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# **pro-poor analysis of the 2018/19 Uganda budget**

how are government's spending decisions  
likely to impact poor people?

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report

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# Highlights from Uganda's 2018/19 budget

This paper analyses Uganda's budget for the 2018/19 financial year in the context of poverty and resource availability and use alongside Uganda's medium-term development framework, the Second National Development Plan (NDPII), and commitments to end poverty.

The overall goal of the NDPII is to achieve a middle-income status by 2020 with a per capita income of US\$1,033 and reduction in poverty to 14.2% among five indicators of progress towards the goal. To achieve the NDPII goal, the government laid down nine strategies including expansion of infrastructure investment, industrialisation, skills development, export-oriented growth, and harnessing the demographic dividend by ensuring a healthy, educated, skilled and economically engaged labour force.

The NDPII outlines three national priority growth opportunities – agriculture, tourism, oil and gas – and two development fundamentals– infrastructure and human capital development. These are presented as having the best potential for launching Uganda onto a sustained path of growth and development.

The analysis of the 2018/19 budget is underpinned by Uganda being a low-income country with over a third of its population living below the international poverty line. The budget is the main instrument government uses in financing development, growth and activities that can address poverty and vulnerability.

This paper takes an in-depth look at how the budget is structured in terms of financing and resource allocation to determine whether key decisions on resource investments for 2018/19 are being made towards the goal of addressing poverty.

## Overall 2018/19 budget highlights

- **The government resource envelope is estimated to increase** by 26% from Uganda Shillings (UGX) 23.6 trillion in 2017/18 to UGX29.64 trillion in 2018/19. Only UGX12.74 trillion or 43.5% of the national budget will be available for service delivery, the remainder goes towards debt repayments, domestic refinancing, budget and project support.

- **Government revenue mobilisation** is estimated to grow by 14% from UGX15.87 trillion in 2017/18 to UGX18.1 trillion in 2018/19.
- **High levels of borrowing through** non-concessional domestic and external sources will play a major role in financing Uganda's development budget for 2018/19. While this will help close the financing gap, it also leads to a further rise in debt as the level of non-concessional borrowing has grown from UGX202 billion in 2015/16 to a projected UGX1.53 trillion in 2018/19.
- **Interest payments estimated at 11.2%** of the 2018/19 budget **remain** high, constraining fiscal space.
- **The works and transport sector remains government's highest priority** in 2018/19 as government continues to scale up infrastructure development.
- **The share of budget allocation to education and agriculture will decrease by 0.15% and 0.22% respectively. Health will increase by 1% and social development will stay the same** from 2017/18 to 2018/19.<sup>1</sup>
- **Some proposals presented for 2018/19 may negatively impact the poorest people.** These include a tax on mobile money transactions and an increase in fuel tax. Poor people rely on mobile money transactions as they are largely excluded from mainstream financial institutions. A tax on fuel may further drive basic commodity prices up as it directly or indirectly feeds into transactions costs.

## Budgetary allocations to pro-poor sectors

### Agriculture

- Agriculture is estimated to receive UGX863 billion (3.7%) of the total budget, this reflects a 4% or UGX34.4 billion increase in resource allocation but a 1% decline in budget share from 2017/18 to 2018/19.
- The National Agricultural Advisory Services (NAADS), Ministry of Agriculture Animal Industry and Fisheries (MAAIF) and National Agricultural Research Organisation (NARO) are vital in delivering services that could address some of the challenges faced by people in poverty. These challenges include limited access to quality agriculture inputs and agricultural advisory and extension services, pest and diseases.
- The NAADS programme that was originally designed and mandated with providing agricultural advisory services to farmers will be allocated UGX250 billion, about a third of the sector budget, while MAAIF will get UGX346 billion, about 40%.
- UGX244.8 billion (98%) of total allocation to NAADS will be used for government purchases while UGX5.14 billion (2%) will be allocated to NAADS headquarters.
- Allocations to MAAIF and local governments will increase in nominal terms by UGX14.7 billion and UGX71 billion respectively.

- Allocations to NAADS Secretariat and the National Agricultural Research Organisation will reduce by UGX29.7 billion and UGX21.8 billion respectively from 2017/18 to 2018/19
- Local governments will receive UGX123 billion, about 14% of the sector budget.
- The remaining UGX82 billion (16%) of the agriculture sector budget will be allocated to Kampala Capital City Authority (KCCA) agriculture grant (1.3%), Uganda Coffee Development Authority (7.2%), Uganda Cotton Development Organisation (0.6%), Dairy Development Authority (0.7%) and National Animal Genetic Resource Centre and Data Bank (6.2%).

### **Social development**

- UGX206 billion (0.9%) of the total budget will be allocated to social development. This reflects a 17% (UGX30 billion) increase in allocation from 2017/18 to 2018/19 and a 0.1% decline share in budget share allocation. However, the share of budget allocation has remained stagnant at about 0.9% since 2015/16.
- The Ministry of Gender, Labour and Social Development will get UGX189.6 billion (92%) of social sector budget while local governments, the Equal Opportunities Commission and the KCCA will get UGX7.6 billion, UGX6.4 billion and UGX1.6 billion respectively, representing 4%, 3% and 1%.
- The Ministry of Gender, Labour and Social Development will get a UGX29.4 billion increase in allocations while the Equal Opportunities Commission will get a UGX0.7 billion increase. Allocations to local government social protection activities remain unchanged from 2017/18 to 2018/19.

### **Education**

- UGX2.73 trillion (11.6%) of the total budget will be allocated to the education sector. This represents a UGX225 billion (9%) increase in resource allocation to the sector and a 0.1% decline in budget share allocation from 2017/18 to 2018/19.
- UGX1.64 trillion (60%) of the sector budget will go to local governments while the Ministry of Education and Sports will receive UGX580 billion (21.3%).
- These allocations reflect a UGX202.8 billion increase in resource allocation for local government education programmes and a UGX37.9 billion decrease in resource allocation to the Ministry of Education and Sports from 2017/18 to 2018/19.
- Public universities will receive a UGX52.3 billion increase in financing with Makerere University getting 46% of the total increase from 2017/18 to 2018/19.

## Health

- The health sector will be allocated an estimated UGX2.25 trillion (9.6%) of the budget, representing an estimated UGX426.5 billion increase in nominal terms. This is a 23.4% nominal increase in sector resource allocation and 1% increase in budget share from 2017/18 to 2018/19.
- UGX1.1 trillion (46.7%) of the health sector allocation will go to the Ministry of Health, while UGX545.6 billion (24.2%) will go to local governments.
- National Medical Stores will be allocated UGX277 billion (12.3%) of the health sector budget. This allocation reflects a UGX39 billion nominal increase in resource allocation from 2017/18 to 2018/19.
- Regional referral hospitals will get UGX124 billion (5.5%) of the sector budget while Mulago Hospital complex will get UGX79.5 billion (3.5%).
- Allocations to regional referral hospitals and Mulago Hospital complex will increase by UGX33.1 billion and UGX13 billion from 2017/18 to 2018/19 respectively.

## Works and transport

- The works and transport sector will be allocated as estimated UGX4.78 trillion (20.3%) of the total budget. This will be UGX195.2 million higher than the allocation in the previous budget but also represents a decline of 1.2% in budget share allocation from 2017/18 to 2018/19.
- The Uganda National Roads Authority, the Ministry of Works and Transport and the Road Fund will receive UGX2.95 billion, UGX791 billion and UGX623 billion respectively, representing 62%, 17% and 13% of the sector budget allocation.
- The remaining UGX418 billion (8.7%) of the sector budget for 2018/19 will be allocated to the KCCA Road Rehabilitation Grant (UGX 215 billion or 4.5%), the Transport Corridor Project (UGX180 billion or 3.8%) and local government works and transport (UGX23 billion or 0.5%). All the areas of expenditure in the sector except local government works and transport will get additional financing.

