 2002 and 2012, there has been little progress in reducing the vulnerability of those at risk of falling into poverty. In 2013 some 43% of the population was vulnerable to falling back into poverty in the event of a shock (see Figure 2), a figure little changed since the turn of the millennium.

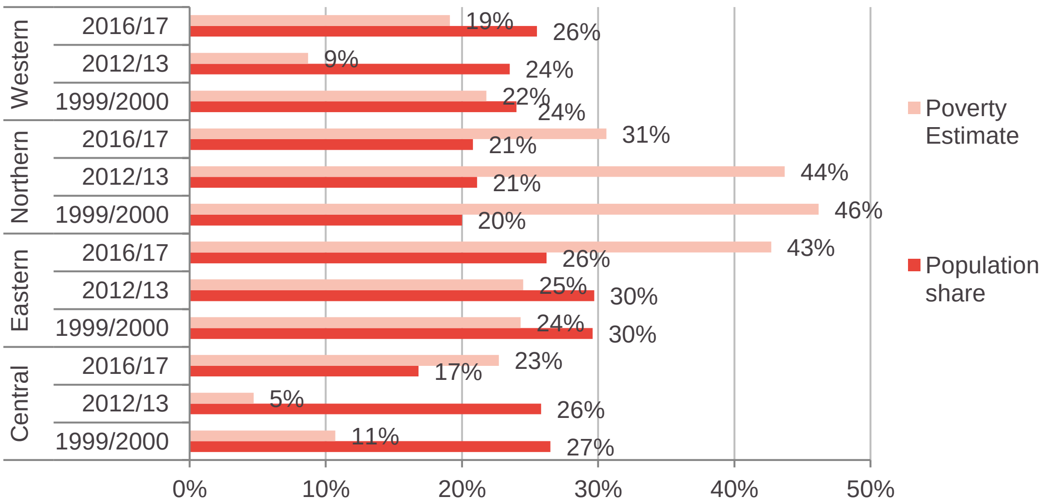
Figure 2: Poverty on the decline but vulnerability on the rise

Source: Development initiatives based on UNHS 2012/13 data

There are also stark regional differences in poverty that may demand more tailored and specific policy interventions. Regional inequality remains very high and is becoming more concentrated in certain parts of the country. In 2006, approximately 68% of poor people lived in the northern and eastern parts of the country, increasing to 84% in 2013.[7] The UNHS 2016/17 shows Northern Uganda as the only region in which poverty reduced from 2013 to 2017 – in its case, from 44% to 31%. Eastern, Western and Central regions experienced 18, 10, 19 percentage point increases in poverty respectively from 2013 to 2017 (see Figure 3).

Inequality between regions is increasing as economic progress and subsequent wealth distribution has been limited to certain areas. Poverty in Eastern Uganda increased from 24% to 43% from 2000 to 2017, making it the poorest region in the country. Central Uganda ranked as least poor in 2013 but poverty increased from 5% to 19% from 2013 to 2017 reducing it to the third place after the Western region, where poverty also increased from 9% to 19% from 2013 to 2017 (Figure 3).

Figure 3: Poverty on the increase, regional inequality remains high with Eastern and Northern regions poorer than Western and Central regions



Source: Development initiatives based on UNHS 2012/13 and 2016/17 data

Knowing who the poorest people are and the constraints and challenges they face is a vital step in addressing poverty and vulnerability. Understanding the characteristics and needs of the poorest guides the action the budget could take to implement effective policy and programmes that drive the country towards achieving key poverty targets.[8]

For example, according to the UN Development Programme (UNDP)'s Uganda poverty status report 2014, poor households in Uganda have some unique characteristics compared with households living above the poverty line.[9] These include a higher likelihood of having less than two meals a day, living in poor quality housing, children not having shoes, facing high labour and land constraints, and having no assets or livestock.

The World Bank[10] and UNDP poverty assessment reports also reveal that the poorest and most vulnerable Ugandans are most likely to live in rural areas; rely on subsistence agriculture as the only livelihood option due to lack of marketable skills; have high dependence ratios and large household sizes; have limited access to basic services such as education, health, good housing, information and other public utilities such as electricity; be highly vulnerable to even the slightest shocks and be located in north Eastern and Eastern sub-regions of Uganda.

According to UNDP, key challenges faced by the poorest Ugandans include high unemployment especially among youths and gender inequality. Alongside limited access to basic services, these are the major causes of high rates of poverty in Northern Uganda.[11] Such challenges also constrain poor households' survival options, making them more vulnerable to impacts of droughts, irregular rains, floods and crop pests and diseases, as well as the loss of income through illness or accidents of income earners.[12]

The Uganda government has sought to address these challenges through NDPII 2015/16–2019/20. It has committed to a range of policies and investments to better target the needs of the poorest, and promote inclusive growth. In so doing it has also set a target of reducing poverty to 5% by 2020. Assessing the extent to which the budget and the wider budgetary process impacts those in poverty is key to reviewing progress in achieving these ambitions.

Assessing the responsiveness of Uganda's budget process to the poorest – approach and scope

There is no standard approach to analysing budget responsiveness to the needs of the poorest people. Past exercises have largely been confined to an assessment of expenditures. For example, some governments through IMF programmes track spending in a number of sectors termed pro-poor or poverty responsive. The Bangladesh government assesses the extent to which its budget directly and indirectly leads to poverty reduction while organisations such as Commitment to Equity assess both the impact of government revenue generation and level of redistributive spending.

However, there are many ways in which the wider budgetary process impacts on the poorest people. Of clear importance are government budgetary allocations, which sectors are receiving investments and where geographically these investments are being directed. Additionally, the ways in which revenues are raised, explicit assessments of the links between allocations and strategic objectives, and scrutiny and feedback on the outcomes of allocations are important. To assess the extent to which the budgetary process addresses poverty and social development priorities it is necessary to look across the full scope of the budget process and scrutinise each step from a poverty reduction perspective. Yet such an exercise is beyond the scope of this paper. Hence its scope is defined by issues identified in existing research alongside priority policy instruments emphasised by government.

This analysis maintains a focus on expenditure. Both the 2016 Commitment to Equity report[13] and the 2017 IMF Policy Support Instrument report[14] highlight that spending in Uganda is not sufficiently redistributive in nature nor leading to inclusive growth since revenues are not well targeted at the poorest. Hence this paper seeks to understand who is benefiting from recent and planned allocations via different sectors.

The analysis focuses on five sectors: agriculture, health, education, social protection and related social sectors, and infrastructure. Besides having clear associations with the livelihoods and wellbeing of the poorest, these sectors have been identified as of relevance and concern in recent assessments.

For the past three years, however, Uganda's budget and resource allocation has shown high priority towards infrastructure spending, re-affirmed in the 2017/18 budget. This has raised concern that such investments are at a cost to human capital development. And particularly on education and health, which have seen government spending stagnate and shares of GDP decline[15] amid declining quality of service delivery to the poorest quintile of Uganda's population.[16]

To reduce poverty and sustain growth, IMF recommends higher social spending and stronger social safety nets such as health insurance and pension schemes for inclusive growth, shifting focus away from large infrastructure projects and the energy sector as drivers of growth and development.

While there is evidence of scaling up of direct income support to senior citizens under the social development sector, stagnation in expenditure support to social development activities especially by local governments[17] calls for review of their implementation and impacts. This is especially in light of limited development fund allocations and narrow scope of social development activities at local government level.

Other changes are likely to diminish the value of social protection programmes in addressing poverty and vulnerability. These include donors withdrawing from financing social sector programmes,[18] and government's increase of age of eligible senior citizens from 65 to 85. Such developments also deviate from government's commitment to provide social protection safety nets to vulnerable citizens.

This paper also highlights the vital role of data in supporting a better understanding both of needs and financing for the poorest. The Government of Uganda has made remarkable progress on making available poverty and budget/finance data to the public. These are provided by line ministries and departments such as the Ministry of Finance, Planning and Economic Development, which produces programme-based budgeting at national/sub-national level that can track spending and poverty down to very focused areas. Data is also made available through ministry, department and agency annual reports on performance and outcomes.

Uganda also produces plenty of good data through its official statistics agency, UBOS – the principal data collecting, processing, analysing and disseminating agency responsible for coordinating and supervising the National Statistical System.[19] UBOS is regarded as one of the best national statistics offices in Africa; it publishes a range of nationally aggregated statistics relatively regularly.

Government also made investment through UBOS in the 2014 census, which is now able to track poverty levels down to sub-county level. UBOS data is complemented by data from other data sources such as the Ministries of Finance, Health and Education. The finance ministry, for instance, makes disaggregated data available through its budget website.

However, the government continues to face data challenges, notably funding gaps in statistics and gaps in both poverty and finance data which limit the ability to link expenditure to actual outcomes and thus monitor success. Uganda still needs quality and timely data to support decision-making to reach the poorest with target programmes such as Senior Citizen Grants in social protection and other programmes in the health, education and agriculture sectors.

There is need for increased investments in civil registration and measuring people so that the poorest can be better known about and planned for and so have better services made available to them. There is also lack of real in-year assessment of programme performance and the budget does not link spending to outcomes. At UGX 11.99 billion, UBOS's budget allocation is currently low to permit regular updates of vital statistics that can aid planning and decision-making.

Policy and research

Research and policy instruments are also used to define the scope of our analysis. For instance, the Uganda Public Finance Management Act[20] requires that annual budgets be aligned to national development plans. While government has steadily progressed in that direction, the National Planning Authority (NPA) certificate of compliance report (2015/16)[21] highlights alignment and compliance gaps with the NDP. For instance, only 26 of 133 local governments have development plans that are approved and aligned to the NDPII.[22]

At national level, only 7 of the 16 sectors have development plans approved and aligned to the NDPII. Lack of sector and local government planning and budget alignment to the NDPII shows clear weakness in budgeting, budget implementation and performance which constrain Uganda's fiscal policy effectiveness to drive the NDPII growth targets.

2017/18 budget analysis from a pro-poor perspective

The theme of the 2017/18 budget of ‘industrialisation for job creation and shared prosperity’ takes its lead from the 2016/17 budget theme of ‘productivity for job creation’. These have moved away from the previous budget themes, which highlighted public service delivery and social transformation. While moving the central focus of the budget towards industrialisation does not necessarily predicate a reduced focus on the poorest, it will be important to ensure that prosperity is shared and that adequate public services and safety nets are in place to ensure no one is left behind.

