



KEYNOTE ADDRESS

By

**Hon. Minister of Finance, Planning and
Economic Development**

At

**The Local Government Budget
Consultative Workshops for FY
2016/17**

31st August – 15th September 2015

**Resident District Commissioners,
LCV Chairpersons and Your Worship the Mayors,
Chief Administrative Officers,
Town Clerks,
Heads of Departments,
Technical Officers representing Central Government line Ministries and
Local Governments,
Ladies and Gentlemen**

INTRODUCTION

1. I wish to welcome you all to this year's Budget Consultative Workshop that marks the commencement of the budget preparation process for FY 2016/17.
2. As you may have noted, these consultations have been brought forward, because of the revised budget Calendar, on account of the new Public Finance Management (PFM) Act 2015. According to the new law;
 - (i) We are now required to submit the National Budget Framework Paper to Parliament by 31st December instead of 1st April;
 - (ii) Ministerial Policy Statements should now be submitted to Parliament by 15th March instead of 30th June;
 - (iii) The final Budget is now submitted to Parliament by 1st April and approved by Parliament by 31st May, a month before the start of the financial year. Previously the Budget would be approved up to three months after the start of the financial year.
3. The Public Finance Management Act 2015 comes with benefits as well as challenges. The greatest benefit lies in the predictability of the Budget since it is approved before the beginning of the financial year and it is supposed to be implemented as approved.

4. In addition, the Charter of Fiscal Responsibility provides a clear mechanism for sound Macroeconomic management, enhances accountability by strengthening Internal Audit and performance reporting, strengthens the oversight role of Parliament and provides for management of Oil Revenues to mention a few.
5. However, the new Law also comes with a number of challenges. These include the restriction on reallocations/virements of not more than 10% within items or activities; expiry of all the appropriations by the end of the financial year, strict rules for supplementary expenditures and increased reporting requirements. These challenges demand that all Government Ministries, Departments and Agencies properly prepare their Work Plans, Procurements and Recruitment Plans well in order to allow smooth implementation of the budget.
6. You are also aware that the budget process for the FY 2016/17 falls directly within the period for the 2016 general elections. During this period, most of the stakeholders including Cabinet, Parliament and of course many of the participants in this workshop will be heavily engaged in this process. This therefore calls that all the budget consultative activities at both Central and Local Government levels are reconciled with the Electoral Roadmap and undertaken timely. It is therefore against that background, that the budget process for the FY 2016/17 is being conducted.

THE BUDGET STRATEGY FOR THE FY 2016/17

7. Ladies and gentlemen, I now wish to turn to the Government Budget Strategy and Priorities for the FY 2016/17.
8. The budget for FY 2016/17 will form the second year of implementation of the Second National Development Plan (NDP-11), hence the need to facilitate

faster implementation of the key strategic interventions as identified in the Plan.

9. The goal of the NDP-II is to propel the country towards a lower middle income status by 2020 through strengthening the country's competitiveness for sustainable wealth creation, employment and inclusive growth through the following objectives:

- i.) Maintaining macro-economic stability and achieving the convergence criteria of the EAC monetary union;
- ii.) Increasing domestic revenue mobilization from 13.3 percent in 2015/16 to 14.5 percent of GDP in 2019/20 by harnessing new sources of financing;
- iii.) Scaling up of public infrastructure spending in order to alleviate the infrastructure constraints.

10. In order to achieve the above development objectives, the Second National Development Plan (NDP-II) emphasizes prioritized investment in five (5) areas with the greatest multiplier effect on the economy; which are: (i) Agriculture; (ii) Tourism; (iii) Minerals, oil and gas; (iv) Infrastructure development; and (v) Human capital development.

11. However, it is important to note that preparations for the FY2016/17 budget come at a time when the economy is facing some macroeconomic challenges. The economy has been faced with external shocks which have culminated into sustained depreciation pressures on the Shilling against the US Dollar and other international currencies. The depreciation has also fuelled inflationary pressures – prices for goods and services have in recent months taken on an upward trend in response to the depreciation of the exchange rate.

12. While Government has intervened by tightening its monetary and fiscal policies, the depreciation of the Uganda Shilling is mainly on account of the insufficient foreign exchange earnings, especially from our exports compared to the value and levels of our imports. Under these circumstances, the more

sustainable solution is in increasing our foreign exchange earnings by increasing our exports and ensuring that we export processed goods as opposed to primary products.

13. Therefore, building on the NDP-II, the Budget Strategy for the FY 2016/17 will focus on the following:

- i. Maintaining and sustaining Macroeconomic Stability and National Security and Defence as fundamentals for economic growth and development.
- ii. Promotion of investment and export of goods and services through Value addition to strategic commodities;
- iii. Sustaining the Development and Maintenance of Strategic Infrastructure in Energy and Transport to Accelerate the country's competitiveness;
- iv. Enhancing Human Capital Development by improving the Quality and Access to Critical Social Services and Skills Development;
- v. Enhancing Domestic Revenue Mobilisation; and
- vi. Strengthening the Quality of Public Service Delivery to Facilitate Private Sector Investment.