# Introduction

The 2018/19 budget will provide the Government of Uganda another opportunity to finance key development programmes to meet targets outlined in the country's current medium-term development framework, National Development Plan II (NDPII), which expires in 2019/20. The government has committed through the NDPII to address poverty through inclusive development programmes and deliver Uganda to a middle-income status by 2020. Government will maintain a focus on industrialisation as highlighted in the 2018/19 budget theme 'industrialisation for job creation and shared prosperity'.

Agriculture, infrastructure and human capital development (encompassing health, education, and social development) are some of the priorities of the NDPII. An in-depth look at the structure of the budget in terms of resource allocation will help to assess the responsiveness of resource investments decisions for 2018/19 to government's stated commitments to end poverty and vulnerability.

Analysis of the 2018/19 budget 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. The paper sets out the current poverty status in the country and demonstrates why an assessment of the responsiveness of the budget to poor people is of value. It then assesses the 2018/19 budget, and proposes conclusions and recommendations.

## Poverty

Government has achieved remarkable progress in reducing poverty from 56.4% of the population living below the national poverty line in 1993<sup>2</sup> to 19.7% in 2013. However, the number of people living below the national poverty line increased from 6.7 million (19.7%) in 2012/13 to 8 million (21.4%) in 2016/17 (see Figure 1). This is happening despite Uganda's low national poverty line that ranges from \$0.88 to \$1 depending on the region of the country.

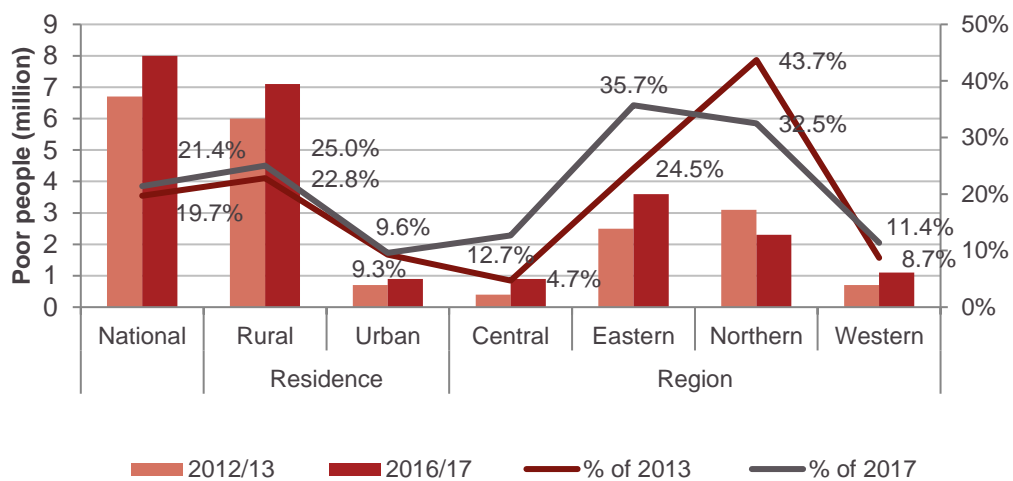
Because most of the rural population still relies on subsistence agriculture for livelihoods and income,<sup>3</sup> some of biggest challenges they face are linked to climate-related risks like prolonged dry spells and floods. People in poverty also face other challenges like crop and livestock pest and diseases, limited capacity to manage and cope with risks, lack of access to agricultural extension services, inadequate agricultural sector financing and institutional weaknesses.<sup>4</sup>

Sections of the population considered most vulnerable include women, especially widows and single mothers, orphans, older people and disabled people.<sup>5</sup> The distribution of people in poverty highlights inequality between regions. As of 2016/17 the number of people in poverty in rural areas stood at 6 million compared with 0.7 million in urban areas.

While the number of people in poverty in Northern Uganda declined from 3.1 million (43.7%) in 2012/13 to 2.3 million (32.5%) in 2016/17, all the other regions experienced an increase in the number of people in poverty in the same period. Eastern Uganda registered the biggest increase in the number of people in poverty from 2012/13 to 2016/17 (see Figure 1). Poverty is thought to be more rooted in Eastern and Northern Uganda than other regions because households there have much lower levels of human capital, fewer assets and more limited access to services and infrastructure than households in other regions.<sup>6</sup>

According to the Uganda Bureau of Statistics (UBOS), the increase in poverty between 2012/13 and 2016/17 is due to the increased prices experienced during the period. These were brought about by the prolonged droughts that affected the entire agriculture sector, which is the backbone of Uganda’s economy.<sup>7</sup>

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

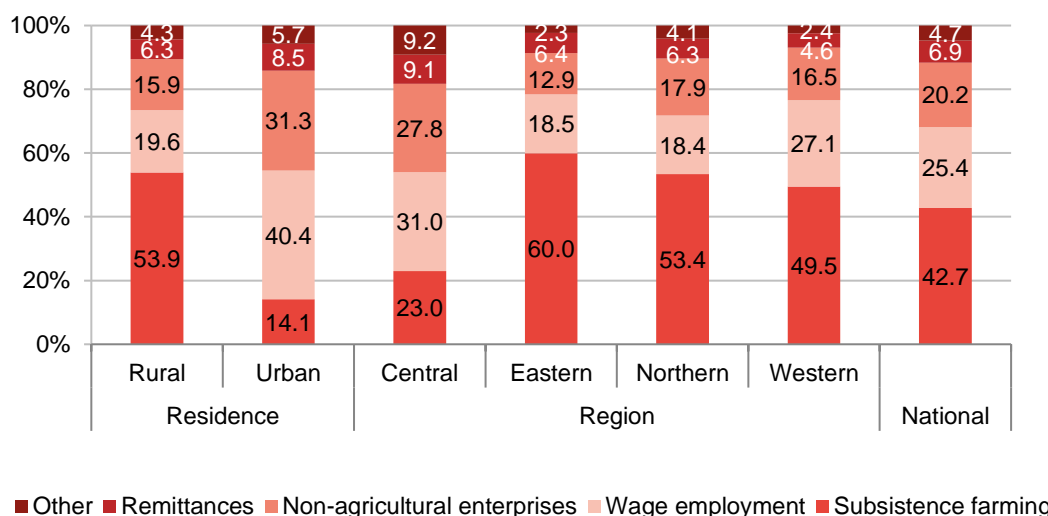


Source: Development initiatives based on the Uganda National Household Survey 2016/17 and UBOS population projections 2007–2017

The Uganda government has sought to address poverty through the NDPII 2015/16–2019/20 with commitments through investments and policies targeting the poorest people and a goal of reducing poverty to 5% by 2020. However, there is little progress especially for most Ugandans who are poor and rely largely on low input subsistence farming as their main source of income (see Figure 2).



**Figure 2: Subsistence farming is the main source of income for most Ugandans**



Source: Development Initiatives based on UBOS (Uganda national Households survey 2016)

Others include: Commercial farming, property income, remittances, organizational support among others

## Scope of analysis

The 2018/19 budget analysis assesses how the budget is likely to impact on poor people, and focuses on both expenditure and revenue to understand who is benefiting from planned allocations in different sectors. The focus of our analysis is on five sectors: agriculture, health, education, social protection and infrastructure. These have been selected based on their clear associations with the livelihoods and wellbeing of the poorest people.<sup>8,9</sup>

The report starts with an overview of the 2018/19 budget – highlighting the size of the budget, financing, projected revenue collection and public debt. Following this is an analysis of allocations to pro-poor sectors. Finally, conclusions and recommendations are provided.