This section of the paper will review the overall fiscal policy of the 2017/18 budget in key areas for the poorest people, before focusing on spending allocation in sectors that are central to ensuring shared prosperity. The last part will review data challenges faced in understanding the budgets responsiveness to the needs of the poorest.

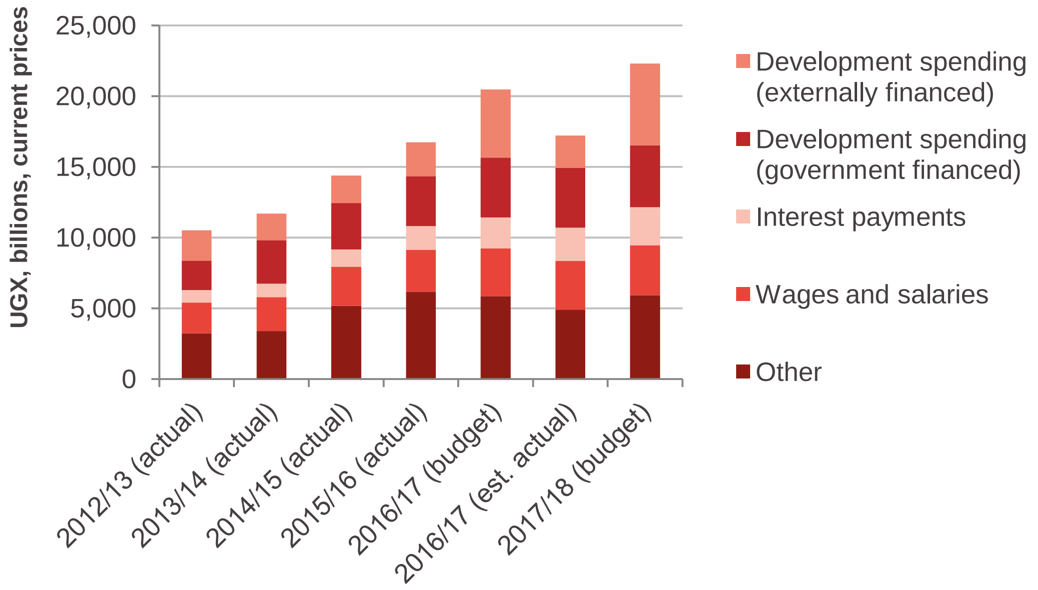
Overall government expenditure and resource envelope

Overall expenditure

Total budgeted government expenditure for the 2017/18 financial year is Uganda shillings (UGX) 22 trillion, an increase in nominal terms from the previous budget of UGX 20.5 trillion. While all aspects of expenditure have seen nominal term increases since 2012/13, the budget for 2016/17 and 2017/18 expenditure frameworks are significantly larger due to substantial increases in externally financed development expenditure (see Figure 4). These are based on borrowing from non-concessional sources (see next section).

However, in 2016/17 the government faced significant changes in disbursing externally financed development expenditure, impacting on project implementation, with overall spending only marginally increasing in nominal terms from 2015/16. In addition, due to increases in domestic and international non-concessional borrowing, interest payments increased from 8.5% of total spending in 2012/13 to an estimated 13.7% in 2016/17 and 12% in 2017/18.

Figure 4: Externally financed development spending is continuing to drive increases in budgeted expenditure, but implementation is a challenge



Source: IMF Country Report No 17/206 and Ministry of Finance 2017/18 approved estimates of revenue and expenditure

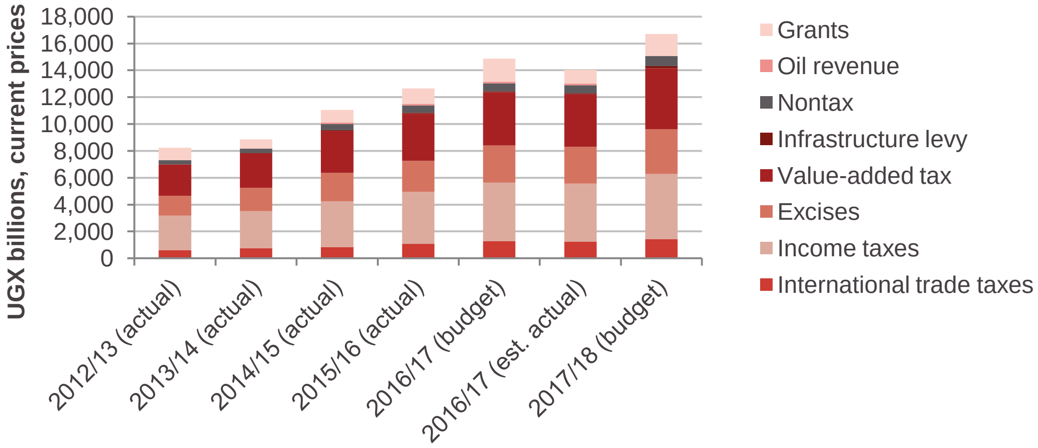
This picture raises a few important points. Firstly the ambition of the government to substantively increase development expenditure may be a positive one, provided projects can be implemented and delivered, and that they lead to inclusive economic growth. Secondly the rising level of interest payments risks reducing fiscal space for government, which may inhibit spending responsive to the needs of the poorest.

Overall resource envelope

Government revenue

Since 2012/13 government revenue has increased both in nominal terms (see Figure 5) and as a proportion of GDP (12.7% in 2012/13 to 16.5% in 2017/18). The central factor in this increase has been improvements in tax collection, both in direct (income tax) and indirect sources (VAT, excise and international trade taxes), highlighted in Figure 5. Grant funding continues to provide significant support to government revenue, at around 10% of the total and predominantly project based.

Figure 5: Improved direct and indirect tax collection has driven revenue increases



Source: IMF Country Report No 17/206 and Ministry of Finance 2017/18 Approve Estimates of Revenue and expenditure.

While increases in tax collection have provided more fiscal space to facilitate increased spending, the government recognises there is potential to increase it further, given the relatively low proportion of non-grant revenue as a percentage of GDP. Other countries in the region such as Rwanda and Kenya have higher proportions (17.6% and 20.5% respectively). To achieve this, the government is mandating greater responsibility and providing increased investment to the Uganda Revenue Authority to help improve the level of compliance. The government have targeted increasing non-grant revenue from 15% of GDP in 2017/18 to 16.2% in 2021/22.

The government's commitment to invest and work towards increasing revenue collection is a positive initiative for creating increased resources to invest in meeting the needs of the poorest; it could maintain its progressive approach to domestic resource mobilisation too. Within the 2017/18 budget there are encouraging signs that the government is committed to lessening the tax burden on the poorest, with VAT exceptions in some areas of high relevance, including on agricultural extension services, animal feed and irrigation systems.

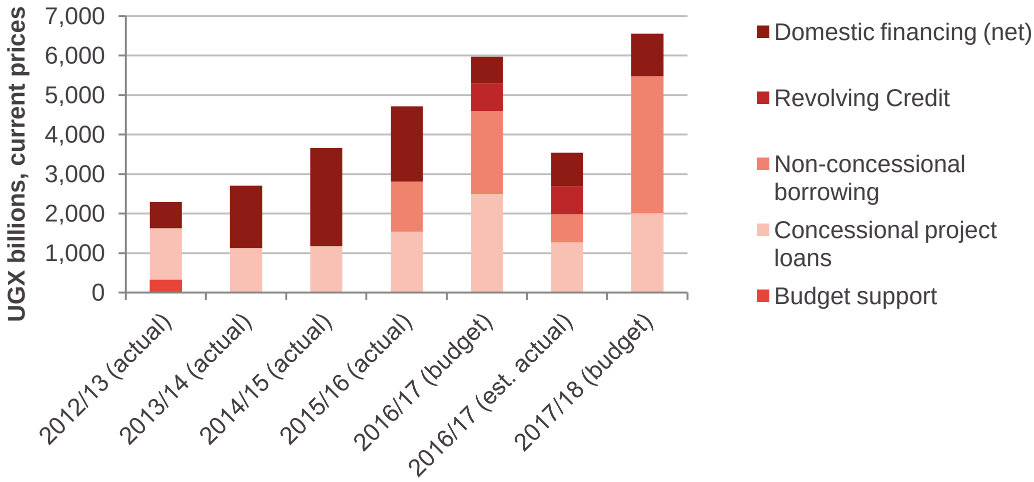
In addition, no VAT will now be payable on aid-funded projects, meaning this may result in fewer delays and reduce the compliance burden. The government is also exempting community savings and credit cooperatives from paying income tax to encourage increased savings, while Minister of Finance, Matia Kasaija, has explained that he wants to encourage more Ugandans to belong to financial institutions.[23]

However, with future increases in revenue projected to have a broad focus both within indirect and direct taxation, the government could continue working either to ensure that the tax regime remains progressive in nature or expenditure policies are redistributive in nature to counteract increasing regressive revenue mobilisation.

Financing

The Government of Uganda continues to use a range of financing mechanisms to balance the budget (see Figure 6). In 2012/13 the largest of these were external concessional budget support and project loans, with domestic financing used especially from 2013/14 to 2015/16. However, with the government borrowing extensively from domestic sources, it created a crowding out of access to finance for the private sector, and has turned to external non-concessional financing since 2015–16, mainly to fund investments in infrastructure. Although it has not been the largest financing source since 2012/13, the government continues to rely on external borrowing from concessional sources, which are project based rather than in the form of budgetary support.

