INITIATIVE FOR SOCIAL AND ECONOMIC RIGHTS

BALANCING ON A SLIPPERY EDGE

APRIL 2023

An Analysis Of Government's 2023-24 Resource Measures

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About the Initiative for Social and Economic Rights

The Initiative for Social and Economic Rights (ISER) is a human rights Non-Governmental Organization (NGO), established in 2012. ISER was founded in 2012 to ensure full recognition, accountability and realization of social & economic rights including the right to education, health and social security. ISER is an ardent advocate for the adoption and use of a human rights-based approach to budgeting and has actively engaged in advocacy on fiscal justice. ISER's Economic Justice program centers on envisioning a rights based economy. We apply human rights lenses to fiscal, monetary and broader macro-economic policy.

Acknowledgement

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Introduction

This budget comes at a time when the world is grappling with a cost of living crisis. Inflation globally, still runs as high as 8.7 percent[1]. To tame the rising commodity prices, advanced economies are raising borrowing rates. Tighter monetary policy, has restricted access to finance for developing economies as many now turn to commercial lenders to access funding, in this case, at higher rates. The IMF has estimated about 60 percent[2] of low income developing countries to be at high risk of or already in debt distress. Many, including Uganda, are now securing funding from the international lender on condition that they tighten spending. This, among other issues, are the basis of our analysis of the 2023/24 budget.

1.0 Would now be the right moment for budget cuts?

Government has within the ongoing FY 2022/23, executed large cuts to spending across the board. Releases by the Ministry of Finance, Planning and Economic Development (MoFPED) stand much lower than what was appropriated by Parliament. By the first half of the year, the Finance Ministry had only released 20 percent[3] of earlier approved domestic development expenditure for the Human Capital Development (HCD) program. This was on account of the freeze in development spending by government during the first quarter[4].

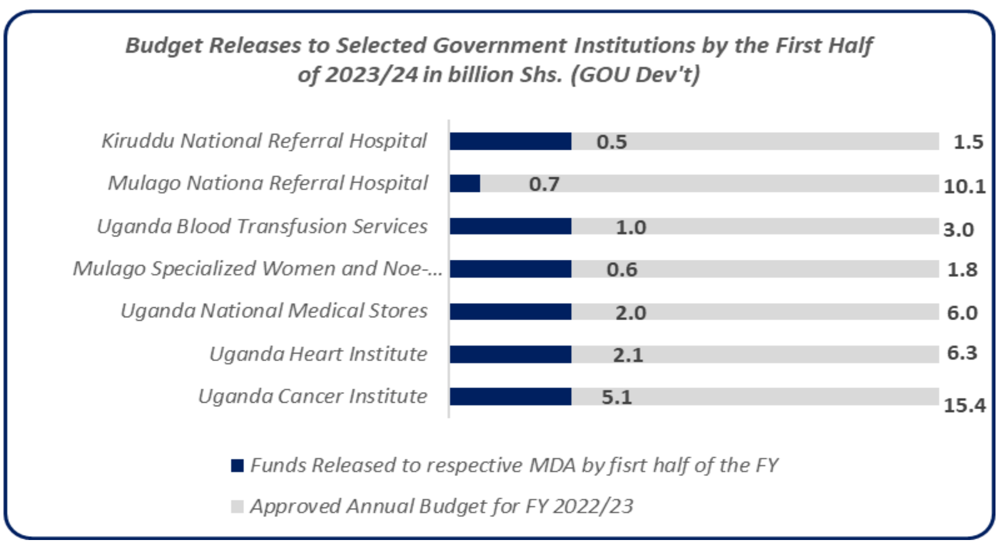
[1] https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023
[2] https://www.imf.org/external/pubs/ft/ar/2022/in-focus/debt-dynamics/#:~:text=About%2060%20percent%20of%20low,of%20or%20in%20debt%20distress.
[3] Semi annual budget performance report FY 2022/23, Ministry of Finance, Planning and Economic Development (Page 94)

[4] Semi annual budget performance report FY 2022/23, Ministry of Finance, Planning and Economic Development

MoFPED argued that this move was aimed at coordinating fiscal and monetary policy in a move to curb inflation that had started rising. However, decision has affected delivery of planned interventions by the responsible Government Ministries Departments and Agencies (MDAs). Projects under health, education and social protection have not been spared.

With the low releases, local governments, responsible for executing infrastructure projects (such as new public schools and health centers) have been able to. In sum, they've only received Ugx 47.1 billion of the Ugx 397.4 billion[5] allocated to them for this work. This is likely to have a negative impact on access to education and health across the country in light of the unregulated private provision of education and health. ISER has documented cases of gross violation of human rights where children/ people have ended up in private education/health facilities due to lack of publicly fund and run alternatives in their areas. In the health sector, cases of for example of detention of mothers after caesarian delivery in private facilities are common and ISER is currently involved in litigation around the issue.

Details on some of the institutions affected by the budget cuts are elaborated in the Chart below; -



Development expenditure releases by government to the above institutions, failed to reach 50 percent of their approved budgets as at the first half of the financial year.