# 2018/19 budget overview

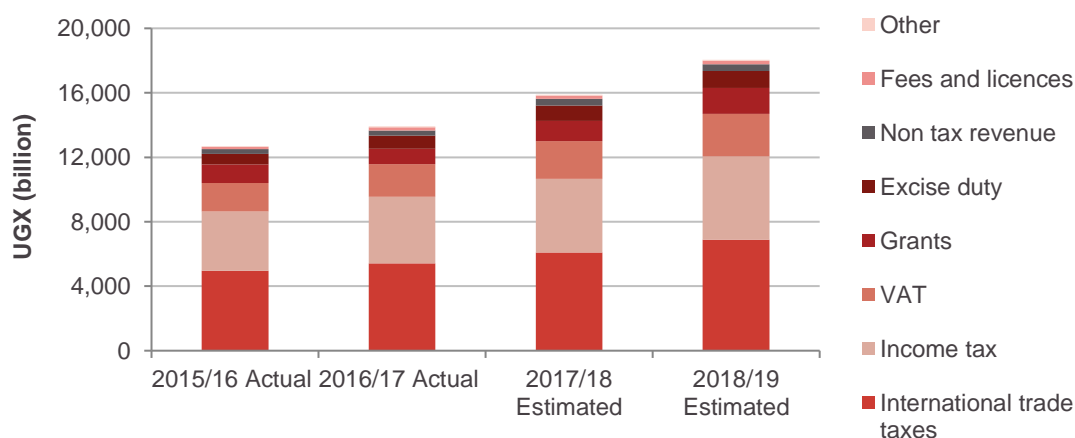
The theme of the 2018/19 budget, ‘industrialisation for job creation and shared prosperity’, signals government’s continued focus on industrialisation. The government resource envelope is estimated to increase from Uganda Shillings (UGX) 23.6 trillion in 2017/18 to UGX29.64 trillion in 2018/19. However, this increase does not necessarily mean an increased availability of resources for development and service delivery. This is because only UGX23.6 trillion or 79% is allocated to sectors including the UGX2.63 trillion or 11.2% allocation for interest payments.

## Overall resource envelope

### Government revenue

Government revenue has continued to grow in nominal terms. This growth is expected to continue to an estimated net value of UGX27.4 trillion in 2022/23<sup>10</sup> and provide more resources to finance government expenditure in the medium term. Figure 3 shows that the key driver to growth in tax revenue has been an improvement in tax collection, both direct (income tax) and indirect sources (VAT, excise and international trade taxes).

**Figure 3: Increasing domestic revenue mobilisation is expected to provide more resources to finance development in the medium term**



Source: Development Initiatives based on Ministry of Finance 2018/19 estimates of revenue and expenditure

Increases in tax collection have provided more fiscal space to facilitate increased spending. Yet Uganda’s domestic revenue mobilisation capacity– estimated at 14.6% of GDP for 2017/18<sup>11</sup>– remains below regional neighbours such as Kenya

and Rwanda that have higher proportions of non-grant revenue as a percentage of GDP.<sup>12</sup>

A lower revenue mobilisation capacity limits fiscal space and constrains resources that can be allocated to finance all areas of responsibility, especially those with the most immediate impact on reducing poverty. Government's commitment to improve domestic resource mobilisation will increase resources for investment in sectors that can address poverty and the needs of poor Ugandans.

However, approaches to domestic revenue mobilisation must be progressive and not hurt people in poverty. Uganda is implementing a medium-term revenue strategy, a component of which is framed around building a social consensus, as part of explicit consideration of the role of taxation in achieving development outcomes.<sup>13</sup> But government's proposal to tax mobile money transactions as a means of raising revenue in 2018/19<sup>14</sup> may increase the tax burden on the poorest people<sup>15</sup> who are mostly excluded from formal financial systems and rely on mobile money as an alternative.

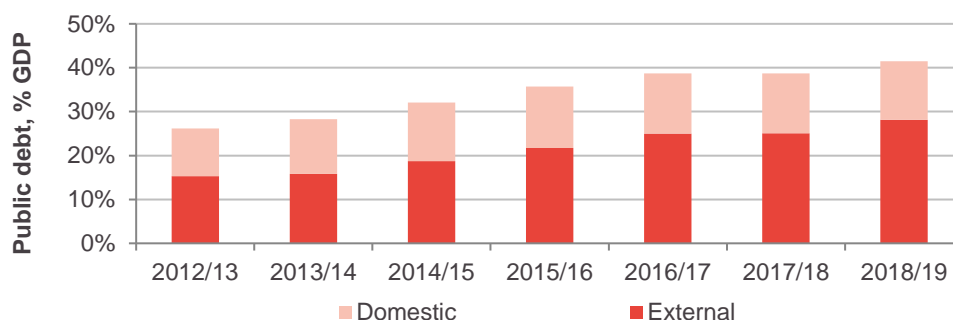
## Public debt

Government expenditure has over the years exceeded revenue collection. This has left a budget deficit that has grown mostly as a result of heavy infrastructure investment and development of the oil sector,<sup>16</sup> which have necessitated domestic and external borrowing. Externally financed development expenditure will substantially increase from UGX6.4 trillion estimated for 2018/19 to UGX7.3 trillion in 2019/20.

The share of non-concessional loans in borrowed finance is projected to increase from UGX2.15 trillion for 2017/18 to UGX2.18 trillion for 2018/19. With simultaneous growth in interest payments— which stands at 11.2% of 2018/19 budget – the fiscal space is expected to shrink. This will affect expenditure on key sectors like health, agriculture, education and social development, which is likely to have immediate negative impacts on reducing poverty and vulnerability.

A narrow domestic resource base has pushed government into increased borrowing to fill the financing gap. This has resulted in a significant rise in public debt, from 26% of GDP in 2012/13 to a projected 42% in 2018/19 (see Figure 4). As highlighted in the previous section, this has caused a rise in interest payments, which risks constraining fiscal space. The International Monetary Fund (IMF) describes Uganda's public debt as manageable and sustainable but cautions that this will only remain so if the high infrastructure spending raises growth and revenue improves further.<sup>17</sup>

**Figure 4: Rising public debt is driven by increased borrowing**

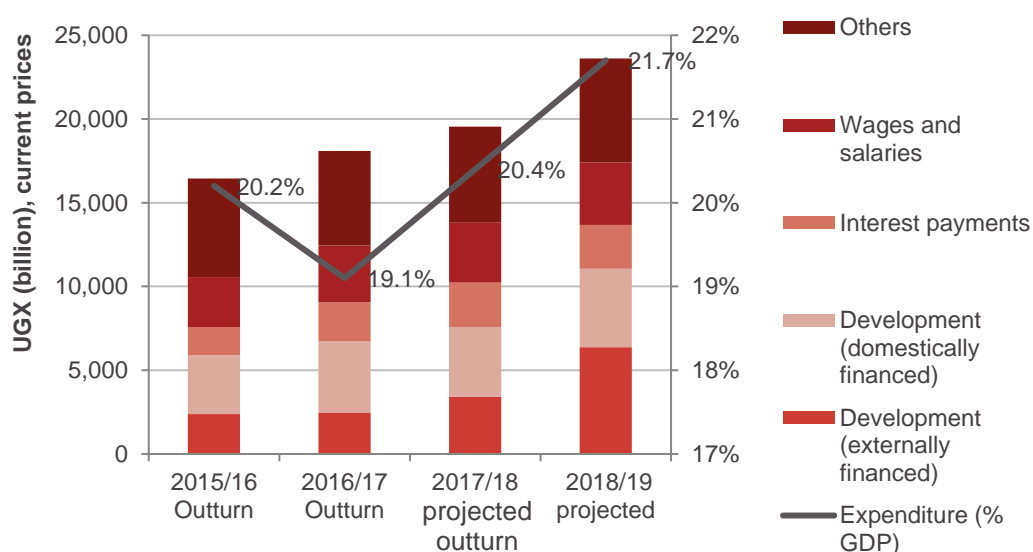


Source: Development Initiatives based on IMF Country Report No 17/206 and Ministry of Finance 2017/18 approved estimates of revenue and expenditure

Government will use a range of options to finance and balance the 2018/19 budget. The largest of these will be external concessional budget support and project loans followed by non-concessional loans from both domestic and external sources (Figure 5).