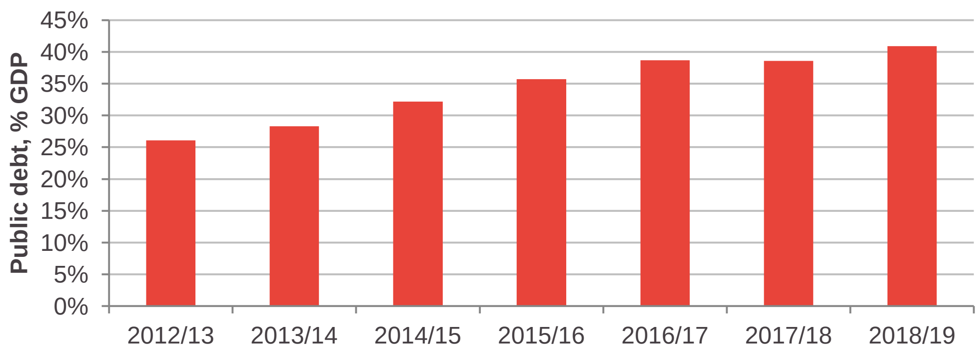
Figure 6: Non-concessional borrowing has risen rapidly since 2015/16



Source: IMF Country Report No 17/206 and Ministry of Finance 2017/18 Approve Estimates of Revenue and expenditure.

The increase in borrowing has resulted in a significant rise in public debt, from 26% of GDP in 2012/13 to a projected 41% in 2018/19 (see Table 7). As highlighted in the previous section, this has caused a rise in interest payments, which risks constraining fiscal space.

Figure 7: Increasing public debt is driven by increased borrowing



Source: IMF Country Report No 17/206 and Ministry of Finance 2017/18 approved estimates of revenue and expenditure

In its latest country report, the IMF has stressed that although levels of debt are sustainable,[24] whether they can be increased is dependent on the investments made with external non-concessional finance. If well invested, it can result in a significant impact on economic growth and making additional improvements to revenue mobilisation. Therefore, it is essential that financing is appropriately used, even if projects may not be in themselves pro-poor focused, as the consequences of unsustainable debt levels will have an impact on resources available for the poorest.

Expenditure allocation highlights for selected areas

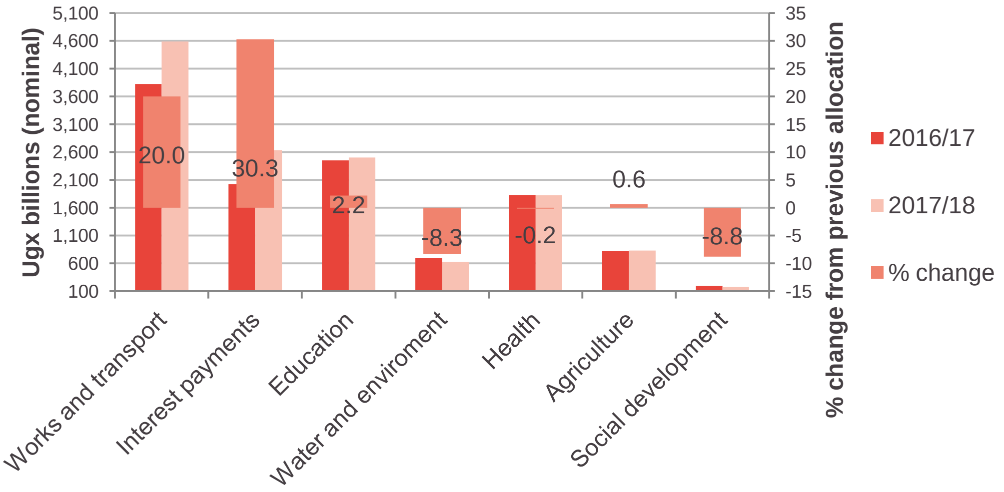
Although many areas of government spending could be classified as relevant to the poorest and most vulnerability people (e.g. security), it is not possible to conduct an extensive analysis on all of them, rather to focus on those which have the most potential to disproportionately benefit or exclude. The Government of Uganda has set targets of expenditures on poverty alleviating sectors – for example through its Policy Support Instrument programme with the IMF – and defines these as domestic public spending on health, education, water, environment and agriculture.

However, although it has exceeded the target each year since 2011/12, Uganda’s social spending – on education, health, pensions and social assistance – as a proportion of economic output is significantly lower than the average of other East African countries.[25] This therefore calls into question not only the ambition of this target, but also the definition, given that key areas for poverty alleviation like social protection and rural infrastructure are excluded.

With this in mind, this analysis of the 2017/18 budget expenditure across sectors will take a more holistic view than the government’s own poverty alleviating sectors, with social development and works and transport also included.

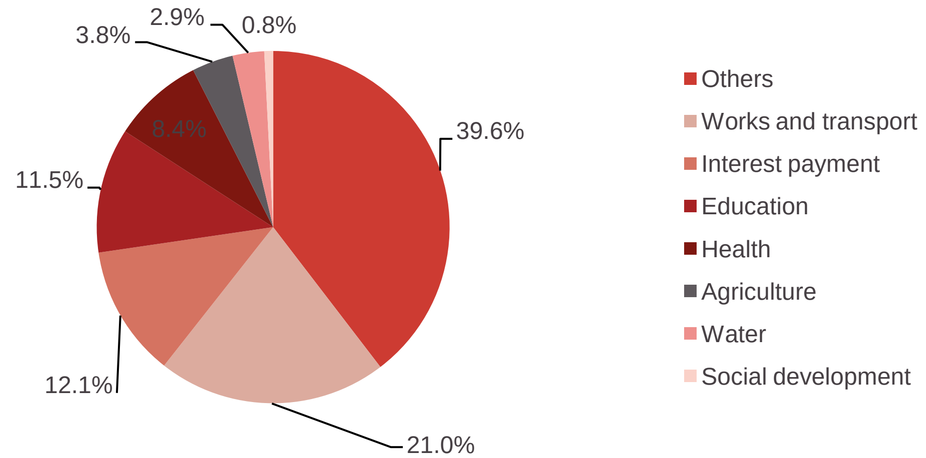
Figure 8 outlines the total sector budget of the six key areas, along with interest payments for comparison purposes. It clearly shows the 2017/18 budget focus on industrialisation and infrastructure, with a significant 20% increase in works and transport from the 2016/17 budget, compared with only modest nominal term increases in agriculture and education. Meanwhile there are falls in budget envelopes for health, water and environment, and social development sectors. The works and transport sector makes up 21% of the total budget, more than health, education and social development combined (Figure 9).

Figure 8: The 2017/18 budget allocations to key sectors deemed more responsive to the poorest will only see marginal increases and some will see cuts



Source: 2016/17 and 2017/18 approved estimates of revenue and expenditure, Volume I, Ugandan Ministry of Finance

Figure 9: Works and transport receives the largest share of the total budget



Source: 2016/17 and 2017/18 approved estimates of revenue and expenditure, Volume I, Ugandan Ministry of Finance

From this overall perspective, as highlighted by the latest IMF staff report,[26] the government is prioritising infrastructure and industrialisation development at the expense of increased investment in social development and in certain economic areas like agriculture, though it describes these allocations as 'adequate, although tight'.[27] With some key sectors with high relevance to the poorest seeing funding cut, the government could make efficiency gains to ensure the same level of public service delivery. The following sections look in detail at the sectors outlined to understand their projects and programmes and how the 2017/18 allocations respond to the needs of the poorest and relate to the governments commitments outlined through NDPII.

Agriculture, water and environment

Agriculture remains the backbone of Uganda's economy and is identified by the NDPII as one of the five sectors with greatest multiplier effect.[28] The sector employs over 72% of Uganda's total labour force[29] with between 75% and 80% of total agricultural output and marketed agricultural produce coming from poor subsistence farmers.[30] The World Bank argues that agriculture is critical for sustainable development and poverty reduction, and that agricultural growth can be a powerful means for inclusive growth for Uganda.[31] Indeed, it is thought that about 70% of Uganda's success at poverty reduction in the past 10 years occurred among subsistence farmers who are largely based in rural areas and constitute 94.4% of individuals below the national poverty line.[32] The government through NDPII recognises that the agriculture sector is key to increasing wealth creation and propelling Uganda towards its middle income country goal.[33]

Challenges the poorest and most vulnerable people face

Some challenges and constraints to the agriculture sector that affect the poorest and most vulnerable Ugandans are outlined in the NDPII.[34] These include slow technology innovations and adoption, particularly among women, who make up the majority of the labour force in the sector; poor management of pests and diseases; limited access to land and agricultural finance; a weak agricultural extension system (poor coverage, low quality of extension services and poor facilitation of extension staff); and lack of ownership and control over land by women. Access to affordable credit has also been a constraint to the poorest and most marginalised farmers.

A 2016 sector policy statement also identifies key challenges facing the agriculture sector as shortage of quality seeds and inputs on the market; high prevalence of pests, diseases and weeds; low access and outreach of agricultural credit facility among farmers; low production and productivity due to inadequate access to extension services; heavy dependence on rain-fed agriculture; and high dependence on donor-funded research work at the National Agricultural Research Organisation (NARO).[35]

In addition, the poorest people continue to face even greater challenges like frequent prolonged dry spells, increased incidence of crop pests and diseases and other adverse effects of climate change that seed distribution alone cannot address. These challenges have drastically reduced crop production and food availability for the poorest households especially. Lack of suitable drought and crop insurance schemes has often exposed the poorest to total crop loss and food insecurity during bad production seasons.[36]

Government commitment and past performance

Government's current agriculture sector focus is on the Operation Wealth Creation (OWC) initiative under the agricultural advisory services programme in which heavy investment has gone into agricultural inputs (seeds and planting materials) purchase and distribution. While the aim of OWC was to cure inefficiencies of the National Agricultural Advisory Services (NAADS) programme, its implementation so far has come under scrutiny following reports of farmers selling off their free inputs and rejection of planting material at district level due to late delivery, wrong variety, poor quality or because it was imposed on farmers who did not request them.[37] These concerns are shared by parliamentary Committee on Agriculture, Animal Industry and Fisheries, which reported that the OWC inputs distribution process is rife with challenges and inefficiencies including late distribution, very low quantity, poor quality, wrong targeting and lack of follow-up advisory services to farmers who receive the planting materials.[38]

The government is also in the process of recruiting agricultural extension workers under its new single spine extension system. Government expects to raise the extension worker-to-farmer ratio from the current 1:2,500 to 1:1,500 when it reaches 68% staffing level for extension workers in local governments.[39] Government is also committed to addressing challenges like prolonged and heavy reliance on rain-fed agriculture associated with climate change by increasing investments in large-scale irrigation schemes and setting up small-scale irrigation demonstration sites across the country.[40]

Despite these commitments, government's resource allocation to agriculture has only marginally increased in the past five years. The Agriculture Sector Strategic Plan 2015/16–2019/20 indicates that while total budget allocation to the sector has been increasing, the percentage allocation of the national budget declined from 3.4% in 2012/13 to 2.7% in 2015/16. The plan also acknowledges that the gap between budget allocation to the sector and the NDPII expenditure framework has been widening as the share of budget allocation to agriculture of the total budget declines.[41]

The Auditor General's 2016 report rated agriculture sector performance as extremely poor and blamed poor performance on slow technological innovations, increasing vulnerability to climate change and a very weak agricultural extension system.[42] The Auditor General warns that inadequate extension workers are likely to affect programmes such as NAADS and OWC where government so far spent UGX.155.8 billion on agricultural inputs.[43] Declining sector performance and minimal fundamental change in how agriculture is practised by poor famers over the period of significant poverty reduction indicates potential sustainability problems.[44]

The key challenges for the government, therefore, are to strategically invest in modernising agriculture to transform it from the predominantly rain-fed low external input subsistence farming methods to modern climate smart and market-oriented production. This could be through increased resource allocations and investments in small-scale irrigation, training of farmers in new methods of production that are less prone to climate shocks, increased investment in pro-poor agricultural research, technology transfer and fixing gaps in delivery of quality extension, ensuring greater efficiency in implementation of ongoing programmes like NAADS and increasing poor farmers' access to affordable credit.

