Private Sector Paper on the National Budget Framework Paper FY 2020/21

Prepared

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A synopsis of private sector policy concerns and observations in the National Budget Framework Paper FY 2020/21

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Table of Contents

1.0 Introduction

Private Sector Foundation Uganda as the apex body of the private sector in Uganda is charged with ensuring that the private sector creates wealth through the creation and sustaining of a competitive business environment. It is after this, that they will be able to increase production and productivity, create employment both directly or indirectly in the value chains, provide more tax revenue, boosts exports and cushion external position thereby contributing to better standards of living of the population.

PSFU and its membership contributed to the development of the National Budget Framework Paper (NBFP) FY 2020/21 through various consultations across the 11 sectors, made presentations to MDAs including the budget strategy which shaped the budget strategy FY 2020/21, various ministerial budget consultation, submitted cross-cutting challenges and development of the NDP III.

This paper, therefore, describes the private sector concerns and observations on the NBFP that needs to be addressed to promote a private sector-led economy as it’s envisaged in the vision 2040.

2.0 Identified Policy Gaps in the NBFPs: Private sector View

2.1 Macroeconomic stability:

i. Macro-economic Strategy under the NBFP recognizes the need to create wealth in the population through increasing household incomes and inclusive growth through agriculture and agro-processing. This is highly appreciated and the PSFU is also aligned to the same strategy.

ii. The NBFP concentrates on macroeconomic stability through managing the inflation and exchange rate. In the process, GoU always exercises instruments such as treasury bills and bonds to either mop out excess money or inject money in the supply to reduce inflation. Inflation, interest rate and balance of payment are expected to be managed under the good principles of monetary policy, however, as at FY 2018/19, 3.7 trillion shillings equivalent to 9% of GDP was raised to ensure the stable economy. This does not have a direct link with poverty reduction as the majority of the population has limited access to information. With the political uproar between the USA, Europe, and Iran, the external economy is expected to suffer from these shocks due to imported inflation in oil and other commodities.

a) A fiscal policy- monetary policy mix is required to boost this aspect. 9% of GDP would be used to improve prices of goods and services especially for the main drivers of inflation boost production which would improve incomes leading to cushion inflation and check forex. Consider the use of buffer mechanisms on goods and services in various sectors to stimulate multiple effects.
b) Uganda needs to build a resilient economy that consumes its products and exports products rather than huge import bills. Specific interventions need to be laid down to promote domestic consumption through local content, BUBU, and the improvement of incomes to cushion external shocks.

2.2 Private Sector Competitiveness:

The PSFU proposes 11 competitiveness areas including access to credit, tax regime, skills and attitude, corruption and governance, legal and regulatory, regional integration, infrastructure (soft and hard), MSME development, market penetration (local content, BUBU), and policy implementation; the NBFP and the NDP III have addressed themselves to resolving the issues in these areas to promote the private sector driven economy. The following proposals, however, need to be considered as mechanisms required to guide GoU in implementation, grow the private sector further and design appropriate plans to transform Uganda.

2.2.1 Financial Sector:

Industrialization cannot be achieved without proper and conducive financial markets that can foster growth. Interest rates have remained at unfordable terms for most sectors. Though NBFP promises to limit domestic borrowing to 10% of GDP, this might not achieve much due to the risk of borrowers. Savings to GDP rank lowery at 28% of GDP due to the absence of supportive laws.

NBFP needs to support long term savings through necessary laws in parliament. In the short term, a financing strategy that de-risks borrowers would also be encouraged.

2.2.2 Debt sustainability and attraction is only a challenge if it is parallel to economic development. It should support the immediate economy to be able to pay back the debt through local content and improved public participation.

2.2.3 Human capital development:

Economic growth is always induced by labor capital and technology, unfortunately, Uganda does not exploit these much-endowed resources. Focus has for some time now been on addressing skills mismatch through TVET and limited attention on soft skills. Work readiness and employability are key missing ingredients in the current population which affects growth.

NBFP needs to develop a human capital development strategy which aligns skills development in a demand-driven manner, promotes foundation skills and better manage labor governance.

2.2.4 Food safety:

As the per capita income of the country grows, key observation of food standards is increasingly being observed as a market requirement. Domestic markets should be used to build capacity for the export markets. The increased/ increasing market restrictions and export interceptions explain how bad the country observes food safety. The policy framework available to address the issues is fragmented. It cannot support farmers, standards operators, markets, and logistics and finance players.

NBFP needs to develop an overarching food safety strategy and prioritize funding for standards agencies and its implementation to trigger production while ensuring the health of the population.

2.2.5 Synergy and program-based approach:

Because there is an absence of proper synergies in the administration of GoU, The NBFP FY 2020/21 interventions do not indicate how the operations will be conducted efficiently. GoU vote system of budgeting is explained to be the driver of silo operations amongst Government agencies.

NBFP should adopt a program based budgeting which concentrates on the desired outcomes and various MDAs lay resources to contribute effectively to this outcome. LG's should be prioritized as a lead pillar to service delivery

2.2.6 Tax policy regime:

A progressive tax regime is desired to support GoU raise revenue but also support the private sector to grow. At LGs level, the spirit of coming up with multiple charges that reach the level of tax has grown exceedingly. These charges are supposed to support business regulation rather than revenue generation.

The Private sector proposes that there is a review of the entire system with an objective of development of the non-tax revenue strategy for GoU to avoid inhibiting the business.

GoU should increase the funding for LGs to ensure proper service delivery to the population.

2.2.7 Market Penetration (restrictions, NTBs, market failures):

Markets are the main drivers of production. GoU has signed and committed itself on various market access mechanisms in the EAC, COMESA, EU, AGOA and newly AFCTA. Ugandan products have however increasingly been hit by access restrictions including NTBs, and restrictions. Rwanda Uganda's political issues and current market challenges with EAC on dairy, eggs, steel, fish, beef, fruits and vegetables to the EU are still inhibiting trade. NBFP has not pronounced itself strongly on these aspects yet their success drives the production of goods and services.

NBFP and GoU need to work towards addressing these various market access restrictions within the EAC and EU.

3.0 CONCLUSION

The NBFP FY 2020/21, fairly has captured the private sector concerns however, without the following attributes included in the paper, the implementation of the issues and actualization of the industrialization dream may not take off. These include;

a) NBFP needs to be driven by an economic development strategy that prioritizes wealth creation through the improvement of incomes of the population to boost domestic demand. This is key to developing a resilient economy

b) Coordinated implementation system that focuses on outcomes of the programs rather than agency mandates should be used while budgeting and policy implementation.

c) Develop a human resource development plan that is demand-driven. In relation, prioritize on early childhood development to build foundation skills in the population to address the skills gaps

d) Address the financing issues through more robust savings in the economy to be able to drive sustainable industries leading to decent job creation. NBFP needs to enact the relevant legal framework required.

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