While most areas of government expenditure will increase in nominal terms from the budget for 2017/18 to 2018/19, expansion in externally financed development expenditure frameworks continue to drive the increase in government expenditure compared with minimal expansion in domestically financed development expenditure (Figure 5). Most of the external non-concessional financing will be used for financing investments in infrastructure.

**Figure 5: Borrowing will play a major role in Uganda's development in 2018/19**



Source: Development Initiatives based on Ministry of Finance 2018/19 estimates of revenue and expenditure

External borrowing from concessional sources will increase from 2017/18 and be the largest source of finance in 2018/19. Yet it is projected to peak in 2018/19 and fall in 2019/20 as government increases the amount it borrows from non-concessional sources.

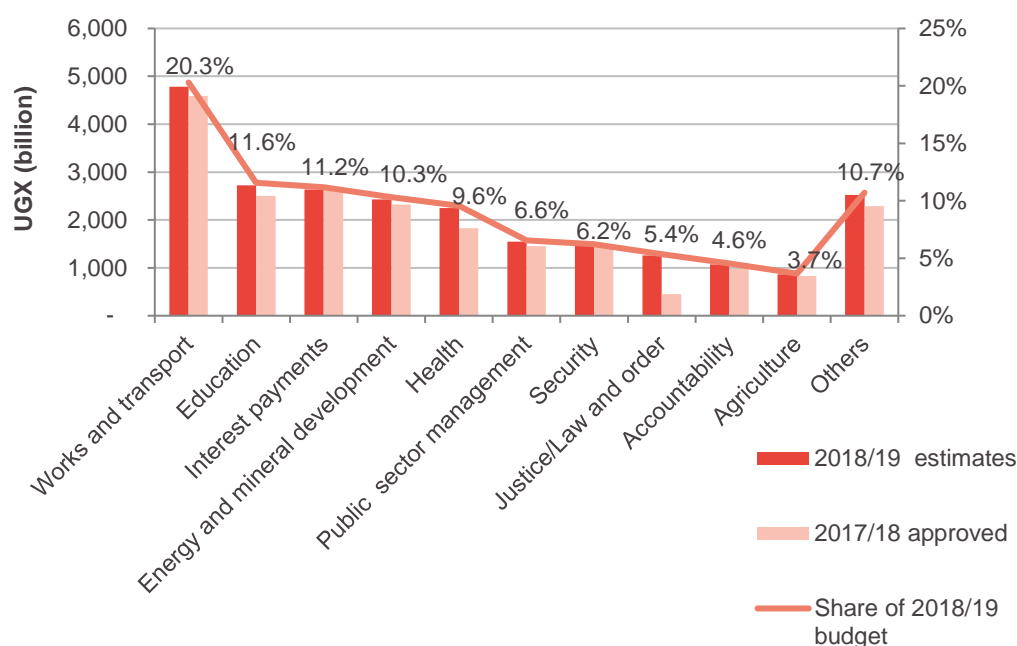
Concessional borrowing is projected to more than double, from UGX1.42 trillion for 2017/18 to UGX3.3 trillion for 2018/19, while net domestic financing will decline from UGX2.15 trillion in 2017/18 to UGX1.3 trillion in 2018/19. Budget support is projected to continue declining from UGX340 billion in 2015/16 to UGX102 billion estimated for 2018/19.

### **Overall government expenditure and resource envelope**

Government expenditure is estimated to grow to 21.7% of GDP in 2018/19 from 20.4% in 2017/18. Payment of wages and salaries will increase from a projected outturn of UGX3.58 trillion for 2017/18 to an estimated UGX3.735 trillion in 2018/19.

The structure of allocation and spending of the 2018/19 budget is largely similar to that of 2017/18, with the largest proportion of the resources going to the works and transport sector, which will take UGX4.8 trillion (20.3%) of budget share. The rest of the allocations will be as follows: education UGX2.7 trillion, interest payments UGX2.6 trillion, energy and mineral development UGX2.4 trillion, health UGX2.25 trillion, security UGX1.47 trillion, justice/law and order UGX1.3 trillion, accountability UGX1 trillion, and agriculture taking UGX863 trillion. The remaining nine sectors<sup>18</sup> will be allocated a combined total of UGX2.52 trillion (10.7%) of the total budget (see Figure 6).

**Figure 6: Largest 4 sectors will take 53% of the budget with most sectors getting minimal increase in resource allocation in 2018/19 compared with 2017/18**



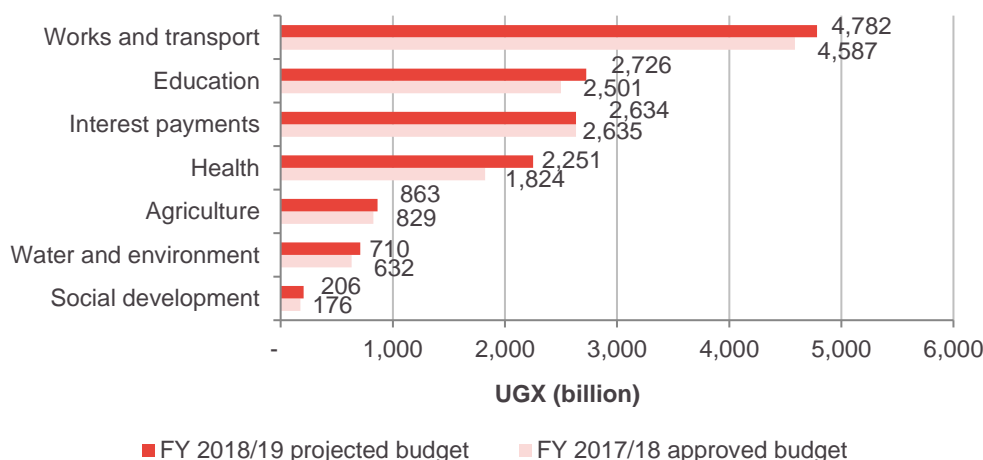
Source: Development Initiatives based on Ministry of Finance 2018/19 estimates of revenue and expenditure

## Expenditure allocation highlights for selected sectors

This section analyses government spending in some of the areas deemed relevant to the poorest and most vulnerable people. Health, education, water, environment, agriculture and social development are thought to have the most potential to disproportionately benefit or exclude the poor. These sectors, except social development, align with government's sectors targeted for poverty alleviation through its Policy Support Instrument programme with the IMF. Our pro-poor analysis of the 2018/19 budget expenditure is therefore broader than the government's own poverty-alleviating sectors.

Figure 7 shows total sector budget of the six key areas, along with interest payments for comparison purposes. All the highlighted sectors will receive more resources in 2018/19 compared with 2017/18. But the budget allocation to the works and transport sector for 2018/19 (UGX4.78 trillion or 20% of budget) exceeds the combined allocation for the key poverty alleviation sectors of social development, water and environment, agriculture and education, which stand at a total of UGX4.51 trillion (19%) of the budget. The allocation for interest payments is also comparatively much higher than that to the pro-poor sectors; it is for example larger than social development, water and environment and agriculture combined.