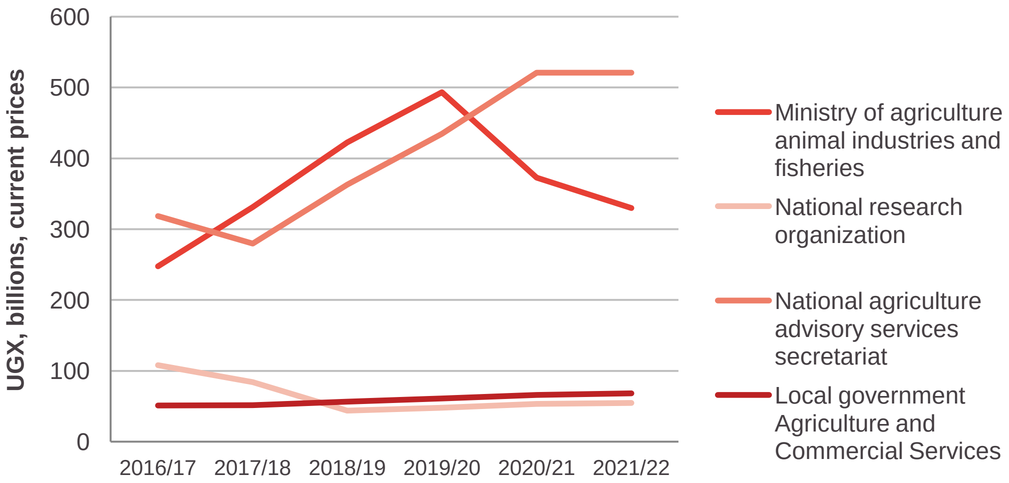
Agriculture, water and environment 2017/18 and medium-term budget and allocations

The agriculture sector was allocated UGX 828.5 billion in the 2017/18 budget, up slightly in nominal terms from UGX 823.4 billion in 2016/17 (0.6% up). Much of the sector resource allocation will go into financing the Agricultural Advisory Services Programme and NAADS Secretariat which takes UGX 279.7 billion or 34% of total sector budget.

However, the budget allocated to NAADS has seen a cut from 2016/17 (Figure 10) due to reduction in the development budget, one which is a concern given the key relevance NAADS plays to advising poor and marginalised farmers.

Although funding to NAADS is expected to increase over the medium term up to 2021/22, highlighting government's commitment to this area, these medium-term projections could also lead to increased budgetary allocations in future. However, concerns remain with the disproportionately large resource allocations to the NAADS programmes whose focus remains on seeds and planting materials purchase and distribution through the president's OWC initiative. This is facing several challenges, such as late delivery of agricultural inputs, supply of low-quality inputs and mismatch of farmers needs and type of input supplied. These challenges could easily fail the program on delivering the promise of enhancing poor household's participation in commercial agriculture through community mobilisation, equitable and timely distribution of inputs.

Figure 10: Growing resource allocation to national agriculture advisory services secretariat and stagnation in local government agriculture and commercial services



Source: 2017/18 approved estimates of revenue and expenditure, Volume I, Ugandan Ministry of Finance

Notes: NAADS: National Agricultural Advisory Services; NARO: National Agriculture Research Organization

External financing contributes significantly to the sector, making up 25% of the total, with the Ministry of Agriculture, Animal Industry and Fisheries and the NARO budgets 48% and 54% respectively financed from external sources. The reason for the decline in funding in Figure 10 after 2019/20 is due to a drop in external funding, while domestic public resources allocated to agriculture sector are set to increase up to 2020/21. As the government is not aware of development partners' funding plans, it makes medium-term sectoral planning difficult.

The reliance on donor funding agricultural research and 22% cut in NARO's budget brings into question the sustainability of research activities in the medium term when projected resource flows to the vote[45]will decline and remain very low from 2018/19 to 2021/22. Low resource allocation for research also constrains NARO's ability to connect its research outputs to farmers and make available new technology and innovations to poor subsistence farmers.

Bearing in mind the impacts of drought seen in 2016/17 and the risks posed by climate change, the government (through its budget speech) has recognised the need to 'fast track' irrigation, focus on reforestation and prevent wetland destruction. For example, the budget has committed to commence construction on five irrigation schemes, design schemes for implementation in other areas of the country and restore degraded wetlands in 117 local government areas.

This is encouraging, yet there is significant reliance on external funding in this area and development partner assistance has seen a large decline in 2017/18 from 2016/17. This means the government may need to invest more of its own resources or seek other sources of external funding for climate change mitigation and adaptation to sufficiently finance this critical area for the poorest and most marginalised farmers and rural communities.

In addition, Uganda's lack of drought insurance programmes mean it is less prepared to respond to such drought-related shocks than neighbour Kenya, which has made significant strides in delivery of drought insurance services to its farmers. For example, Kenya has put in place the 'Hunger Safety Net Programme' to support 84,600 households in drought-prone areas and allocated 3.5 billion Kenyan shillings (UGX 123 billion) to the programme in 2017/18.

The government could therefore consider helping the poorest Ugandans through options like insurance schemes against droughts and crop failure. It could also fast track ongoing recruitment of agricultural extension staff in all districts and facilitate them to deliver quality agricultural advisory services to enable poor farmers to make better use of other agricultural inputs.

Health sector

Access to healthcare is of utmost importance for sustainable poverty reduction because sickness is among the most frequent causes of poverty in developing countries while poverty is one of the greatest health risks facing low income countries.[46] Targeted interventions in promoting good health among the population is, therefore, vital in breaking the vicious circle of poverty in which one-third of Uganda's population is trapped. The NDPII identifies health as a key sector in meeting Uganda's medium-term development targets through human capital development.

At present Ugandan households contribute the largest share of total health expenditure and incur high healthcare costs as manifested in Uganda's high out-of-pocket healthcare spending.[47] Diverting incomes away from necessities like basic education and skills development into treating preventable sickness limits their spending on areas that could directly improve their livelihoods and promote good health, therefore reducing poverty and vulnerability.

Challenges the poorest and most vulnerable people face

The NDPII points out lack of access to basic healthcare services by the poorest Ugandans as a key health sector challenge. It argues that constrained participation of the poorest in government programmes and limited access to health services keeps people in perpetual poverty and low human development.[48] Even with free medical services in some areas, Uganda is still far from its goal of health for all.[49] For example, there are still high levels of maternal mortality, infant and child mortality, and under-nutrition among children below 5 years and women of reproductive age.[50] Health services provision is especially lacking in Northern and Eastern Uganda, where poverty rates are highest; these regions have limited availability of basic health facilities and the highest patient caseloads.[51]

The burden of healthcare continues to be focused on citizens, with Uganda's out-of-pocket spending very high at 40% of total healthcare expenditure,[52] compared with the World Health Organization's maximum recommended level of 15%. For the poorest, the high level of dependence on household financing reduces access and use of health services.

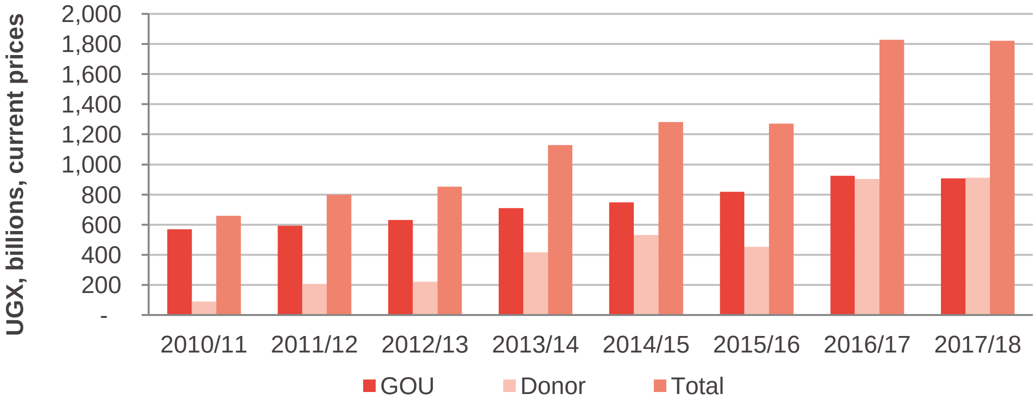
Government commitment and past performance

Government health sector focuses under the NDPII framework are on mass malaria treatment; a national health insurance scheme; universal access to family planning services; health infrastructure development; reducing maternal, neonatal and child morbidity and mortality; scaling up HIV prevention and treatment; and developing a centre of excellence in cancer treatment and related services.

These commitments have been backed by efforts to improve delivery of health services through a gradual increase in funds allocated to the health sector[53] to support increased delivery of primary healthcare, basic health services and development of health infrastructure. They have led to improvement in health indicators such as life expectancy at birth, which increased from 51.5 in 2009/10 to 54.5 years in 2011/12, while under-five mortality per 1,000 live births declined from 158 in 2001 to 44 in 2015.