What's more concerning is that the budget cuts will continue even into next financial year.

[5] Page 2162 of the semi annual budget performance report FY 2022/223, Ministry of Finance, Planning and Economic Development

In the next financial year 2023/2024, the overall budget for the Human Capital Development programme has been slashed by Ugx 306 Billion. Some institutions under the programme affected by this cut are detailed in the table below: -

Institution	Funding cut in 2023/24 (in billion Shs.)
Ministry of Education and Sports	-181 Bn
Ministry of Health	-349 Bn
Uganda Aids Commission	-1.3 Bn
Uganda Virus Research Institute	-2.3 Bn
Uganda Blood Transfusion Services	-1.3 Bn
Education Service Commission	-2.5 Bn
Kyambogo University	-4.6 Bn

Regardless, the IMF, has still come out to commend[6] the spending cuts observing this as a step in the right direction. The international lender has indicated that further fiscal consolidation (cuts to spending) will be critical in returning public debt onto a sustainable path.

Recommendations:

As ISER, we call on Parliament to:

- Hold MoFPED to account as regards the budget cuts to key social sectors like health and education that will likely reverse the gains made over the years around human capital development as well as slow the progress around achievement of Sustainable Development Goals (SDGs) No. health, No.4 on education, No.5 on gender equality, No.1 on poverty and many others.

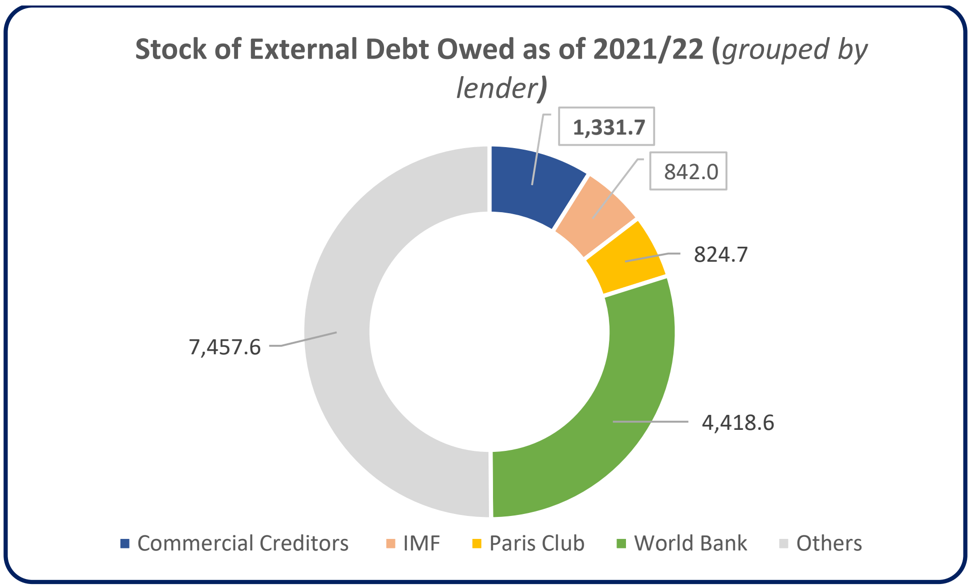
[6] Uganda: Second and Third Review under the Extended Credit Facility Arrangement; and Requests for a Waiver of Nonobservance of Performance Criterion and Rephasing of Access; Press Release; and Staff Report; retrieved from: https://www.imf.org/en/Publications/CR/Issues/2023/01/23/Uganda-Second-and-Third-Review-under-the-Extended-Credit-Facility-Arrangement-and-Requests-528504

-Overturn the blanket freeze on new recruitments and salary enhancements for critical sectors like health and education.
-Instruct MoFPED to ring fence resources for social spending. This will ensure that such sectors are not affected by budget cuts going forward.
-Instruct MoFPED to develop adequate spending floors for social sectors. These will guide on a bare minimum for what should be allocated to these sectors in any government moving forward
-Conduct meaningful and inclusive public consultations on the impacts of ongoing cuts to spending.

2.0 Increasing reliance on external commercial lenders: a recipe for economic crises

As bilateral funding has seen some decline recently, government has resorted to pursuing commercial loans externally. With this, the share of external commercial debt ($1,331 million as of June 2022)[7] has now surpassed that of Paris Club lenders ($824 million) and the IMF ($842 million).

Even within the coming FY , government still plans to secure another $750 million (2,813 Bn Ugx)[8] from these lenders. Of concern is that such commercial debt, comes on costly terms both in terms of interest and arrangement fees and therefore exposes the country to the risk of financial crisis.



Recommendations:

AS ISER, we call on Parliament:

- Not to approve MoFPED's programmed external commercial borrowing for 2023/24.
- To instruct the MoFPED to explore alternative revenue sources for funding the budget.

