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MEDIA BRIEFING NOTE

A.BACKGROUND

1. This Financial Year marks the first year of full implementation of the Public Finance Management Act 2015 which was enacted in March 2015, it is also the first year of implementation of the NDP 2.
2. The successful conclusion of the 2016 General elections has played an important role in restoring investor confidence. This has been particularly visible in the recent strengthening of the shilling, improved inflows from exports, NGO remittances and offshore investments and reduction in the Central Bank Rate.
3. With the prevailing conditions, the economy is projected to grow at 5% in 2015/16 supported by the ongoing investments in infrastructure and strengthened private sector demand. Strong performance in manufacturing has continued, while tourism and telecommunications have recovered from recent headwinds.
4. We have continued to enhance PFM reforms for better accountability and service delivery through:
 - Enactment of Public Private Partnership Act 2015;
 - Roll-out of the Single Treasury Account and
 - Full implementation of the IFMS and IPPS to all MDAs and Local Governments.
5. Other reforms in progress include:
 - Transiting from Output Based Budgeting to Programme Based Budgeting (PBB).
 - Reform of Intergovernmental Fiscal Transfers in order to make resource allocation to Local Governments more transparent.

- Appointment of Accounting Officers based on internal and external audit reports; and
- Implementation of recommendations of the Budget Monitoring and Accountability Reports, among others.

B. MACROECONOMIC PERFORMANCE FOR FY 2015/16

Economic Growth:

6. The economy is now projected to grow by 5 percent this financial year, down from an earlier projection of 5.8 percent. This is on account of downside risks including: weakening domestic demand, slow economic recovery by our trading partners and major emerging market economies, as well as declining commodity prices.
7. Nonetheless, real economic growth is projected to recover to 5.5 percent in FY 2016/17 and further to average 6.3 percent per annum over the medium term. Growth will be driven by increased public investment in infrastructure, a recovery in domestic demand and increased private investment on account of monetary policy easing, as well as a rebound in the international commodity prices.

Inflation and Foreign Exchange Rate:

8. In the first half of this financial year, the economy experienced significant inflationary pressures due to;
 - (i) The sharp depreciation of the shilling during the period due to factors like global strengthening of the dollar as the US economy recovered strongly and speculation by investors and the outcome of general elections also put pressure on the shilling;
 - (ii) Un-favourable weather conditions that affected food supplies; and
 - (iii) Adjustment of electricity tariffs.
9. The Government moved to reduce the effect of the shilling depreciation on domestic prices and this has seen inflation decline to 6.2% in March 2016. Inflationary pressures are projected to remain relatively stable over the medium term, with annual inflation projected to remain within single digits in line with Government macroeconomic objectives.
10. In addition, the lower oil prices owing to lower global oil prices, have helped maintain inflation at a stable rate despite the depreciation pressures. The short-term inflation outlook is expected to improve slightly, mainly due to exchange rate and

food price developments.

C. FISCAL PERFORMANCE FY 2015/16

Revenue Performance

11. URA revenue target for FY 2015/16 is Ushs **11,727.15 billion** and the Non-tax revenue target is **Ushs 553.00 billion**.

12. The cumulative URA revenue collection up to the end of the third quarter of the FY 2015/16, (Tax and Non-Tax Revenue) amount to **Ushs.8,185.70 billion** against the target of **Ushs.8,384.89 billion** thus recording an overall performance rate of **97.62%**.

13. Revenue collections were higher than projected until December, 2015. However, January, February and March 2016 posted revenue shortfalls due to:

- (i) Impact of the depreciated shilling that started in the first half of 2015/16, which led to reduction in the volume of imported goods and services thus negatively impacting on customs tax;
- (ii) Slowdown in business activities associated with the general elections ;
- (iii) The annual China holiday (end January and early February, 2016) that affected businesses that deal in Chinese products; and
- (iv) Reduction in Private Sector Credit, among others.

14. It is expected that URA will be able to significantly reduce this shortfall by enforcing compliance during the remaining period especially in June 2016 when most companies are expected to file their final returns. Accordingly the revenue outturn for end June 2016 is projected at **Ushs 11,624.47 Bn** of which tax revenue is **Ushs 11,113.90 Bn** and Non-Tax Revenue is **Ushs 510.56 Bn**.

D. EXPENDITURE PERFORMANCE FY 2015/16

15. The Total Approved Budget for Financial Year 2015/16 amounts to **Ushs 23,972.3 billion** as shown below:-

GoU Budget	- Ushs 12,966.26 billion
External Financing	- Ushs 5,597.75 billion
Domestic Debt Redemptions	- Ushs 4,787.49 billion
Appropriation in Aid (AIA) projections	- Ush 621.35 billion
Total	- Ushs 23,972.85 billion

16. The total GoU Budget releases for Central Government amounted to **Ushs 8,485.968 Billion** for Q1 – Q3 which is approximately **78%** of the Approved GoU Budget. This excludes External Financing, Domestic Debt and AIA.

17. On 8th April 2016, the Ministry issued Expenditure Limits for the Fourth Quarter of FY 2015/16 amounting to **Ushs 2,341.101 Billion** (excluding external and domestic debt payment).

18. It is important to note that despite the supplementary pressures, Q4 Expenditure requirements have been fully catered for in the following;

- Wages, Pensions and Gratuity;
- Recurrent expenditure on drugs for Hospitals, Universities and Missions abroad; and
- Security agencies and Statutory Votes.