Government's target of attaining universal health coverage has been supported with increasing resource allocations to the health sector (Figure 11). The increments are majorly on account of the rising wage bill and ongoing development partner-supported projects in the sector.[54] Government resource allocation for health as a percentage of the total budget has averaged about 8% from 2010/11 to 2015/16, which is 1.8% short of the Health Sector Development Plan target of 9.8% (and down from 9.6% in 2003/04[55]). Uganda's per capita health expenditure at average $56 is low compared with neighbours like Kenya ($77) and Sudan ($129).[56] It is also far below the five-year plan recommended minimum of $73 per capita in 2015/16.[57]

Figure 11: Increasing allocation to the health sector from 2010/11 to 2017/18



Source: Annual health sector performance report 2015/16, draft estimates 2017/18

Health allocations 2017/18 and medium-term budget and allocations

The health sector was allocated UGX 1,824 billion for 2017/18, which is 0.2% less in nominal terms than the 2016/17 allocation (Table 1). Little change in allocation from the previous year's budget limits government's ability to meet increased demand for services.

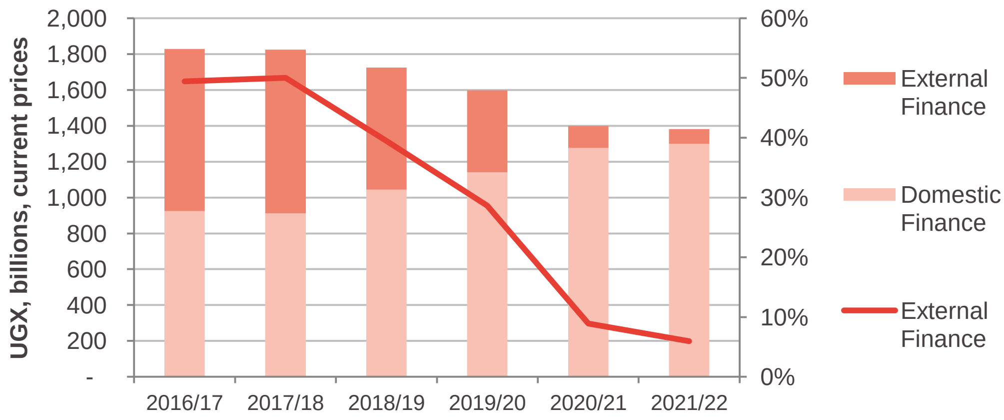
Donor funding to the health sector remains very high at 50% of total health sector budget. Most development partner support is to specific projects or programmes, such as Gavi and the Global Fund, that are not necessarily aligned to government's sector development plan. So the government could prioritise domestic public resources to funding to other priority areas. The areas of interest to donors do not, for instance, directly tackle challenges like low quality of healthcare services accessed by the poorest and their high out-of-pocket spending that is tied to their high preference for private healthcare providers. Such narrow focus of donor financing therefore leaves the other 50% of domestic health resources to financing all other health sector programmes. Pooled funding may offer an appropriate means of addressing the needs of the poorest because it would enable government to allocate resources to priority needs.

As highlighted by Figure 12, another challenge with significant development partner financing of the health sector is that while government is minimising reliance on external support in the medium term, projected gradual drop in external financing to 6% of total sector budget by 2021/22 leaves a big funding gap which could make health sector planning problematic.

This exemplifies the need for development partners to provide greater certainly to the Ugandan government about funding allocations in the medium term. And given the uncertainty about future levels of health sector official development assistance (ODA), the government may need to have plans in place to increase its own resources if ODA funding reduces in future.

Much of the current health sector budget will go into financing government health sector programmes like primary healthcare and pharmaceutical and medical supplies programmes. These are allocated UGX 340 billion and UGX 238 billion representing 37% and 26% of total programmes allocation and the largest and second largest share of health sector allocations respectively excluding external financing. All other health sector programmes including community health management, health research and monitoring and quality assurance are allocated a combined 36% share of total health sector programmes budget.

Figure 12: Comparing domestic and external financing projections shows a significant decline of external financing in the medium term.



Source: Approved budget 2017/18 sub-programmes and MTEF

Analysis of resource allocation to selected programmes in the health sector (Table 1) reveals that the national medical stores budget allocation did not change from the previous year. This is despite shortages in basic medicines and health supplies in government health facilities being among challenges identified and linked to low budgetary allocations and expenditure and a contributing factor to the poorest people’s limited access to quality healthcare and high out-of-pocket healthcare spending.

Decline in resource allocation for quality assurance and pharmaceutical and other supplies sub-programmes show that the 2017/18 health sector budget is not likely to contribute much towards addressing pertinent health sector challenges like frequent stock outs and shortages of essential medicines and health supplies public health centres. Analysis of funding sources also reveals that medical supplies from the Joint Medical Stores is mostly funded by the Global Fund and Gavi, which are narrowly focused on specific projects and activities. As such the budget will not be in position to address sector challenge associated with high healthcare expenditure by households.

Commensurate resource allocations and efforts to address challenges and constraints within public healthcare systems are needed to improve poor people's access to quality healthcare. Increase in Government's per capita healthcare spending would cut back on high prevalence of out-of-pocket-payment health expenditure and people's preference of private providers over government health services centres. To be relevant and responsive the needs of the poorest, the 2018/19 budget should address resource related gaps in the health sector by improving allocations to address key challenges in the health sector and gaps in medical supplies to health centres, quality assurance and monitoring of service delivery. These would shape progress towards increase in access to quality healthcare by the poorest.

Table 1: Comparison of health sector vote resource allocation 2016/17 and 2017/18

	2016/17				2017/18				% change
	Rec	Dev	External finance	Total	Rec	Dev	External finance	Total	
Health	60.4	72.3	874.8	1,007.6	64.5	28.8	878.4	971.7	-3.6%
Uganda Aids Commission	7.6	0.1	-	7.7	7.1	0.1	-	7.2	-6.0%
Uganda Cancer Institute	4.3	10.5	26.4	41.3	6.5	11.9	32.0	50.3	21.9%
Uganda Heart Institute	7.3	4.5	-	11.8	7.5	4.5		12.0	1.8%
National Medical Stores	238.0	-	-	238.0	238.0	-		238.0	0.0%
Health Service Commission	4.7	0.5	-	5.1	5.2	0.3		5.4	5.4%

Uganda Blood Transfusion Service	8.5	0.4	-	8.9	9.1	0.4		9.4	6.3%
Mulago Hospital Complex	40.7	22.0	-	62.7	44.5	22.0	-	66.5	6.1%
Butabika Hospital	9.2	1.8	-	11.0	9.2	1.8	-	11.0	-0.2%
Uganda Virus Research Institute	1.7	-		1.7	1.4	0.4		1.8	10.2%
Regional Referral Hospitals	67.7	21.3		89.0	69.4	21.3		90.7	2.0%
Local government health	326.2	9.5	1.9	337.6	331.3	9.6	2.3	343.2	1.7%
KCCA Health Grant	4.9	0.1	-	5.0	15.7	0.9	-	16.6	232.0%
Total	**781.1**	**143.1**	**903.1**	**1,827.3**	**809.3**	**102.1**	**912.7**	**1,824.1**	**-0.2%**

Source: Approved budget 2017/18 sub-programmes and MTEF

Notes: KCCA: Kampala City Council Authority, Rec: Recurrent, Dev: Development

Education sector

According to the World Bank, education is among the most powerful instruments for reducing poverty and inequality because it lays the foundation for sustainable economic growth. The UN Educational, Scientific and Cultural Organization (UNESCO)[58] also argues that no country has succeeded in poverty reduction without first educating its population because education outcomes complement gains in other social sectors to deliver positive outcomes. Education is also relevant to the poorest people because it is among factors limiting participation in Uganda's labour market which according to the NDPII faces a shortage of requisite skills. Universal primary education is one of government's main policy tools for poverty reduction and human development.[59]

Challenges the poorest and most vulnerable people face

While Uganda has realised increased access to education at primary and secondary level, this seems have coincided with a decline in quality of education services especially in public schools in the poorest regions of Uganda.[60] This is manifested in higher pupil-to-classroom ratios, which stand at 77:1 in government schools; higher pupil-to-teacher ratios for the poorest quintile of communities than the richest;[61] and a decline in primary school completion rates (for which the total as a percentage of the relevant age group stood at only 53% in 2015). Low literacy and numeracy rates for pupils in primary 6 stand at just 52% and 53% respectively. A decline in these and other performance indicators are some of the critical sector challenges that government could address to close access and quality gaps in primary school education especially for the poorest.

Despite availability of universal primary and secondary education, the poorest Ugandans remain severely constrained in other aspects of education such as pre-primary schooling, skills development and adult learning. At 9.6%,[62] Uganda's enrolment in pre-primary education lags far behind other East African countries such as Kenya, Tanzania and Rwanda in which enrolment was 54%, 34% and 29% respectively in 2014. Furthermore, the poorest regions, Northern and Eastern Uganda, have the lowest number of pre-primary schools.[63] The Budget Monitoring and Accountability Unit report of 2016[64] shows over 80% of the population cannot afford the fees charged for pre-primary education by the private sector who are its major providers. This limits access with high disparities between urban and rural areas and among different socioeconomic groups.

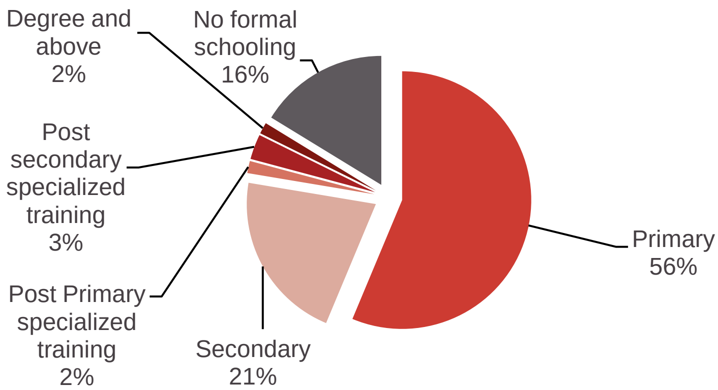
Major constraints facing pre-primary education include: inadequate government support; inadequate policy and regulatory frameworks to addresses the provision of pre-primary education; and lack of qualified providers.[65] This limits access for the poorest section of the population especially.[66] The vast majority of children in the poorest regions do not have the opportunity to undergo pre-primary education.