**Figure 7: The 2017/18 budget allocations to key sectors deemed more responsive to the poorest will only see marginal increases**



Source: Development Initiatives based on Ministry of Finance 2018/19 estimates of revenue and expenditure

The following sections provide a detailed analysis of selected pro-poor sectors to understand their projects and programmes and how the 2018/19 budget allocations respond to the needs of the poorest people and relate to the government’s commitments outlined through NDPII.

### Agriculture, water and environment

Agriculture is the mainstay of Uganda’s economy serving as the main source of income or mechanism for receiving income for 43% of the population.<sup>19</sup> The sector employs over 72% of Uganda’s total labour force<sup>20</sup> with between 75% and 80% of total agricultural output and marketed agricultural produce coming from poor subsistence farmers.<sup>21</sup> The government through NDPII recognises that the agriculture sector is key to increasing wealth creation and propelling Uganda towards middle-income status by 2020.<sup>22</sup>

Most people in poverty derive their livelihoods solely from subsistence farming and challenges persist. These include slow technology innovations and adoption; shortage of quality seeds and inputs on the market; high prevalence of pests, diseases and weeds; low access and outreach to agricultural credit facilities among farmers; low production and productivity due to inadequate access to extension services; and heavy dependence on rain-fed agriculture.<sup>23</sup>

Government has committed to addressing some of these challenges through programmes like Operation Wealth Creation<sup>24</sup> under National Agricultural Advisory Services (NAADS), and by investments in large-scale irrigation schemes and setting up small-scale irrigation demonstration sites across the

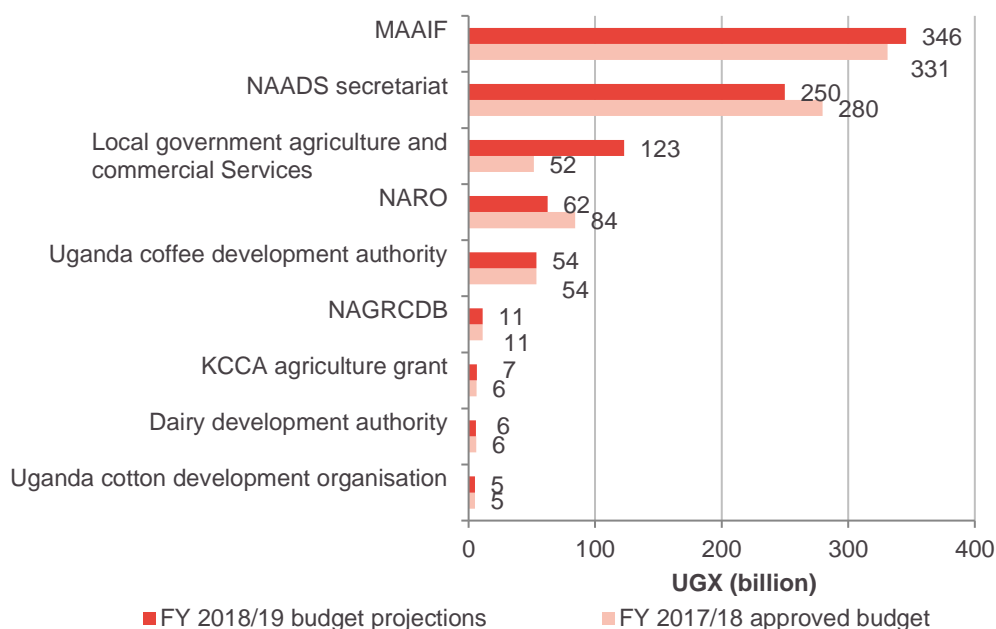
country.<sup>25</sup> Despite these commitments, government’s resource allocation to agriculture has only marginally increased in the past five years.

While total budget allocation to agriculture increased, the share of allocation of the national budget to the sector declined from 3.9% in 2017/18 to 3.7% in 2018/19 budget estimates. Allocation to agriculture has also consistently fallen below the NDP II expenditure framework. For example, the Agriculture Sector Strategic Plan aligned to the NDP II provides for UGX479.9 billion, UGX782.4 billion, UGX875.7 billion, UGX1.08 trillion and UGX1.41 trillion for 2015/16 through 2019/20 respectively.<sup>26</sup> However, only UGX862.9 billion is allocated for 2018/19 compared with the planned UGX1.08 trillion.<sup>27</sup>

### Agriculture, water and environment 2018/19 budget allocations

Estimated allocation for the agriculture sector for 2018/19 represents a slight increase in nominal terms from UGX828.5 billion in 2017/18. The Agricultural Advisory Services Programme and NAADS Secretariat take a big share of the sector budget (UGX250 billion or 29%) compared with local governments and other areas of spending in the sector (Figure 8).

**Figure 8: Resource allocated to local government agriculture and commercial services increased; the NAADS Secretariat allocation reduced**



Source: Development Initiatives based on Ugandan Ministry of Finance 2018/19 draft estimates of revenue and expenditure

Notes: NAADS: national agricultural advisory services; NARO: national agricultural research organisation; NAGRCDB: national animal genetic resource centre and data bank; MAAIF: Ministry of Agriculture, Animal Industry and fisheries



Even with a decline in NAADS allocation from UGX279.7 billion in 2017/18 to UGX250 billion in 2018/19, concerns remain with the large resource allocations to the NAADS programmes, especially Operation Wealth Creation, which takes nearly all the NAADS budget.<sup>28</sup> Conversely, critical areas like local government agriculture and commercial services have comparatively smaller budget allocations despite the increase in resource allocation in 2018/19.

NAADS' failure to perform its mandate<sup>29</sup> under the farmer demand-driven extension system resulted in restructuring and development of an integrated, coordinated and harmonised public extension system. This is known as the 'Single Spine' agricultural extension service delivery system and local government were once again mandated with a lead role providing farmer extension and advisory services.<sup>30</sup> However, the level of financing of local governments' agriculture and commercial services has not increased sufficiently to permit full implementation of the Single Spine reform.

Bearing in mind the impacts of drought seen in 2016/17 and the risks posed by climate change, the government during the 2017/18 budget speech<sup>31</sup> recognised the need to 'fast track' irrigation, focus on reforestation and prevent wetland destruction. For example, the budget has committed to start constructing five irrigation schemes, design schemes for implementation in other areas of the country and restore degraded wetlands in 117 local government areas.

The water and environment sector will be allocated UGX710 billion or 3% of the budget and an increase of UGX78 billion in nominal terms from 2017/18 to 2018/19. This sector houses the rural water supply and sanitation; urban water supply and sanitation; water for production; water resources management; natural resources management; weather, climate and climate change; and policy, planning and support services programmes.

While programmes like Water for Production are supposed to help boost agricultural production, rural households continue to rely exclusively on rain-fed subsistence farming. While government committed to invest in irrigation projects across the country, only the irrigation project 'Irrigation Scheme Development in Central and Eastern Uganda', supported by the Japan International Cooperation Agency, will be allocated an estimated UGX0.82 billion in the 2018/19 poverty alleviation fund budget.

## **Health sector**

According to the 2015/16 annual health sector performance report, Ugandan households contribute the largest share of total health expenditure. High out-of-pocket healthcare spending<sup>32</sup> means poor households are often forced to divert spending away from necessities like basic education and on income generating

economic activities into treating preventable sickness. This limits household's expenditure on activities that could directly improve their income and livelihoods.