Local Government Budget Releases

19. This Ministry has released approximately 100% to Local Governments as shown in the table below;

Category	Revised Budget	Q1-Q3 Release	Q4 Release	Total Q1- Q4 Release	As % of approved Budget
Wage	1,467,433,091,242	1,100,691,711,308	366,741,379,934	1,467,433,091,242	101.9%
Non Wage Recurent					
o/w Conditional Grant	315,238,266,878	224,747,310,431	100,125,153,240	306,466,410,263	94.3%
o/w Unconditional Grant	134,432,013,636	95,452,299,201	38,979,714,435	134,432,013,636	100.0%
Development	261,459,890,009	261,459,890,009		261,459,890,009	100.0%
Total	2,178,563,261,765	1,682,351,210,950	505,846,247,608	2,169,791,405,150	99.6%

20. It is important to note that:

- i. **Transfers to Health Centres:** All funds have been released as budgeted for in FY 2015/16;
- ii. **School Capitation Grant:** Following the alignment of the financial year to the School calendar year, the release for Capitation Grants to Schools and Tertiary Institutions that are sent directly to the beneficiary Accounts has been effected and funds will reach school accounts at least two weeks before the start of second term of the school calendar year in May 2016.
- iii. **Development Budget:** All the entire budget provision of the Local Governments of the approved capital development budget was disbursed in January 2016, at the beginning of the third quarter to give ample time to Local Governments to fully execute the planned projects in order to eliminate excuses for unspent balances at the end of the FY.

E. SALARIES, PENSION AND GRATUITY

21. My Ministry took a major step to decentralize the processing and payment of Wage, Pension and Gratuity so as to improve the overall management of salaries, pension and gratuity and make the respective Accounting Officers fully accountable.

22. This reform has so far registered significant benefits as follows;

- i. Eliminating 'ghost' pensioners that had previously been difficult to

weed out.

- ii. Timely access to the payroll and payment of Government employees and pensioners with majority now receiving their pay between 23rd and 28th of the month;
- iii. Enhanced supervision of staff by Accounting Officers;
- iv. Significant reduction of salary and pension arrears; and
- v. Establishment of clear accountability centres for all salaries and pension processes and payments.

23. However, despite the above achievements, the decentralized salary and pension payment system continues to experience a number of operational challenges which include,

- i. Un-budgeted for recruitment of staff leading to wage bill shortfalls and persistent supplementary;
- ii. Delayed verification and access of the pensioners on the payroll including staff who were previously on the centralized payroll;
- iii. Failure by some of the Accounting Officers to adhere to the payroll, salary and pension management guidelines; and
- iv. Delayed remittance of salary deductions such as PAYE, Local Service Tax and Loan recoveries.

24. This FY 2015/16, we have budgeted for **Ushs 408.7bn** including supplementary for pension and gratuity, of which **Ushs 384bn** has been released. Out of the released funds, **Ushs 268.5 Bn** had been spent as at 31st March 2016 under the decentralized system.

25. Under this new system, Accounting Officers are required to verify the pensioners before payment of pension and gratuity including payment of pension and gratuity arrears.

F. PUBLIC SERVICE DELIVERY

26. The Public Finance Management reforms undertaken by Government have significantly reduced leakage of public funds. Our focus now is on improving service delivery.

27. We have observed that service delivery has been constrained by late initiation

and completion of procurements; delayed remittance of funds to user departments; delays in approval of designs and other works by supervision consultants; inadequate human resources; inadequate monitoring and follow up of programmes at local government level; delayed acquisition of right of way; poor planning in ministries; delayed civil works due to hiring of low capacity contractors and poor contract management.

28. In order to facilitate the process of improving the quality of services offered by Government Ministries, Departments and Agencies (MDAs), the budget for the FY 2016/17 will facilitate the following interventions:

- (i) Improving the entire Government project cycle management process with special focus on major projects in sectors like transport, energy, water and agriculture;
- (ii) Enforcing efficiency in Government expenditure to improve absorption of funds and ensure timely completion of projects;
- (iii) Strengthening Government procurement through better procurement planning, enforcement of procurement regulations, E-procurement, procurement audits and contract management, among others;
- (iv) Strengthen the operational capacity of key institutions like UNRA and Uganda Road Fund to ensure proper planning, procurement and supervision of works;
- (v) Performance orientation of the budget by focusing on the achievement of service delivery results/outcomes rather than outputs only.

29. Starting from FY 2016/17 we shall enforce the law on appointment of Accounting Officers. The Accounting Officers who have outstanding queries are not eligible for appointment during FY 2016/17.

G. BUDGET PROCESS

30. As you may be aware estimates of revenue and expenditure for FY 2016/17 was laid before Parliament on 15th March 2016 for approval.

31. Chairpersons of Sector Committees are presenting their reports on the budget to Parliament in preparation for approval of the Budget by 28th April 2016.

32. The Budget speech will be read early June awaiting confirmation by other East African Countries.

H. CONCLUSION

33. The Government of Uganda is fully committed to maintaining fiscal discipline, enhance Macroeconomic stability and improve service delivery.

34. I would like to reiterate that the budget is being implemented as approved by Parliament. I call upon Civil Society to support our effort in monitoring the delivery of services. We shall continue to strengthen monitoring and supervision to ensure effective delivery of public services.

35. Once again, I wish to thank the Press for supporting our budget transparency initiative and I urge you to make use of our websites www.finance.go.ug and www.budget.go.ug where more detailed information can be accessed. You may also call our Budget Call Centre on **0800 229 229** for any information on the Budget.


Keith Muhakanizi

PERMANENT SECRETARY/SECRETARY TO THE TREASURY