While parents under the universal primary education programme no longer pay tuition fees, primary education in public schools is not entirely free. Parents need to contribute pens, exercise books, uniforms and food for the pupils because these are not provided. Several pupils enrol for universal primary education but drop-out of school due to poverty. This is the primary cause of school dropout in Uganda[67] because poor parents cannot afford the additional requirements needed in public schools.

Besides limited access to basic education, the poorest Ugandans face difficulties accessing formal and informal skills development and adult learning opportunities. For example, Uganda's least developed and poorest sub-region, Karamoja – which has 88% of its population living in absolute poverty[68] – has the lowest education rates with only 6% and 12% literacy rates for women and men respectively[69] compared with the national (combined) average of 72.2%.[70]

Main challenges faced by the poorest in accessing technical and vocational skills include high costs charged by private providers; inadequate budgetary provisions to facilitate the construction of technical schools at district level; inadequate capitation grants,[71] lack of awareness and poor sensitisation about skills education and training.[72] Low level of skills and formal education in Uganda's workforce is illustrated in Figure 13 which shows that only 2%, 3% and 2% of Uganda's total working population have post-primary specialised training, post-secondary specialised training and degree or above level of formal education/training respectively.

Figure 13: Most of Uganda's workforce only have only primary-level education



Source: UNHS 2012/13

Government commitment and past performance

The Government of Uganda's education sector focus under the NDPII is on strengthening early childhood development; increasing retention at primary and secondary levels, especially for girls; increasing primary-to-secondary transition; increasing investment in school inspection; and reviewing and upgrading the education curricula.[73] Government has six targets aligned with SDG 4 to be achieved by 2030, aiming for:

1. inclusive and equitable quality education and promote life-long learning opportunities for all through ensuring that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes
2. access to quality early childhood development, care and pre-primary education for all boys and girls so that they are ready for primary education
3. equal access for all women and men to affordable quality technical, vocational and tertiary education, including university
4. increasing the percentage of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship;
5. eliminating gender disparities in education and ensure equal access to all levels of education and vocational training for the vulnerable, including persons with disabilities, indigenous peoples, and children in vulnerable situations
6. ensuring that all youth and at least considerable percentage of adults, both men and women, achieve literacy and numeracy.

To meet these targets, the government has gradually increased budget allocations to the education sector to finance education infrastructure development and service delivery to meet increasing demand. This has resulted in increased access to education at primary, secondary and tertiary levels. For example, primary school gross enrolment ratio increased exponentially from 70.97% in 1996 to 118.5% in 1997 following introduction of universal primary education programme and stood at 101.1% in 2015.[74]

Similarly, secondary school gross enrolment increased from 16% in 2000 to 27.4% in 2009 before slightly declining to 26% in 2014. At tertiary level, government's student loan scheme that targets poor disadvantaged students has equally promoted greater access to tertiary education for students from poor households.

However, Uganda's continued low per capita expenditure for students could be among the determinants of declining quality of education service delivery. World Bank data shows that Uganda's expenditure per student in primary school as a percentage of GDP per capita as of 2014 is low and stagnated at about 4.5% from 2012. Uganda's expenditure is also much lower than Kenya's, whose spending increased from 10.2% in 2014 to 10.5% in 2015.[75] Government spending on education as a percentage of GDP is equally low compared with neighbouring countries. In 2014 Uganda spent 1.7% of GDP compared with Kenya which spent 5.3% of GDP.

Education allocations 2017/18 and medium-term budget and allocations

Uganda's education sector was allocated UGX 2,501 billion representing a 2% nominal increase in resource allocation from the 2016/17 budget. Pre-primary and primary education, secondary education and delivery of tertiary education programmes were allocated the largest share of education sector budget (Table 2). While education sector resource allocation increased by 2% from 2016/17 to 2017/18, some sector programmes' resource envelopes declined. For example, Table 3 shows that resource allocation of all sub-programmes and projects under the Ministry of Education and Sports declined. Most affected sub-programmes are pre-primary and primary education and higher education programmes whose resource envelopes declined by 22% each from 2016/17 to 2017/18.

Table 2: Comparison of education sector vote resource allocation 2016/17 and 2017/18

	2016/17				2017/18				% change
	Rec	Dev	External finance	Total	Rec	Dev	External finance	Total	
Education and sports	158.2	105.8	396.9	660.9	153.1	75.9	388.98	618.0	-6%
Education Service Commission	5.9	0.7	-	6.6	6.6	0.4		6.9	5%
Public Universities	287.7	35.2	0.0	322.9	334.3	35.0		369.4	14%
Uganda National Examinations Board	31.5	-	-	31.5	31.8	-		31.8	1%

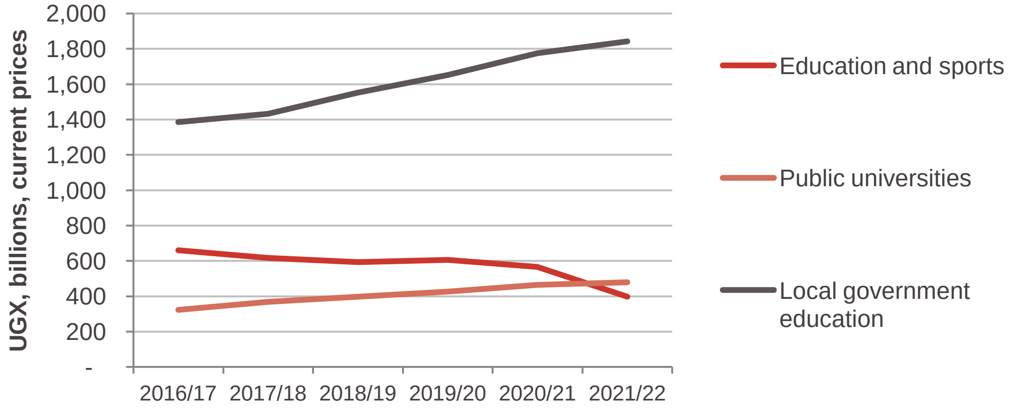
National Curriculum Development Centre	8.5	-		8.5	6.7	-		6.7	-21%
Local government education	1,338.0	46.9	-	1384.9	1,386.9	46.7		1,433.5	4%
KCCA Education Grant	30.9	1.3	-	32.2	32.2	2.7		34.8	8%
SUB-TOTAL EDUCATION	**1,860.6**	**189.9**	**396.9**	**2,447.5**	**1951.5**	**160.6**	**388.98**	**2,501.1**	**2%**

Source: Approved budget 2017/18 sub-programmes and MTEF

Notes: KCCA: Kampala City Council Authority, Rec: Recurrent, Dev: Development

Analysis of long-term funding projection (Figure 14) shows a significant increase in local government allocations from 2017/18 into 2021/2022; this is in line with increased resource allocation to local governments for implementing basic education programmes. Allocations to the Ministry of Education remain largely unchanged while those to public universities slightly increased over the period. This signifies greater commitment towards basic education programme implementation by decentralised local government structures. The reduction in funding for the education and sports sub-sector is a result of reduced external funding commitments.

Figure 14: Allocation to local government education budget projected to increase while ministry of education and sports allocation expected to drop



Source: Approved budget 2017/18 sub-programmes and MTEF

Education sector resource allocation for 2017/18 shows significant cuts in resources for pre-primary and primary education, higher education, skills development, and quality and standards programmes. However, allocations to pre-primary and secondary education programmes under the local government vote increased by 4% and 5% respectively. While there is a clear budget line for quality and standards programme under the Ministry of Education and Sports and for education inspection and monitoring services, Table 3 shows a 10% cut in the former and apparently no allocation for the latter.

There are challenges such as high rates of teacher absenteeism and low quality of education service delivery in public schools. Hence it would help quality and standards if education supervision and inspection programmes at all levels were adequately resourced to ensure that service providers adhere to minimum standards.

Table 3: Comparison of Ministry of Education and Sports programme vote resource allocation 2016/17 and 2017/18

	2016/17			2017/18			% of total	% change
	Rec	Dev	Total	Rec	Dev	Total		
Ministry of Education and Sports vote (selected programmes)								
Pre-primary & primary education	23.53	10.52	34.05	14.3	12.24	26.54	12%	-22%
Secondary education	2.61	10.58	13.18	1.47	10.54	12.01	5%	-9%
Higher education	29.87	33.71	63.58	35.09	14.5	49.59	22%	-22%
Skills development	39.91	34.52	74.43	43.27	22.09	65.36	29%	-12%
Quality and standards	13	7.58	20.58	12.94	5.52	18.47	8%	-10%
Physical education and sports	5.38	6.83	12.21	5.08	6.83	11.91	5%	-2%
Special needs education	1.49	2.06	3.55	1.43	2.06	3.49	2%	-2%
Guidance and counselling	1.08	0	1.08	0.78	0	0.78	0%	-28%
Policy, planning & support services	41.32	0	41.32	38.77	2.15	40.91	18%	-1%
Total	158.2	105.8	264.0	153.13	75.93	229.16	100%	-13%
Local government vote (all programmes)								
Pre-primary & primary education	941.0	38.07	979.06	978.99	37.79	1,016.8	71%	4%
Secondary education	326.0	8.86	334.87	341.51	8.86	350.37	24%	5%
Skills development	66.3	0	66.29	66.38	0	66.38	5%	0%
Education inspection & monitoring	4.7	0	4.69	0.00	0	0	0%	-
Total	**1,338**	**46.93**	**1,384.9**	**1,386.9**	**46.65**	**1,433.5**	**100%**	**4%**

Source: Approved budget 2017/18 sub-programmes and MTEF

Overall, the 2% increase in education sector budget resource allocation is unlikely to enable government to make significant headway in bridging the gap in poor people's access to quality education. This gap is exacerbated by shortage of critical infrastructure; high pupil-to-textbook ratio; high dropout rate, particularly of girls; high headteacher, teacher and pupil absenteeism; and rapid pupil and student population growth estimated at over 10%.