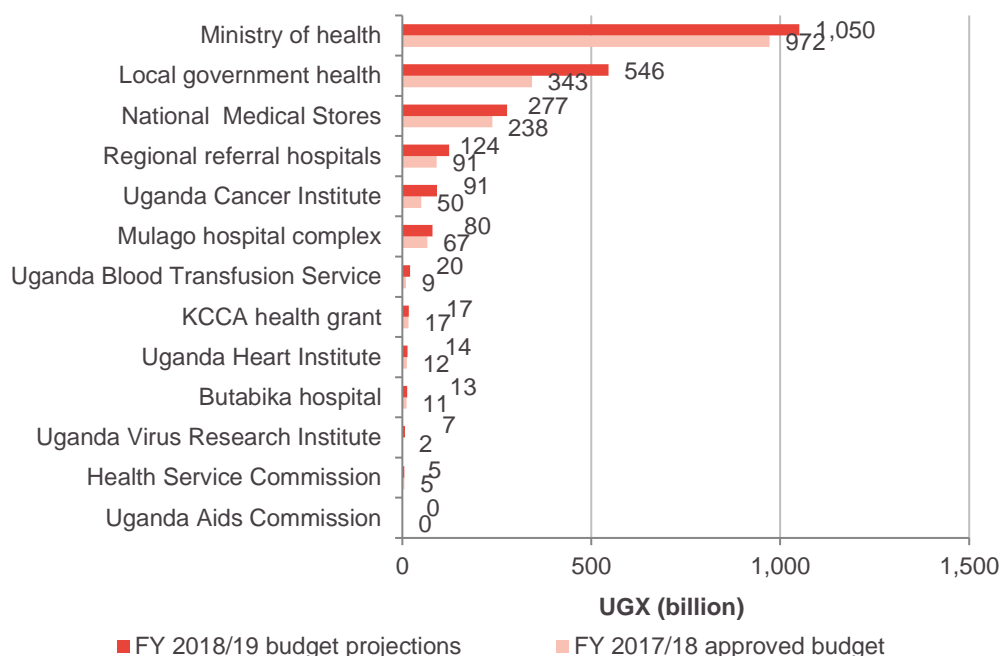
The NDP II highlights limited access to basic healthcare services by the poorest Ugandans as a key health sector challenge which together with limited participation of poor households in government programmes keeps them in perpetual poverty and low human development.<sup>33</sup> This challenge is widespread in the Eastern and Northern regions of Uganda, where poverty rates are highest.<sup>34</sup> Limited resources for improving health workers remuneration has also been a big challenge for government, resulting in health worker strikes across the country in 2017 and early 2018.

Government has committed to address challenges in the health sector through mass malaria treatment; implementing of a national health insurance scheme; rolling out universal family planning services; developing health infrastructure; 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 a gradual increase in resource allocation to the health sector<sup>35</sup> to support increased delivery of primary healthcare, basic health services and development of health infrastructure.

### **Health allocations 2017/18 and 2018/19**

Estimated allocation to health sector for 2018/19 is UGX2.251 trillion, which is UGX426.5 billion higher in nominal terms than the 2017/18 allocation. Local government health services whose allocation will increase by an estimated UGX202.4 billion will be the biggest beneficiary of the health sector budget increase (Figure 9).

**Figure 9: Increased allocation to health sector; local government health services allocation boosted**



Source: Development Initiatives based on Ugandan Ministry of Finance 2018/19 draft estimates of revenue and expenditure

Notes: FY: financial year; KCCA: Kampala Capital City Authority.

All votes in the health sector except for the Health Service Commission will get more funding in 2018/19 than 2017/18. Local government health services will receive the biggest increase followed by the ministry of health, Uganda cancer institute, national medical stores, regional referral hospitals, Mulago hospital complex, Uganda blood transfusion service, Uganda virus research institute, Butabika hospital, Uganda heart institute and KCCA health grant.

The increase in resource allocation to the health sector seems to be in line with efforts to address health sector challenges that have recently received much publicity through the media. These include poor access to health services in local government-run health centres, shortage of drugs and healthcare kits in public healthcare facilities and shortage of blood at the national blood bank.

## Education sector

The complementary role of education in poverty reduction is well recognised; no country has succeeded in reducing poverty without first educating its population.<sup>36</sup> Education has also been identified as a factor limiting the participation of people in poverty in Uganda's labour market.<sup>37</sup> Consequently,

delivering universal primary education has been one of government's primary policy tools for poverty reduction and human development.<sup>38</sup>

The Government of Uganda's education sector focus under the NDP II 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.<sup>39</sup>

Uganda has achieved increased access to education at both primary and secondary level for its population, thanks to the universal primary education and universal secondary education programmes. However, availability of universal primary and secondary education has not addressed the challenge of access especially for very poor people. They remain largely excluded from these programmes because they cannot afford requirements like exercise books, uniforms and meals that are not included in universal primary education.<sup>40</sup>

It is argued that early child development intervention is an important tool for reducing income and social gaps between poor and non-poor populations. This is because investing in it yields more returns than most other private or public investments.<sup>41</sup> In Uganda the money invested in pre-primary schooling has a return of 60% in terms of future incomes, productivity and health.<sup>42</sup>

Uganda's enrolment in pre-primary education stands at 9.6% and lags behind countries such as Kenya, Tanzania and Rwanda where enrolment was 54%, 34% and 29% respectively in 2014.<sup>43</sup> A weak policy framework and lack of dedicated budget for pre-primary education has contributed to further exclusion of children from very poor families from participating in pre-primary education.<sup>44,45</sup>

The Eastern and Northern regions of Uganda, which rank first and second in poverty rates, are reported to have the lowest numbers of pre-primary schools.<sup>46</sup> Most people in these regions cannot afford the fees charged for pre-primary education by the private sector and non-government organisation providers that are the only players in the sub-sector.<sup>47</sup> Concentration in urban centres also limits access, with high disparities between urban and rural areas and among different socioeconomic groups.<sup>48</sup>

Uganda has made remarkable progress in expanding access to primary and secondary education with gross enrolment ratio and net enrolment ratio of 115% and 96% respectively in 2016/17.<sup>49</sup> However, quality of service delivery remains a challenge. A decline in quality of education services, especially in public schools in the poorest regions of Uganda, is underpinned by poor performance in quality indicators at both primary and secondary levels. Evidence from the Ministry of Education and Sports reveals that the literacy rate at grade 6 was 51.9% while

survival rates to grade 7 was 32% in 2016/17. The gross enrolment ratio at secondary level was 27.1% while the O-level completion rate was 37.8%.<sup>50</sup>

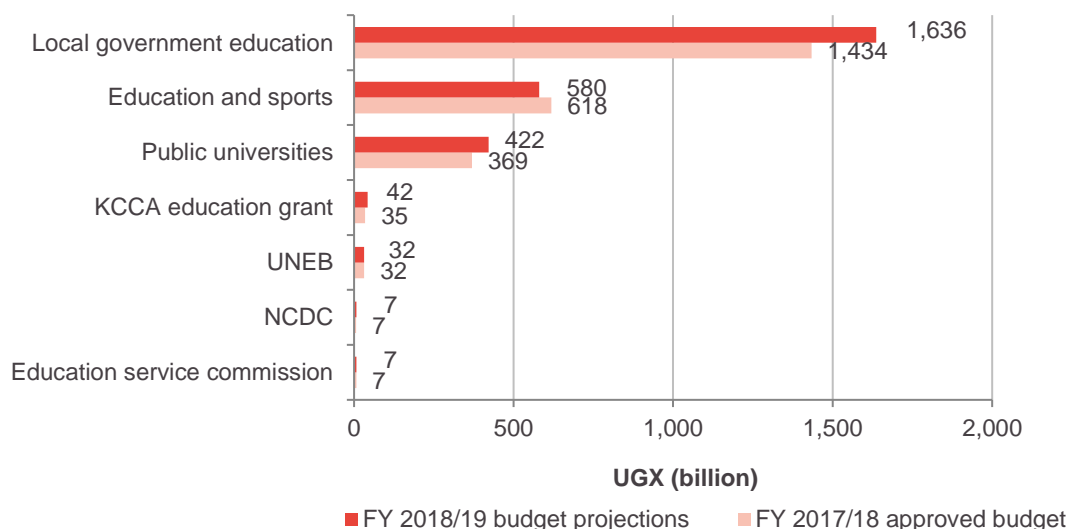
Other factors associated with poor performance in the poorest regions of Uganda include higher pupil-to-classroom ratios, which stand at 77:1 in government schools; higher pupil-to-teacher ratios for the poorest quintile of communities than the richest;<sup>51</sup> lower primary school completion rates; and lower literacy and numeracy rates.