14. Maintenance of macroeconomic stability is crucial to the country's long term development goals because it is essential for long term private investment in productive assets, which in turn is essential for sustained economic growth and structural transformation. Going forward, we will continue to ensure that fiscal and monetary policies remain prudent. These will be complimented by interventions to promote increased production and productivity in the key growth sectors, increased value addition to our exports to increase foreign exchange earnings.

15. In the FY 2016/17, Government will also continue to prioritize maintenance and further improvement of our national security and defence by equipping the security

agencies, training and research in modern security systems, improving staff welfare and provision of other logistics.

16. In order to promote investment and value addition made a decision to focus on 12 strategic Commodities identified under the Commodity Approach based on their contribution to household food security and contribution to export revenue. These are; *(i) Maize, (ii) Beans, (iii) Rice, (iv) Bananas, (v) Cassava, (vi) Dairy and Beef Products, (vii) Poultry, Coffee (viii) Tea, (ix) Fish, (x) Cotton, (xi) Horticulture and (xii) high value Minerals especially Iron Ore.* My Ministry is working with other Government institutions and the private sector to give priority to (5) commodities in FY 2016/17, which include; Coffee, Cotton, Tea, Livestock, Maize, Fruits and Minerals.
17. The strategy will involve addressing constraints in the entire value chain process right from research to provision of inputs, extension services, access to finance, post-harvest handling and storage, agro-processing, quality control and marketing. Details of interventions will be finalized and concretized during the budget consultative process.
18. Priority will also be put on strengthening the institutions responsible for Investment and Export Promotion such as Uganda Investment Authority, Export Promotion Board, and Uganda Registration Services Bureau, among others. This will also include further development of the Industrial Parks and Free Trade Zones.
19. Under infrastructure, we shall maintain financing of the ongoing construction of major projects mainly in energy and transport to facilitate their timely completion while providing the necessary resources for proper maintenance of completed projects.
20. The strategy for promotion and development of the Tourism Sector will continue to focus on ensuring, development of key tourism infrastructure (like

transport, energy, ICT, hotel facilities), skills development, promotion non-traditional tourist opportunities such as cultural and community tourism as well as tourism promotion.

21. Under skills development, Government has gone a long way in proving the state of facilities in the key sectors like Education, Health and Water. This has greatly improved access to services in these sectors. Going forward, Government will focus on improving the quality of services through enhanced supervision and inspection to address issues of staff absenteeism, salary enhancement to improve staff motivation, equipping of newly constructed education and health facilities and improving access to water and sanitation facilities in both urban and rural areas.

22. The budget will also continue to build capacity for Domestic Revenue Mobilization. This will be done through the expansion of the tax base by gradually formalizing the large informal sector and improve efficiency in tax collection and compliance.

23. Lastly, Government shall continue to focus on improving efficiency in the delivery of public services at both national and local government levels. Specific interventions will include:

- i.) Enforcing efficiency in Government expenditure to improve absorption of funds and ensure timely completion of projects;
- ii.) Enforcing Sanctions in line with the law to enhance accountability and service delivery;
- iii.) Performance Orientation of Service Delivery;
- iv.) Strengthening the budgeting system through implementation of the Programme Based Budgeting Reform to link resource allocation and Government expenditure to service delivery;
- v.) Strengthening Fiscal Decentralization to increase local government autonomy in decision making and allocation of resources; and

vi.) Monitoring and supervision of Government programmes including payroll management, salaries and pension payments.

24. Ladies and gentlemen, due to the challenges currently facing the economy, there is limited scope for increased revenue. Yet there are many demands. This therefore calls for increased efficiency in the way we allocate and utilize the available resources to ensure value for money.

KEY BUDGET EXECUTION ISSUES

25. Before I conclude, I wish to highlight a number of issues identified to be affecting implementation of the budget and overall service delivery.

Procurement and Contract Management

26. Implementation of Government programmes and projects continue to be affected by challenges in procurement and contract management leading to persistent delays as revealed in various budget and audit reports. Key among these include, failure by Accounting Officers to adhere to procurement procedures and delays to initiate the procurement processes. As a result, a number of critical development projects either delay to take off or would be interrupted and significant amounts of released resources remain unutilized at the end of the financial year amidst poor service delivery.

27. In addition, the procurement process is still marred by gross mismanagement of contracts and corruption especially in areas of irregular compensation of the right of way and inflated contract costs which are later established after investigations. To address these challenges, Government is strengthening the entire project management cycle which will also involve ensuring that the project budgets reflect the real cost of implementation of the

project before approval. We shall also continue to strengthen the oversight function including monitoring, evaluation, audit, accountability, investigation and prosecution of those involved in mismanagement of public resources.

