FINANCING PUBLIC SERVICES

AN ANALYSIS OF THE FY 2022/23 BUDGET
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## 1 Introduction

### 1.1 Current Context

This budget comes at a time when the World is grappling with multiple crises following the COVID pandemic and the ongoing war in Ukraine. Many developing countries are now witnessing rising commodity prices and worrying debt levels that have constrained their ability to invest in public services. Uganda, hasn’t in any way been spared. The pandemic had already reversed much of the human capital gains that the Country had registered over the years. Estimates by the finance ministry revealed that about 2.6 million\(^1\) Ugandans were pushed into extreme poverty by the pandemic adding to the 8.3 million that already existed. It’s hard for one to picture how these will now survive in the midst of the rising food, energy and housing prices.

It is worth mentioning that the Country as at the moment still struggles with a weak public service system that is unable to respond to the demands of the most vulnerable. Current social protection measures have still not matched up to required levels as only 2.8 percent\(^2\) of the population is covered by at least one measure. Even as several households are still having to deal with the ongoing crises, most of government’s support (through food distribution and cash transfers) has only been one off.

There is a growing dominance of private actors within her health and education system. This largely has been a consequence of the State’s weak investment into public services, prompting citizens to seek private options. But as evidence has revealed years on end, these options have only sought to serve the interests of the most privileged leaving vulnerable citizens with no better alternative. Indeed, this has been the case even with the recent re-opening of schools with many children out of school as many private institutions have rushed to hike their fee charges for school-goers. This underscores the need for adequate state funding towards public services.

The upcoming 2022/23 budget has been deemed to be a pro people budget. This policy brief analyses the financing planned to assess whether the country is prioritizing public services as part of an inclusive economic recovery.


1.2 Locating Public Services within the Coming 2022/23 Budget

The Human Capital Development Programme primarily contributes to the 4th objective of the NDP III i.e. Enhancing the Productivity and Social Wellbeing of the Population. It is made up of four sub-programs namely; - population health and safety management, Gender and social protection, Labor and employment services and, Education, sports and skills.

While setting out the three broad objectives³ for the coming financial budget, Government has explicitly had one of these speak directly to current issues on human capital development. The government plans to: - support the recovery of the economy back to normality by increasing access to capital, revamping health infrastructure and health systems; reducing vulnerabilities and ensure access to education by automatic promotion for all classes. A detailed analysis of resource allocations towards these priorities is provided in the sections that follow.

2 Resource allocation
For the FY 2022/23 budget, the human capital development program has been allocated UGX 8,437 Billion to cover its four sub-programs on education; health; gender and social protection; as well as labor and employment services. This allocation accounts for 17.9 percent of Government’s proposed UGX 47,251 Billion⁴ budget. The apportioning of funds between the four sub-programs is as detailed in the chart below.

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Government further has highlighted several funding gaps under the budget estimates for the human capital development program. These span across all the four sub-programs.

Notable funding gaps include:

- UGX 24.1 Bn for construction and rehabilitation of regional referral hospitals;
- UGX 12.3 Bn for equipment procurement and maintenance;
- UGX 3.2 Bn in maintenance costs for intensive care unit;
- UGX 20.8 Bn for the establishment of the national ambulance service system;
- UGX 12 Bn for the Education Policy Review Commission;
- UGX 17 Bn to the MoGLSD for mobilizing communities to embrace the Parish Development Model;
- UGX 5 Bn for safe and productive external employment;
- UGX 63.8 Bn for the social assistance grant to elderly persons.

It should be noted that Government’s failure to fully allocate resources to all identified priorities has remained the major reason for the continued submission of supplementary budgets to
Parliament, a situation that distorts Government’s fiscal planning and further pushes the Country into acquiring more debts that would be otherwise avoided.

Inadequate budget funding for these programs has as well severely impacted delivery of their intended outcomes. A case in point is the Social Assistance Grant for Elderly Persons (SAGE program) that has now accumulated arrears for 270,203 beneficiaries as the resources provided in FY 2022/23 weren’t adequate.

3 Analysis on Key Public Services issues for consideration under the Budget

3.1 Education

3.1.1 An alarming cutback in the Education sector budget: Is now really the time for austerity?

It is concerning to observe that the Education sub-program will see its budget slashed by UShs 230 Bn within the coming financial year 2022/23. This is despite all the current challenges facing the sector following the re-opening of schools. The sector will now receive UShs 3,568 Bn in FY 2022/23 down from UShs 3,798 Bn allocated for the current financial year. This will consequently see its share of the entire national budget shrink even further to 7.9 percent from 8.5 percent where it is currently - raising serious questions about government’s priorities. This is contrary to recent commitments\(^5\) that Government has made with the IMF to progressively increase the share of education spending till FY 2023/24.