Failure for poor parents to pay for educational materials like pens, exercise books, uniforms and food that are not provided for under the free education scheme has further excluded poor people from basic education. As such 68% of pupils that enrol at grade 1 drop out of school before reaching grade 7,<sup>52</sup> and many are from poor families.<sup>53</sup>

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

Education will receive an estimated UGX2.73 trillion for 2018/19 representing 11.6% of the budget and an increase of UGX225 billion in nominal terms from the 2017/18 allocation budget. Local government education services and public universities will be the biggest beneficiaries of the increased resource allocation to the education sector in 2018/19, receiving an extra UGX202.8 billion and UGX52.4 billion respectively (Figure 10).

**Figure 10: Allocations are projected to increase to the local government education budget and drop to the Ministry of Education and Sports**



Source: Development Initiatives based on Ministry of Finance 2018/19 draft estimates of revenue and expenditure

Notes: FY: financial year; NCDC: national curriculum development centre

Increased resource allocation to local governments signifies government's greater commitment towards basic education programme implementation by decentralised local government structures. The increase in resource allocated to local governments will be directed to financing local government primary education programmes, which will get an extra UGX116.3 billion, and secondary education programmes, which will get an extra UGX64.7 billion. Local government skills development programmes will also get an extra UGX21.7 billion in 2018/19 compared with 2017/18. Government projections further reveal that allocation to local government education will continue to grow from UGX1.4 trillion approved in 2017/18 to UGX2.3 trillion by 2022/23. Allocations to public universities will also increase while allocations to other areas of investment will remain largely stagnant.

While resource allocation to the education sector is estimated to increase by 9% from 2016/17 to 2017/18, the share of total budget allocated to the sector will only increase by 0.1%. Some sector programmes' resource envelopes will decline, for example, allocations to the secondary education programme under the Ministry of Education and Sports will be cut by UGX10.6 billion.

The 9% increase in budget resource allocation to the education sector, targeted at local government education services programmes, is a positive move that will promote access if managed well. While a single annual increase is unlikely to enable government to address access and quality challenges, especially for poor people, projections for further increases in the medium term will provide more resources that will help bridge the gaps. Lack of specific budget lines for pre-primary education continues to show misalignment between government's limited investment in promotion and development of public pre-primary education structures and systems and the NDP II's sector targets.

## **Social development sector**

The social development sector plan lists some of the key development challenges facing Uganda as limited coverage of social security with less than 10% of the population having access to social security at older age; high and increasing number of vulnerable and marginalised people; high youth unemployment; and limited social protection service coverage.<sup>54</sup>

Government is implementing social protection programmes for vulnerable groups through the Youth Livelihood Programme, the Uganda Women Entrepreneurship Program, and Senior Citizen Grants through Social Assistance Grants for Empowerment (SAGE) under 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, and grants to child-headed households and people with disabilities.<sup>55</sup>

Even with the increase in resource allocation for the social development sector, Uganda's public spending on social protection stands at 0.78% and is low in comparison with other developing countries that spend between 1% and 2% of their GDP on social safety nets per year.<sup>56</sup> Well planned and implemented social protection actions can help poor and vulnerable people to escape from poverty and reduce their vulnerability to poverty<sup>57</sup> by increasing their coping capacity and resilience to shocks. Government social protection coverage in Uganda is very limited: only about 30 of Uganda's 121 districts were covered by the Senior Citizens Grants as of 2017/18.<sup>58</sup>

The Senior Citizens Grants programme provides UGX25,000 (around US\$8) monthly to older people (aged 65 years and above, or 60 and above in the Karamoja region). However, only 40 of Uganda's 121 districts are covered by the programme as of 2017/18, following government's plan to extend to an additional 40 districts over five years.<sup>59</sup> Government has gradually increased resource allocation to the social development sector over the past five years, and projections for the next five years also indicate continued commitments to further increases. For example, allocations to the Ministry of Gender, Labour and Social Development are projected to increase from UGX160 billion allocated for 2017/19 to UGX306 billion for 2022/23.

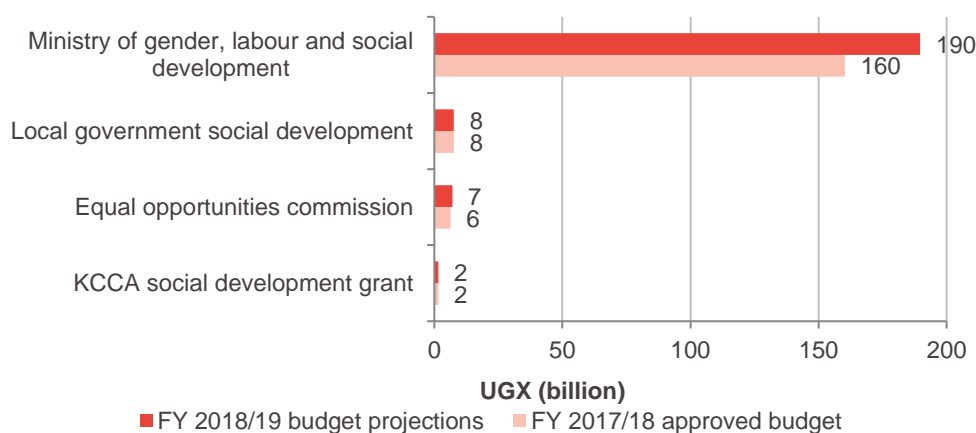
### **Social development 2018/19 budget allocations**

The social sector will be allocated an estimated UGX205.9 billion (0.9%) of the 2018/19 budget. Allocations to social development have, however, stagnated at about 0.9% of the budget from 2016/17. Allocation for 2018/19 represents a UGX30.1 billion increase from the allocation for 2017/18 and a 0.1% increase in the share of budget allocation in nominal terms from the 2017/18/19 allocation. The main beneficiary of the social sector resource allocation will be the Social Protection for Vulnerable Groups programme, whose 2018/19 poverty alleviation fund budget allocation will increase by UGX15.4 billion (see Figure 11).

According to the current social sector development plan, the sector budget needs to be increased by at least 50% to enable it increase its service delivery and be able to keep abreast with the ever-increasing demand of the population whose growth rate currently stands at 3.01%.<sup>60</sup>



**Figure 11: Allocations are projected to increase to gender, labour and social development and stay the same for local government social development**



Source: Development Initiatives based on Ministry of Finance 2018/19 draft estimates of revenue and expenditure

## The works and transport sector

The government, through NDP II, recognises that Uganda needs an efficient transport system as 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. Of these, agricultural production particularly requires good rural road networks to connect production to markets. Bad transport infrastructure cuts across all sectors of the economy and affects all.

An efficient transport system plays a critical role in a country's economic growth and development. For instance, it facilitates domestic and international trade, contributes to national integration and provides access to markets, jobs, healthcare, education and other essential social services<sup>61</sup> that directly benefit the poorest people.