Poor Service Delivery

28. Implementation of Government programmes continues to be characterized by cases of poor service delivery in various sectors. This is mainly attributed to the poor performance culture and attitude to work by the those responsible, staff absenteeism especially in health and education sectors, failure to monitor and supervise projects leading to shoddy works, misappropriation of public funds, delayed implementation, failure to prioritize resource allocation towards core service delivery areas, and in a few cases due to limited resources and technical capacity in terms of human resources. Therefore, in preparation and implementation of the budget, we must draw strategies for addressing these challenges in order to improve service delivery.

Payroll Management and Payment of Salaries, Pension and Gratuity.

29. Arising out of the challenges in management of the payroll, Government took a policy decision to decentralize the process for final approval of the payroll records and payment of Salaries, Pension and Gratuity. This transferred the responsibility from the Ministry of Public Service and Ministry of Finance, Planning and Economic Development to the Accounting Officers.

30. Whereas, the decentralized system has registered benefits including wage bill savings estimated at more than Ushs 300 billion in FY 2014/15 and timely payment of salaries, it has come to my attention that some Public Servants, including some Accounting Officers, have continued to perpetuate irregularities in the management of the Government payroll. These include creation of ghost staff, overpayment and underpayment of salaries, not paying salaries and

Pension on time, non-remittance of payroll deductions such as PAYE among others, failure to print and publish the payrolls on public notice boards and distribution of pay slips contrary to the Government guidelines on payroll and salary payments. I want to caution all those responsible that I will not be tolerate this and Accounting Officers will be held personally and pecuniary responsible.

31. While Government appeals to the claimants to remain patient, I want to urge all those responsible to expedite the process of verification of files/record to ensure timely payment of the claimants. The decentralized system should address the problems in payment of Pension and Gratuity once and for all because Pensioners will no-longer be required to travel to the Ministry of Public Service or Finance following up their claims.
32. I am also aware that in the course of the FY 2014/15, Accounting Officers verified Pension and Gratuity Arrears amounting to approximately Ushs 200 billion. However, due to resource constraints, these arrears could not be accommodated in the budget for the FY 2015/16. These will be handled when resources become available.

Delays in Paying Service Providers

33. There is an outcry from public Service providers that go unpaid for a very longtime for services rendered without justification. Accounting Officers must stop this tendency, as this discredits Government and undermines private sector growth. I therefore, urge you to ensure that service providers are paid within 15 working days after receipt of funds, as communicated in the Budget Execution Circular for 2015/16. We will monitor your transactions critically to ensure that this is complied with and those found culpable will be penalized.

Strengthening Public Financial Management

34. The new PFM Act 2015 was enacted to strengthen the entire Public Finance Management (PFM) system. My Ministry will in FY 2016/17 continue to support all reforms associated with strengthening PFM by enforcing implementation of the provisions of the Law with emphasis on accountability and reporting.

Strengthen inspection and Enforcing Performance Standards

35. Delivery of public service across Government Agencies continues to be constrained by poor supervision mechanisms and failure to enforce standards. This has resulted into chronic absenteeism especially in the service delivery Sectors. Government will therefore in the coming Financial Year continue to provide resources to strengthen inspection and supervision of public services through promoting joint monitoring missions of sector line Ministries and my Ministry.

CONCLUSION:

36. In conclusion, Accounting Officers should note the following during the preparation of 2016/17 budgets:

- (i) Proper alignment of expenditure with the strategic priorities mentioned above;
- (ii) Address the key challenges in budget preparation and implementation with emphasis on preparation of quality work plans, adherence to procurement procedures including preparation of clear procurement plans, timely initiation of procurement processes to facilitate implementation of the planned activities and absorption of the funds for purposes of improving service delivery;
- (iii) Proper and timely submission of accountability and budget performance reports in accordance with law;

- (iv) Given the limited scope in expansion of the resource envelope, any additional resources shall be allocated to the priority areas mentioned above;
 - (v) Exercise high levels of efficiency in resource allocation by prioritizing allocation to the key service delivery areas;
 - (vi) Going forward, Government will exercise zero tolerance to poor performance by enforcing performance contracts and sanctions for poor performance; and
 - (vii) Expedite verification of all Pension Files/Records to facilitate payment of all Pensioners.
37. My Ministry attaches great importance on these budget consultations because they give local governments and other stakeholders the opportunity to influence the budget. Issues arising out of these consultations should provide an input to the Sector Budget Framework Papers which will enable my Ministry to come up with a National Budget Framework Paper (NBFP) that will later be presented to Cabinet and finally to Parliament.
38. I have seen on the programme that you are going to break into parallel sessions later in the afternoon to discuss the challenges constraining service delivery in local governments and come up with practical solutions. I will take keen interest in the identified challenges in order to agree on practical solutions.

I wish you fruitful deliberations and declare the workshop open.

Thank you for listening to me.