*Figure 1: Budget Allocations to the Education Sub-program along with shares of the total budget (FY 2022/23)*

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Increasing the number of public schools is critical given increasing demand and congestion of existing schools. The Ministry indicates that it has finalized a study to inform the introduction of double shifts in urban schools so as to address congestion. Any plans to implement the foregoing arrangement should be discouraged for being discriminatory as it subjects learners in urban areas to a different form of learning from the ones rural areas. Instead the congestion in urban schools can be tackled by increased financing for public education service delivery.

When education is underfinanced, the cost is passed on to parents and the high fees result in exclusion and discrimination. So far two successive National Household Surveys – both of 2015/16 and 2019/20 conducted by the Uganda Bureau of Statistics have indicated cost as the major driver for school dropouts. With 6 out of 10 persons that drop out of schools attributing it to unaffordable cost of education. With the massive job loss and slowdown in the economy due to the impact of the pandemic, National Planning Authority has approximated that 64.6% of the households in the country are either struggling or not in position to afford tuition and non – tuition fees for their children. ISER in its report, “Getting Children Back to School” found that the economic downturn triggered by Covid 19 has aggravated the barriers to access to education,

more especially for the poor, due to unaffordable school fees and recommends increased financing for public education.

Cuts in public education spending will increase the burden for poor households to meet higher education costs – a condition that could drive more inequity in education access and school-girl dropouts.

3.1.2 Low target for teacher recruitment and limited budget for school maintenance

According to the budget, the sector is targeting to recruit only 200 teachers in primary schools. This is despite the plan formulated in FY2019/20 by the Ministry of Education and Sports to fill the 220,000 staffing gap in UPE schools in a phased manner starting with 6,000 teachers that required UGX 18bn, second phase 6,000, third phase 5,000 and the last phase 5,000. Owing to the impact of the COVID19 on the economy, many parents opted for schools implementing the Universal Primary and Secondary Education (UPE and USE). However, a number of UPE and USE schools were already operating with limited human resource and infrastructure. The increase in enrolment in these school simply piled pressure on the already overstretched human resource and infrastructure. The current increase in enrollment in UPE schools has definitely affected the teacher – pupil ratio with high pupil to teacher ratios. The District Local Governments have also been allocated only UGX 8.1bn as school maintenance.
3.2 Health

3.2.1 The National Health Insurance Scheme: a goal whose actualization has dragged for long!
Achieving universal health coverage requires that the Government puts in place a Health Insurance Scheme. Within the NDP III, Government plans to have 15% of the population accessing health insurance by 2025. However, the attainment of this target remains doubtable as Government is yet to approve the National Health Insurance Bill. Even much as this has been prioritized for FY 2022/23, Government has only provided Shs. 0.33 billion for the process. This allocation is less than the required Shs. 0.4 billion. It should be noted that according to the Uganda National Household Survey report 2020, only 3.9 percent of the population have access to health insurance.

Recommendations

- Parliament should direct Ministry of Finance, Planning and Economic Development to find resources within the budget to enable MoES actualize its plan of filling the current staffing gap in schools.
- Amend the agreement to allow District Local Governments to utilize part of the development expenditure to procure vehicles for purposes of facilitating school inspection in FY2022/23 should be extended to the next fiscal year such that the available funds can be utilized to improve school infrastructure in schools with high enrollment.
- The funds utilized by the pre – primary and secondary departments can be re – allocated towards improvement of school infrastructure.
3.2.2 Funding human resources for health at all levels remains inadequate
Shs 400 billion has been allocated towards the enhancement of salaries for health workers and other scientists in FY 2022/23. The salary enhancement will be conducted in a phased manner for a period of 3 consecutive financial years at the end of which Shs. 932 billion will have been incurred. This bold move by the Government is commendable given the recent strikes by health workers for better pay. Nonetheless, there is still need for deliberate fiscal allocations to facilitate the recruitment of more health workers. Currently, only 74 percent of the approved staffing positions have yet been filled.

Recommendations

- Provide funding allocations towards the recruitment of more public health workers so as to fill up the current staffing gaps.