The current financial year's resource allocation also does not address the gaps in poor people's access to pre-primary education. While pre-primary education shares budgets with primary education in budget statistics, lack of specific budget lines for pre-primary education point towards possible low or zero public investments to promote and develop public pre-primary education structures and systems in line with NDPII's sector targets.

Therefore, government could proactively work towards addressing access and quality gaps for the poor in all levels of education in order to progress well in the direction of attaining its NDP goal of making education and skills development serve as the foundation for sustainable economic growth. Budget resource allocation towards monitoring of delivery of quality education services, improving education infrastructure for the poorest regions and streamlining pre-primary education into formal public education curriculum, adult literacy and skills development programmes in the national education system would help serve the interests of the poorest Ugandans.

Social development sector

The average developing country spends between 1% and 2% of GDP on social safety nets per year. Simulations from the World Bank and Uganda's Expanding Social Protection Programme show that at a cost of about 0.15% of GDP, Uganda could reduce poverty by 2.6% by targeting children of school age. At a cost of 0.9% of GDP, poverty prevalence could be reduced by 8.6% when directing grants to children between 0 and 2 years old. Financing can initially come from a joint effort by government and donors (possibly through the World Bank, Department for International Development, World Food Programme, the UN Children's Fund and other bilateral partners). The government could create fiscal space in its currently constrained budget in the context of its revenue-enhancing strategy. The forthcoming oil wealth will facilitate this task in the medium term.

Good social protection policies and actions enhance the capacity of poor and vulnerable people to escape from poverty and reduce their vulnerability to poverty.[76] Public social protection programmes also help the poorest people because they can be directed to target those most in need of support, for example, older, sick, disabled and unemployed people among others. This is due to the ability of social protection programmes to directly reduce poverty, stimulate poor people's involvement in the economy and contribute to social cohesion and stability.

Challenges the poorest and most vulnerable people face

Many Ugandan households and individuals face risks linked directly or indirectly to poverty that often exacerbate their vulnerabilities to shocks and hazards. Risks for the poorest and those emerging out of poverty are even higher and often keep them in poverty or push them back into poverty depending on their circumstances.[77]

The poorest Ugandans face common risks such as climate-related risks including prolonged dry spells and floods, national economic hardships, individual risks such as unemployment, death or illness of a family member added to the reality of old age, sickness, disability and limited livelihood options. Groups that are considered most vulnerable include women, especially windows and single mothers, orphans, older people and disabled people. As such, social protection is paramount importance in addressing the high levels of poverty, vulnerability and social deficits that face the poorest Ugandans.

Government commitment and past performance

The NDPII prioritises social protection through implementation of social sector programmes like the Youth Livelihood Programme, the Uganda Women's Entrepreneurship Program, and Senior Citizen Grants through the Social Assistance Grant for Empowerment (SAGE) all under the expanding social protection programme in the Ministry of Gender, Labour and Social Development. These social protection mechanisms are implemented through cash-based transfers to vulnerable groups, pensions for older people, grants to child-headed households and people with disabilities.[78]

Government aims to use the SAGE and Senior Citizen Grants as tools for tackling poverty and vulnerability with hope of achieving immediate impacts like reduced poverty in recipient households and the wider community; reduced vulnerability of recipient households to the effects of seasonal stresses and shocks; improved livelihood choices and options; increased informal employment opportunities; and reduced social exclusion of marginalised individuals, groups or households.

Despite government efforts, many poor and vulnerable Ugandans have no access to social security, direct income support or social care services in times of hardship. On the other hand, only 5% of Uganda's working population are covered through formal pension schemes.[79] The SAGE programme has so far been rolled out to only 20 districts in 2015/16 following government's announcement of a phased national rollout of the Senior Citizen Grants to an additional 40 districts till financial year 2019/20. The governments past public investment in social protection (only 0.78% of GDP) and spending on direct income support (only 0.33% of GDP) is significantly lower than the 1.1% of GDP spent on direct income support on average by other low income African countries[80] The inability to provide nationwide coverage has been seen as unfair and not promoting equitable development.[81] While the social sector houses all Uganda's flagship social protection programmes, it gets one of lowest shares of budget allocation and routinely suffers budget cuts and reallocations to other programmes.[82]

Social development 2017/18 and medium-term budget and allocations

The social sector was allocated UGX 175.8 billion for 2017/18, representing a 9% decline in nominal terms from the previous year's resource allocation (Table 4). The Youth

Livelihood Programme, whose budget was cut by UGX 8.4 billion, was most affected by the decline in social sector budget.

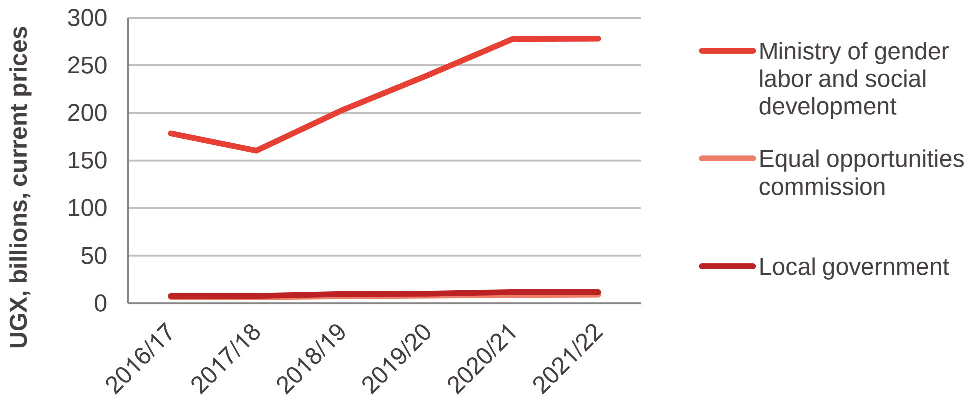
Table 4: Comparison of social sector resource vote allocation 2016/17 and 2017/18

	2016/17				2017/18				% change
	Rec	Dev	Ext. Fin	Total	Rec	Dev	Ext. Fin	Total	
Social development sector votes									
MGLSD	25.55	152.8	0	178.34	39.36	117.1	3.78	160.26	-10%
KCCA	0.17	0	0	0.17	0.17	1.38		1.55	812%
Equal Opportunities Commission	6.35	0.3	0	6.65	6.07	0.3		6.37	-4%
Local government social development	7.14	0.5	0	7.64	7.64			7.64	0%
Total	**39.21**	**153.66**	**0**	**192.8**	**53.24**	**118.8**	**3.78**	**175.82**	**-9%**
Social protection sub-programme and projects									
Disability and elderly	1.05	0	1.05		16.74	0	16.74		1,494%
Youth and Children Affairs	4.85	0	4.85		3.77	0	3.77		-22%
Equity and rights	0.23	0	0.23		0.23	0	0.23		0%
Projects									
SAGE	0	17.5	17.5		0	0	0		
Youth Livelihood Programme	0	75	75		0	66.66	66.66		-11%
Programme total	**6.13**	**92.5**	**98.63**		**20.75**	**66.66**	**87.41**		**-11%**

Source: Approved budget 2017/18 sub-programmes and MTEF
Notes: MGLSD: Ministry of Gender, Labour and Social Development

While this year's resource allocations to the Ministry of Gender, Labour and Social Development declined by 10% compared with 2016/17, assessment of allocation over the medium terms reflects a significant increase to UGX 277.9 or 73% in 2021/22 from the current budget (Figure 15). Government will move in line with its medium-term commitment in the NDPII if it adheres to and allocates resources as per the projection. However, budget reallocations and cuts as observed from 2016/17 to 2017/18 if replicated in next year's budget could interfere with government achieving its medium-term social sector targets.

Figure 15: Allocations to ministry of gender labour and social development expected to increase but allocations to local governments will remain stagnant in the medium term



Source: Approved budget 2017/18 sub-programmes and MTEF

Infrastructure sector

Infrastructure, particularly transport, plays a critical role in a country's economic growth and development. For example, efficient and effective transport infrastructure and services facilitate domestic and international trade, contribute to national integration and provide access to markets, jobs, healthcare, education and other essential social services[83] that directly benefit the poorest people. NDPII recognises that an efficient transport system is a prerequisite for economic and social transformation, it also recognises that Uganda's infrastructure, especially the road network, is inadequate and cannot enable significant growth in many sectors, particularly agricultural production which requires good rural road networks to connect production to markets.

Challenges the poorest and most vulnerable people face

Recent increases in resource allocation to the works and transport sector have not addressed Uganda's transport infrastructure challenges. Only 18% of Uganda's national roads were paved as of 2013/14 (NDPII). This leaves most of the road networks – especially rural and community access roads in parts of Northern and Eastern Uganda – in poor conditions. As a result, transporting goods and services to remote areas is constrained, as is timely access to service like healthcare, trade services and others by the poorest.

Government commitment and past performance

Increasing the stock and quality of strategic infrastructure to accelerate Uganda's competitiveness is among five sets of key objectives to be attained during the NDPII five-year period. This falls in line with government's earlier commitment to increased investment and resource allocation to the works and transport sector in the five years of

NDPI which resulted into a remarkable 1,036 km of paved roads constructed under NDPI and NPDII,[84] representing 94% performance rating for the sector as of 2015/16.

District local governments are mandated with rehabilitation and maintenance of district and urban council and rural roads to a fair condition to increase agricultural production and household income in rural areas and facilitate trade and industrial production in urban areas. However, according to the Ministry of Works and Transport annual sector report 2015/16,[85] one of the major challenges facing the roads sector is inadequate road maintenance funds which have contributed to continued delay and postponement of scheduled road maintenance. This comes at a high cost for Uganda's growth and development because it affects other vital sectors such as tourism,[86] agriculture and trade. The poor state of district and rural roads has also directly limited poor people's access to health and other services. For example, in some rural areas in Northern and Eastern Uganda, expectant mothers have been reported to have died due to failure to reach health centres in time because of the very poor state of rural roads.[87]

The Government of Uganda's focus under transport infrastructure development in NDPII includes construction of the standard gauge railway and upgrade of strategic national roads from 3,795 km to 5,295 km. These are aimed at supporting exploitation of minerals, oil and gas, tourism and decongestion of traffic in the city areas and increasing the volume of passengers and cargo transported as marine traffic.[88]

Infrastructure 2017/18 and medium-term budget and allocations

The works and transport sector was allocated UGX 4,587 billion representing a 20% increase from the 2016/17 allocation. The allocation to the works and transport sector is largely consistent with that in the previous three financial years and shows a clear prioritisation of national infrastructure development projects as the engine for economic growth. Nearly three-quarters (74.3%) of works and transport sector budget resources is allocated to the Uganda National Roads Authority (UNRA); the Ministry of Works and Transport is allocated 10%; and the road fund is allocated 9%. Meanwhile the remaining 6.5% is shared by the other three sector votes including local government that is allocated 0.5% of sector budget (Table 5).