The works and transport sector has received the highest and increasing share of the budget allocations year on year since 2012/13. As a result, the availability of national paved roads to both rural and urban populations has increased from 44 to 66%, and 75 to 90% from 2012/13 to 2016/17 respectively.<sup>62</sup> However, because government has majorly focused on the national road network, the quality and coverage of community roads declined from 2012/13 to 2016/17 for both urban and rural residents.<sup>63</sup>

District local governments are mandated with rehabilitation and maintenance of rural roads classified as district, urban and community access roads. However, according to the Ministry of Works and Transport annual sector report 2015/16,<sup>64</sup>



one of the major challenges facing the roads sector is inadequate road maintenance funds. These have contributed to continued delays and postponements of scheduled road maintenance.

Availability of district feeder roads also declined from 81 to 76% for urban residents in the same period. Limited access and availability of roads for communities impedes transportation of goods and services to and from remote areas, and limits timely access to other basic service by poor people. Poor quality of district and community access roads comes at a high cost for Uganda's growth and development because it affects other vital sectors such as tourism,<sup>65</sup> agriculture and trade. The poor state of community access roads also limits people in poverty's access to health and other services.

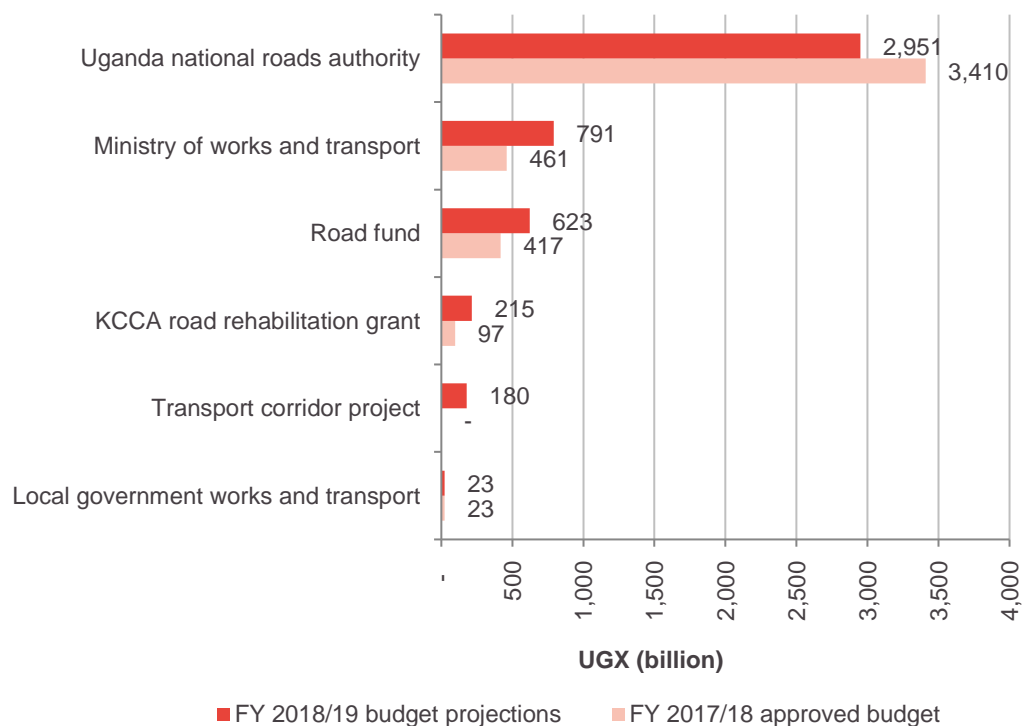
While investments in key national roads projects are predicted to have positive impacts on Uganda's economic growth in the medium and long term and play a key role in Uganda's economic development, they can also be a key driver of unequal growth. Lower allocation of funding for district, urban and community-access road sub-programmes means that less priority is given to improving the quality of rural and community-access roads.

### **Works and transport sector 2017/18 and 2018/19 budget allocations**

The works and transport sector will be allocated as estimated UGX4.78 trillion or 20.3% of the total budget. This will be UGX195.2 billion higher than the previous budget but also represents a decline of 1.2% in budget share allocation from 2017/18 to 2018/19. This allocation also reveals the first drop in budget share for works and transport since 2012/13. Allocations to the works and transport sector remain consistent with the direction taken in the previous budget indicating continued prioritisation of national infrastructure development projects as the engine for economic growth.

The Uganda National Roads Authority; the Ministry of Works and Transport and the Uganda Road Fund will receive UGX2.95 billion, UGX791 billion and UGX623 billion respectively, representing 62%, 17% and 13% of sector budget allocation. The remaining UGX418 billion or 8.7% of the sector budget for 2018/19 will be allocated to the KCCA Road Rehabilitation Grant (UGX215 billion or 4.5%), Transport Corridor Project (UGX180 billion or 3.8%) and local government works and transport (UGX23 billion or 0.5%). All except local government works and transport will get additional financing (Figure 12).

**Figure 12: Allocations to roads set to increased, with much going to works and transport, while allocations to the Uganda National Roads Authority will decline**



Source: Development Initiatives based on Ministry of Finance 2018/19 draft estimates of revenue and expenditure

# Conclusion and recommendations

The Government of Uganda committed to implement development programmes that would reduce poverty and support vulnerable people in its NDP II. The government budget plays a leading role in this pursuit, ensuring the needed financing is in place and allocated the right way. This report has looked at how far the 2018/19 budget responds to the needs of poor and vulnerable people, and provides the following concluding points and recommendations.

**The balance of budgetary allocations does not reflect all government priorities and commitments under NDP II, as high priority is limited to the works and transport sector.** The government committed to deliver development through selected priority growth and development fundamentals including agriculture, infrastructure and human capital development. Yet resource and financing decisions in the 2018/19 budget particularly favour infrastructure development, with less attention given to agriculture and other priority areas. Infrastructure and energy development has remained government's priority with the works and transport sector being allocated more resources and the highest share of the budget. Government should consider what investments are needed to meet its other poverty-focused commitments and assess how these can be budgeted.

Overall, **there are a number of options government can pursue to follow up on its commitments to the NDP II** and reduce poverty and vulnerability. For example, meeting NDP II resource allocation targets for agriculture and social development sectors would enable government to implement commitments like nationwide irrigation projects to mitigate impacts of climate change and increase poor people's resilience.

**Government's domestic revenue mobilisation capacity is growing but is still low compared with regional neighbours.** Some proposals of enhancing revenue in 2018/19 like taxing mobile money transaction and increasing tax on fuel are aimed at increasing revenue mobilisation. But they will also increase the tax burden on poor people and disenfranchise them further if such actions lead to increases in costs of basic commodities as a result of spill-over effects of increased fuel prices. Government should be mindful of impacts of its tax policy on the poorest people in its search for increased revenue collection.

**Government will rely more on borrowing from concessional sources to finance the 2018/19 budget.** Financing from non-concessional sources will remain at levels comparable with 2017/18. Heavy reliance on non-concessional loans will constrain fiscal space along with rising interest payments and debt vulnerability. Government could re-evaluate its financing options to enable it to maintain debt within sustainable levels but also limit the impact of interest payments in its fiscal space.

# Notes

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# Acronyms

IMF	International Monetary Fund
KCCA	Kampala City Council Authority
NAADS	National Agricultural Advisory Services
NDPII	Second National Development Plan
UGX	Uganda Shillings
VAT	Value added tax

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We work to ensure that decisions about the allocation of finance and resources result in an end to poverty, increase the resilience of the world's most vulnerable people, and ensure no one is left behind.

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