Statement by the Chair of the Local Development Partners' Group
Mr. Ahmadou Moustapha Ndiaye, World Bank Country Manager
on behalf of Development Partners
National Budget Conference
January 16, 2014

As prepared for delivery

Your Excellency the President of the Republic of Uganda,
Right Honorable Prime Minister,
Honorable Minister of Finance, Planning and Economic Development
Honorable Ministers,
Honorable Members of Parliament,
Representatives of Civil Society Organizations and the Private Sector
Members of the Diplomatic Community
Distinguished Participants,
Ladies and Gentlemen,
All Protocol Observed,

On behalf of the Development Partners, I would like to thank the Ministry of Finance, Planning and Economic Development for organizing this budget conference and for the opportunity to contribute to the debate towards preparation of the next financial year budget.

The Ministry of Finance, Planning and Economic Development is to be congratulated for advancing the budget calendar this year, which is one of the objectives of the draft Public Finance Bill currently under review in Parliament. We also wish to commend the national authorities for continuing to maintain macroeconomic stability; for keeping inflation under check and reducing inefficiencies; and for prudent debt management despite the pressing need to finance critical infrastructure projects.

Thanks to these efforts and a more favourable external context, the medium-term growth prospects remain strong for FY14 and beyond. The planned infrastructure projects are expected to boost economic growth and address development bottlenecks. Exports and the current account deficit have improved in recent years and this trend is expected to continue in the medium term supported by a flexible exchange rate policy. External stability prospects are also favourable not least owing to renewed emphasis on East African Community (EAC) regional integration, including the agreement on a single custom territory between Rwanda, Kenya and Uganda as well as the signing of the Protocol on the establishment of the East

African Monetary Union at the 15th Ordinary Summit of Heads of State of EAC in November 2013.

This positive economic outlook presents, however, downside risks posed by external and domestic factors. The current situation in South Sudan, for instance, is posing a significant risk for Uganda's export earnings accounting for about 16-19% of total exports or 2.21% of GDP in 2012/13; remittances from South Sudan representing about 1% of GDP in 2012/13 according to the Bank of Uganda; and public expenditure more broadly.

Your Excellency:
At last year's Budget Conference, Development Partners called for improved governance and anti-corruption efforts as well as improved effectiveness and efficiency in execution of the national budget. We are pleased to note that Government has made some progress on these issues the past year.

We welcome the Government's commitment to fight corruption and advance structural reforms, and the progress made on the implementation of the High Level Action Matrix in order to address the immediate public finance management fiduciary risks that were highlighted by the corruption cases at the Office of Prime Minister and in the Ministry of Public Service.

We also commend the Government's efforts to undertake a security audit of the integrated financial management system, to close dormant bank accounts at the Bank of Uganda, and to complete the first stage of the recapitalization of the Bank of Uganda. We welcome the initial steps toward the introduction of the treasury single account, including restructuring bank accounts and payment systems; as well as the approval of the Anti-Money Laundering Act that is also expected to improve fiscal transparency, fight tax evasion and corruption.

On budget execution, we are pleased to note that the total national budget has been released at 77% as of the third quarter of FY 2013/14 according to the Ministry of Finance, Planning and Economic Development. We also welcome the Government's fast budget execution of domestically financed road construction, which reflects improvements in implementation capacity.

We do however have some concerns about the lower-than-expected tax revenue. Indeed, the tax revenue is expected to underperform this year as the approved budget omitted measures of approximately 0.25% of GDP, including the dismantling of income tax exemptions for agro-processing and some value-added tax exemptions as well as the strengthening of capital gains tax policies.

We would like to reiterate our recommendation expressed at the last year's budget conference regarding the urgent need to improve the tax-revenue ratio—currently low by regional standards—and administration of taxes, not least with the prospects of oil revenue. The projected increase in tax revenue of 0.5% of GDP a year in the next three years would narrow the gap with the regional average and reduce reliance on borrowing, but would require serious efforts to phase out tax exemptions that have outlived their usefulness.

The need for the Ugandan economy to finance itself via domestic taxes will not diminish with the advent of oil revenue, instead it remains of utmost importance that Government sensibly manages public expectations with regard to oil revenue. Development Partners are supporting the Government to analyze tax productivity gaps and are ready to work together further to develop appropriate strategies for addressing the gaps.