Table 5: Comparison of works and transport sector resource allocation 2016/17 and 2017/18

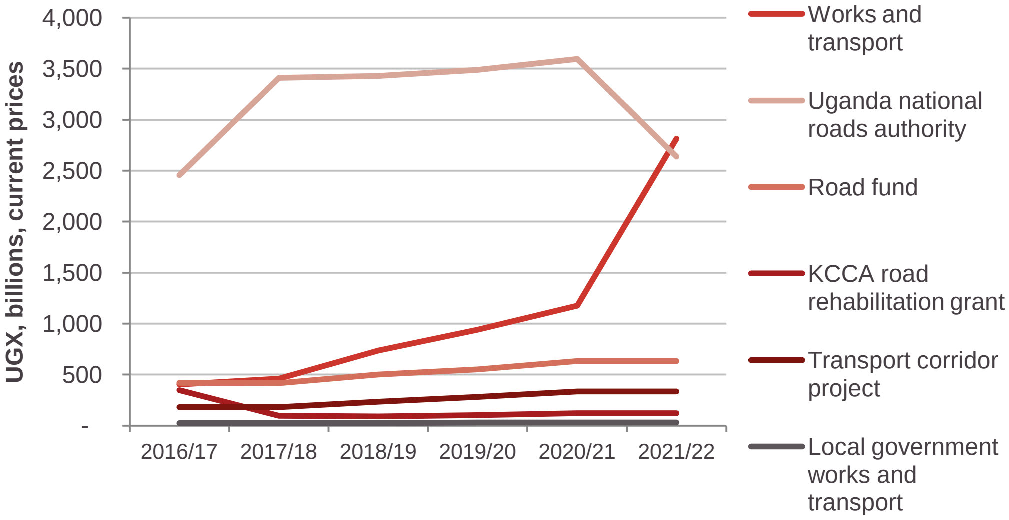
	2016/17				2017/18				% of Total	% Change
	Rec	Dev	External finance	Total	Rec	Dev	External finance	Total		
Works & Transport	45.1	241.7	116.6	403.3	69.9	154.3	236.6	460.8	10.0%	14%
UNRA	100.9	1,084.8	1,268.9	2,454.6	100.3	1,338.3	1971.5	3,410	74.3%	39%
Road Fund	415.2	2.67		417.8	414.9	2.47		417.4	9.1%	0%
KCCA Road Rehabilitation Grant		64.9	280.8	345.7	0	64.9	31.79	96.7	2.1%	-72%
Transport Corridor Project		179.5		179.5		179.5		179.5	3.9%	0%
Local government Works & Transport		22.8		22.8	0	22.8		22.8	0.5%	0%
Total	561.1	1,596.4	1,666.3	3,823.8	585.1	1,762.3	2,239.9	4,587	100%	20%

Source: Approved budget 2017/18 sub-programmes and MTEF
Notes: KCCA: Kampala City Council Authority, Rec: Recurrent, Dev: Development

The National Roads Maintenance and Construction Programme under the UNRA vote was allocated UGX 1,618 billion representing 69% of total sector programmes budget and a 19% increase from 2016/17 to 2017/18. Much of the increase in UNRA's budget will go into financing construction and maintenance works on national road networks under the national roads project which is allocated UGX 1,517.8 billion representing 93.8% of UNRA's budget. Allocations to other sector votes like the Uganda Road fund and the Ministry of Works and Transport also contribute towards national roads maintenance programmes. The District, Urban and Community Access Roads Sub-programme will benefit from the UGX 22.84 billion allocated to local government vote and another UGX 21.13 billion under the Ministry of Works and Transport vote. However, unlike UNRA and works and transport votes whose resource allocation are projected to remain high and increase exponentially respectively in the medium term, resource allocation projections for local government works and transport vote will remain low and unchanged over the medium term (Figure 16).

The medium-term resource allocation projection for the sector shows that allocation to UNRA will gradually increase and peak at UGX 3,596 billion before declining by UGX 959 billion in 2021/22 (Figure 16). However, allocation to the works and transport vote will increase significantly from the current UGX 461 billion to UGX 2814 billion in 2021/22; this could reflect the gradual shift in focus from new construction works to maintenance and rehabilitation works towards the end of the NDPII period.

Figure 16: Works and transport allocation expected to remain high while allocations to road fund projected to increase in the medium term



Source: Approved budget 2017/18 sub-programmes and MTEF

Notes: KCCA: Kampala City Council Authority

While investments in key national roads projects are predicted to have positive impacts on Uganda's economic growth in the medium and long term and play a key role in Uganda's economic development, they can also be a key driver of unequal growth. Lower allocation of funding for district, urban and community access road sub-programmes means that less priority is given to improving the quality of rural and community access roads. Yet poor maintenance of such roads was pointed out as one of the key challenges facing Uganda's transport sector. Medium term allocation outlook shows no increase to local government works and transport vote funding even where its allocation is very low. This is an area that government could reconsider in its subsequent budgeting review and allocation process if it is to remain committed to making developments in the roads and transport sector equitable and responsive to the needs of the poorest Ugandans.

Data on poverty

The Government of Uganda has made remarkable progress on making available poverty, budget and finance data to the public. These are provided by line ministries and departments such as the Ministry of Finance, Planning and Economic Development, which produces programme-based budgeting at national and sub-national level that can track spending and poverty down to very focused areas. Data is also made available through ministry, department and agency annual reports on performance and outcomes.

Uganda also produces plenty of good data through its official department, UBOS – the principal data collecting, processing, analysing and disseminating agency responsible for coordinating and supervising the National Statistical System.[89] UBOS is regarded as one of the best national statistics offices in Africa; it publishes a range of nationally aggregated statistics relatively regularly. Government also made investment through UBOS in the 2014 census, which is now able to track poverty levels down to sub-county level. UBOS data is complemented by data from other data sources such as the Ministries of Finance, Health and Education. The Ministry of Finance for instance makes disaggregated data available through its budget website.

However, Uganda still needs quality and timely data to support decision-making to reach the poorest people with target programmes such as Senior Citizen Grants under social protection and other health, education and agriculture sector programmes. There is need for increased investments in civil registration and measuring people so that the poorest people can be better known, planned for and have better access to services. There is also lack of real in-year assessment of programme performance and the budget does not link spending to outcomes. UBOS's budget allocation is currently low to permit regular updates of vital statistics that can aid planning and decision-making. In this way, it can do better if it allocated more resources to improve monitoring and assessment of government programmes that target the poorest and facilitate regular collection of data by UBOS.

Conclusion and recommendations

The Government of Uganda has set itself ambitious targets, both globally in its commitment to the SDGs and national through its development plan. Poverty reduction and support to help vulnerable people avoid moving into poverty are central elements in these targets. A core issue in pursuit of these targets is having the necessary financing in place, of which the government budget plays a leading role. This report has looked at 2017/18 budget from the perspective of how responsive it is to the needs of the poorest and most vulnerable people, with key concluding points and recommendations from analysis of the 2017/16 budget as follows.

Revenue mobilisation – The government revenue mobilisation is below regional neighbours and is constraining fiscal space, which limits the resources it can allocate to fund all areas of responsibility. Government has continued to provide progressive reforms in the 2017/18 budget in areas that reduce the burden of taxation on the poorest people. However, longer term it could ensure that it is mindful of impacts on the poorest in its search for increased revenue collection.

Role of non-concessional finance – Government is heavily borrowing from non-concessional sources to drive industrialisation policy because of reduced fiscal space to finance the policy. This is causing public debt to rise, which unless the investment leads to increased growth will result in growing issues with constrained fiscal space (e.g. rising interest payments) and debt vulnerability. Therefore, the government could ensure financing is appropriately used (both in the type of finance and the investment decisions).

Focus on 'industrialisation' – This focus has deprioritised key sectors relevant for the poorest. Overall, Uganda already trails regional neighbours in funding social and key economic sectors disproportionally benefiting the poorest. However, in 2017/18 sectors like education and agriculture have only seen marginal increases, with environment and water, social development and health sectors seeing cuts in funding. While the government calls this funding level 'adequate, but tight', key programmes in each sector that are highly relevant to the poorest (NAADS, youth livelihood projects) are seeing cuts. Therefore, cuts could make clear efficiency gains rather than impacting programme implementation. Also, the government could ensure that this de-prioritisation is short term and commit to the increases in funding as outlined in the MTEF in order to meet NDPII goals.

Development partner support – Government continues to rely significantly on development partner support in key sectors relevant to the poorest, even though overall it is reducing dependence on development partners. This is a vulnerable position given the current policy environment around ODA, and the reduction in external support to water and environment in 2017/18 is a key concern given the issues created by drought in 2016/17. Therefore, development partners could be cognisant of needs by supporting priority areas, disbursing in timely fashion and providing predictability of funding over the medium term to help government planning. Also, the government could look at alternative sources of funding to support mitigation and adaptation efforts to tackle issues around climate change.

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Acronyms

IMF	International Monetary Fund
KCCA	Kampala City Council Authority
MTEF	Medium-Term Expenditure Framework
NAADS	National Agricultural Advisory Services
NARO	National Agriculture Research Organization
NDP	National Development Plan
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
OWC	Operation Wealth Creation
SAGE	Social Assistance Grants for Empowerment
SDG	Sustainable Development Goal
UGX	Uganda Shillings
UNDP	UN Development Programme
UNHS	Uganda National Household Survey
UNRA	Uganda National Roads Authority
VAT	Value added tax

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