3.2.3 Limited Financing for regional medical equipment maintenance shops
Funding within the budget has been provided for regional medical equipment maintenance workshops but this however has been limited leaving a funding gap of UGX 12.3 Bn. It should be noted that many of the existing diagnostic equipment procured by Government are at the moment non-functional due to minor faults that could otherwise be repaired or serviced through these workshops and this makes adequate funding for such facilities highly crucial. The oxygen crisis during the delta wave in June and July 2021, was in part due to the failure to maintain oxygen plants. There is still also the need to maintain an up-to-date equipment inventory list to allow for the proper tracking and thus planning for the country’s medical equipment needs. Some

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7 https://www.newvision.co.ug/articleDetails/123764
8 The Ministry of Health Uganda: The Annual Health Sector Performance Report, 2020/21
news reports have shown the dire un-equal distribution of critical medical equipment across the country, a situation that could easily have been addressed with proper planning and adequate funding.

3.2.4 Limited number of ICUs and HDUs to serve the public

COVID-19 has exposed the real need for Government to have in place an adequate number of ICUs and HDUs within public hospitals. However, to date, there is only 218 and 3100 of these respectively at the moment. The serious lack of such facilities as the country experienced the 2\textsuperscript{nd} wave of the pandemic left a large number of the “middle class” impoverished as they now had to foot exorbitant bills within private hospitals just to have access to the same. It is worrying to note that the country at the moment only has 1 public ICU bed for every 188,000 Ugandans\textsuperscript{10}.

There is a funding gap of UGX 3.2 Bn for maintenance of the few available ones.

Recommendations
- Address the current funding gap towards regional equipment workshops.
- Prioritize the development and maintenance of an up-to-date equipment inventory for the entire country.

3.2.5 Construction of more health facilities and rehabilitation for the available ones: still has funding gaps!

Government has prioritized the construction and rehabilitation of regional referral hospitals but has still maintained that this has a funding gap of UGX 24.1 Bn shillings. Furthermore, plans to construct health center IIIs in 134 sub counties without a health facility and upgrade 30 Health Centre IIIs to IVs are unfunded to tunes of UGX 368.5 Bn and UGX 51 Bn respectively.

Recommendations
- Provide funds for the procurement of more ICUs and HDUs to serve the population
- Address funding gaps towards the maintenance of the few existing ICUs and HDUs.

\textsuperscript{10} https://allafrica.com/stories/202107130117.html
Funding aimed at availing and increasing access to public health services remains critical as many individuals now struggle to afford even the most basic out-of-pocket health expenses, as situation that if not tackled by availing more functional public health facilities may otherwise lead to preventable deaths.

### Recommendations

- Address identified funding gaps on construction and rehabilitation of regional referral hospitals.
- Allocate funds towards the construction of the earlier planned 138 health center IIIs and upgrades for the 30 planned health center IIIs.

#### 3.2.6 Inadequate financing and proposed rationalization of the Health Subprogram Budget

Government intends to rationalize the health sub-programme budget by about UGX 113.1 billion, with the main affected votes including Ministry of Health, Uganda Blood Transfusion Services (UBTS), National Medical Stores (NMS) and Mulago National Referral Hospital, among others. These funds will now be reprioritized to other government programs way beyond the health sector. Yet moreover, the health sub-program’s unfunded priorities have been summed to UGX 1,709.5 Bn. It is therefore rational that any rationalized funds from the identified votes are kept within the sector to respond to other urgent unfunded issues.

### Recommendation

- Resources mobilized from rationalization should be maintained within the health sub-program’s budget to fill-up identified funding gaps.
3.3 Underfinancing Social protection

3.3.1 The Sage Fund: Only covers 1 in every 3 elderly
The senior citizen’s grant, is designed to reduce old-age poverty by providing a minimum level of income security through payments of UGX 25,000 every three months to all citizens above 65 years.

An allocation of UGX 120.7 billion has been made for this program within the coming financial year. Accordingly Government only plans to extend support to 358,420 older persons, a third of 977,000 older persons that were supposed to benefit in FY 2022/23 per the National Development Plan III targets. Even for the few that the Government had planned to cover, it still lacks UGX 63.8 Bn for their support.¹

It should be noted that a recent 2020 report by UNICEF¹¹ on the rates of multidimensional poverty indicated that close to half (48 percent) of older persons aged above 65 years are at the moment poor and are deprived of even the most basic needs. Thus in urgent need of social support from government for social protection especially amidst the rising food and commodities price crisis.