As Government is embarked in the midterm review of the National Development Plan and the preparation of second National Development Plan, we re-emphasize the importance of aligning the Vision 2040, the National Development Plans and the annual and medium term expenditure framework. The Vision 2040 has provided Government with the momentum to accelerate development projects to achieve structural transformation in the country. However, despite its ambitious goals, the Vision 2040 does not clearly prioritize sectors or projects or identifies the process Uganda will take to realize its aspiration for structural transformation. We hope the second National Development Plan will be more specific in that regard.

Your Excellency:
Development Partners are pleased to note the progress made on achieving the Millennium Development Goals, some of which have already been reached, including halving extreme poverty. This is a testimony to the Government's focus on ensuring that economic growth translates into social development and poverty reduction. It is important that Government continues its efforts to meet the remaining MDGs, especially those related to human capital, while also ensuring to sustain and build upon the achievements so far.

This will require several actions, but let me just highlight three key areas: Investing in human capital; improving the quality of service delivery; and further strengthening of accountability.

Continued investing in human capital.

In order to realize the vision of a positive demographic dividend, Government must invest more in developing a healthy, educated and productive population. Human resources and skills development are highlighted as one of the priority areas for intervention in the budget call circular; however recent trends of budget ceilings in the social sectors do not seem to reflect this commitment and opportunity.

Two examples: Uganda has successfully applied for a US$ 100 million grant from the Global Partnership for Education (GPE). But this requires commitment by Government to adequately fund the education sector budget. We would like the Government to ensure that sufficient funding will be available for the education sector over the three-year implementation period.

The water and sanitation sector considerably contributes to economic growth in the context of sustainable energy, increased agricultural production, increased labor productivity and reduced health care costs. However, with the observed annual decreasing share of the total national budget, the water and sanitation sector cannot fulfill this function. This budget trend must be reversed.

Improving service delivery.

While Government continue to improve access to social services, there is an increasing need to focus on improving the quality of service delivery. Uganda is still far from achieving optimal performance in social sectors, and this is posing serious challenges to the country's long-term social and economic progress. A recent study on Service Delivery Indicators analyzed what teachers and health providers actually know and do on the job, and the findings are raising concerns about a number of systemic and management issues.

For example, a key finding of the study was that only 35% of public health workers could correctly diagnose at least four out of five common conditions such as malaria with anemia or diarrhea with dehydration. Also, just 19% of public teachers showed mastery of the curriculum they taught, identifying provider knowledge as a focus area for management. Another disturbing finding was that only 40% of public primary classrooms had a teacher present and teaching at the time of the survey. Issues like these must be addressed if Uganda is to achieve its national vision and reach its potential or natural GDP where the economy operates at full employment and utilizing all of its resources.

Further strengthening accountability.

Efforts to improve accountability must continue. As much as Development Partners appreciated the political dedication and the good progress made in FY2012/2013 in strengthening the accountability framework and in following up on cases of administrative corruption, we look forward to seeing this agenda continued with the same degree of political leadership and administrative dedication.

Efforts are still needed to strengthen public finance management and public procurement, including correcting errors in payroll and pensions management and completion of transition to the integrated personnel and payroll system, better management and accountability of cash advances, standard of procurement procedures and contract management and the follow-up of internal and external audit findings and related sanctioning where needed.

In this light, the passage of the Public Finance Management Bill will be absolutely critical as it sets the principles for the transparent and efficient management of public resources. Rising inefficiencies in the management of public resources has been a serious concern that affects the fiscal space necessary to boost growth. Thus, the success of Uganda's future will rely on strengthening the effectiveness of institutions of accountability, including the Office of the Auditor General, the Inspectorate of Government, and the judiciary.

Your Excellency:
To conclude, we wish to recognize that there are a number of positive economic trends in Uganda. To harness these opportunities, Development Partners are looking forward to continue the partnership with the Government of Uganda in order to achieve the national vision. As I indicated early, a successful and accelerated socio-economic transformation of Uganda will depend on several key factors including (i) investing in human capital; (ii) improving the quality of service delivery; and (iii) further strengthening of accountability.

Your Excellency:
On behalf of all Development Partners in Uganda, I would like to confirm that we stand ready to continue to work with you and your Government to achieve a more prosperous Uganda for current and future generations.

I thank you.