Recommendations

- Provide full funding towards the program and eliminate any financing gaps.
- Government should remove the requirement of a national ID as a precondition for one to benefit from the SAGE program and rather allow for all other forms of identification that are not exclusionary.
- The eligibility age for beneficiaries under the SAGE program should be lowered from 80 years to 65 years so as to provide income support to as many vulnerable elder citizens.

¹¹ https://www.unicef.org/esa/reports/ugandas-multidimensional-poverty-profile-2020
¹³ https://pdfhost.io/v/NO8C2Fwxp_IMPACT_OF_COVID_COVER_12_COMPRESSED
and Medium Enterprises (FSME), an umbrella body that provides a voice for small and medium businesses in Uganda, estimated the number of small enterprises in the country to be approximately 270,000. Assuming each of these businesses contracted a loan just as low as UGX 10 million, only 20,000 of these would be covered by the time these funds run out. It is also of concern to note that the discretion regarding the required form of collateral has been left to the participating financial institutions. This might in many cases lead to exclusion.

3.3.3 The Emyooga Program: Where is the value for money?
Government has once again placed priority around the Emyooga program as a means to restore businesses activity and mitigate the impact of COVID-19 on specialized skills enterprises/groups and to this effect another allocation of UGX 100 Bn has been made to the initiative. However, continued funding allocations towards this program have gone without consideration of the reports highlighting faults within its implementation. This then raises questions as to whether another allocation towards the program constitutes the best use of tax payer resources.

Even reports by Parliamentarians from their respective constituencies have revealed that the program failed at the design and structural level of implementation which has then crippled the realization of its desired outcome. The recurring problems in the reports included associations being formed hurriedly to receive quick cash. Most of these SACCOs had no shared vision, objectives or goals establishing them.

Additionally, many SACCOs took long to receive funds for one reason or another. The process for registration was difficult for many while for some the banks charged with handling the funds took long to disburse the money. Other concerns have been that no direct budget was provided to the district officers and other technocrats for effective monitoring and supervision. MPs also raised issues of poor loan recovery and defaulting by some SACCO members with some being arrested for non-loan repayment.

Recommendations

- Halt any further allocations to Emyooga program starting next financial year until a detailed financial audit is held for the program. There’s strong need to ascertain claims around increased savings and returns registered by the program.
4 Resource Measures for the 2022/23 FY budget

4.1 A continued reliance on non-concessional loans has pushed the country’s debt to now unsustainable levels: Isn’t it time to consider debt relief??

It is of concern to note that Government yet again plans to borrow over UGX 4.1 trillion from the domestic markets. This is despite having made commitments with the IMF (under the recent extended credit facility arrangement) to cut down on non-concessional borrowing. Such unrestrained borrowing has pushed the country’s public debt to now unsustainable levels.

The amount government plans to borrow will now be UGX 1.2 trillion higher than what government sought last year. Government incurs financing costs as high as 15 percent in interest. Government will have to incur over UGX 8 trillion next financial year to rollover earlier maturing debt. This more than double what will be spent on education and health combined.

To address this situation, Government will now have to consider seeking debt relief as part of the menu of its policy options. Much as such a decision seems an exceptional one, it will likely face little to no resistance from the Country’s creditors given their now growing recognition for Global debt relief as an unavoidable alternative.

4.2 Government commits to use $250 million in SDRs for social sectors: But concerns regarding the timing still remain

As countries globally face the fiscal trilemma of rising fiscal deficits coupled by shrinking domestic revenues and surging public debts, the IMF approved a new issuance of Special Drawing Rights to a tune of $ 650 billion USD. Such resources were to help countries rebuild their reserve buffers but also most importantly finance their recovery efforts including by spending more on social protection as well as their public health systems. Uganda received $ 490 million USD of these funds in August of 2021.

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The funds are at the moment still with the Central Bank but government has committed to spend part of these ($250 million) on education, health, and water & sanitation projects following strong calls from civil society. Government mentions that the projects will be financed through supplementary budgets that will be issued within the ongoing financial year 2020/21. However, given the current financial year will be coming to an end in just a month’s time, it not prudent to do this in supplementary budgets for this year but rather planned as part of the upcoming budget. It is therefore optimal that the use of these resources be pushed to the coming financial year to fill up budget gaps within the identified sectors. This is a position that we’ve as well reiterated to the IMF over recent engagements.

5 Conclusion
The role of investing in public services on health, education, social protection need not be overstated especially in current times of crisis. Such resources could play a vital role in supporting recovery efforts if well-tailored to respond to present needs.

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