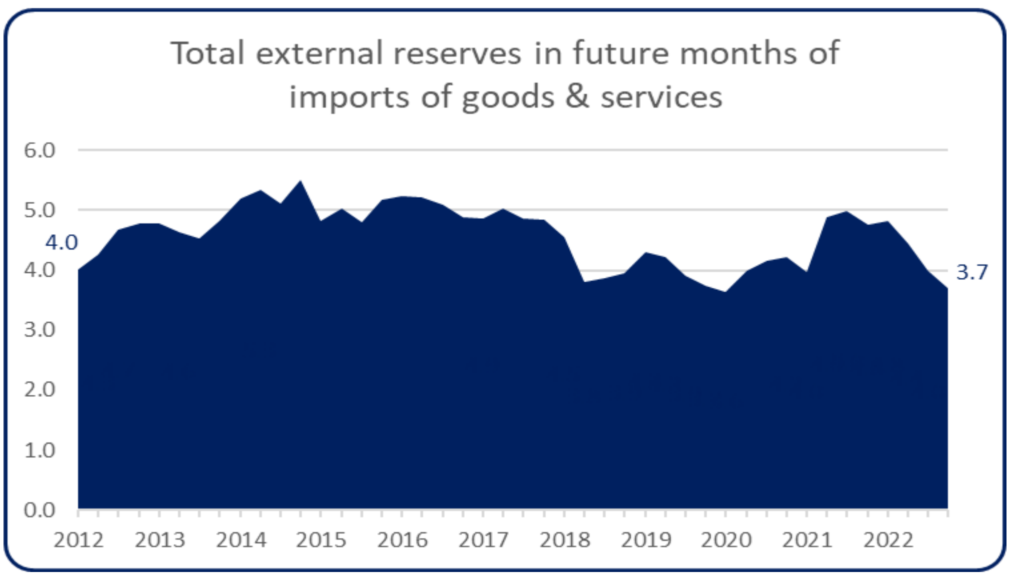
[7] Uganda: Second and Third Review under the Extended Credit Facility Arrangement; and Requests for a Waiver of Nonobservance of Performance Criterion and Rephasing of Access; Press Release; and Staff Report; retrieved from: https://www.imf.org/en/Publications/CR/Issues/2023/01/23/Uganda-Second-and-Third-Review-under-the-Extended-Credit-Facility-Arrangement-and-Requests-528504

[8] National Budget Framework Paper, Ministry of Finance, Planning and Economic Development, December 2022.

3.0 Amidst falling reserves, Government remains hesitant about seeking debt relief

Uganda's international reserves, have over the previous 12 months, declined[9] to levels not witnessed in 10 years. Even so, government remains unsure as to whether debt relief is the best course of action. The stock of reserves dropped to 3.7 months of import cover by December 2022[10], beneath the 4.5 months (of import cover) target set for the region. The low reserve cover is mainly on account of rising external debt service payments. External debt service payments for 2023/24 will reach Ugx 2,735 billion[11] ($736 million). This means that close to 20 percent of our reserves will be spent on meeting debt obligations.

With this trend, our reserves are set to deplete even further. Global mechanisms for debt relief do exist as at the moment to assist debtor countries in need. The G20 common framework for debt treatments announced in 2020 is one of them. Through the initiative, low income countries faced with fiscal challenges can negotiate for debt restructuring with their creditors. Uganda is an eligible beneficiary and should therefore exploit means to capitalize on this.



Recommendation:

- Parliament asks MoFPED to take advantage of existing debt relief measures.

[9] https://www.bou.or.ug/bou/bouwebsite/Statistics/, Balance of Payments_Analytical BPM6, December 2022

[10] https://www.bou.or.ug/bou/bouwebsite/Statistics/, Balance of Payments_Analytical BPM6, December 2022

[11] The Second Budget Call Circular on Finalization of the Budget Estimates for FY 2023/24, Ministry of Finance Planning and Economic Development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FOR ALL DEBTS, PUBLIC AND PRIVATE
Treasurer of the United States
100

4.0 Efforts are underway to cut back on unnecessary spending: Much room for progress still lies ahead!

ISER commends the Ministry of Finance for the efforts towards rationalizing spending as per the fiscal guidelines for FY 2023/24 including placing a freeze on new vehicle purchases for all MDAs, cutting spending on workshops and seminars by half (50 percent) and reducing expenditures on travels abroad by 46 percent. Abroad travels will now cost Ugx 45.9 billion in 2023/24 from a higher Ugx 99 billion budgeted for 2022/23.

The 50 percent cut on workshops and seminars is welcome. We note however, that there seems not much commitment to have it effected. A case in point, the Ministry of Finance, one of the biggest spenders on this item (Ugx 10 billion) has programmed no cut on their end. Other MDAs have also followed suit. As a result, only Ugx 23.4 billion[12] of the Ugx 138.7 billion under workshops and seminars, will be saved.

Also of concern is that while other MDAs undertake cuts on vehicle purchases as instructed by MoFPED, the Office of the President, State House, Judiciary courts, the Directorate of Public Prosecution, Uganda Revenue Authority, and Uganda Bureau of Statistics, have remained exempted. And yet, these account for the largest[13] vehicle purchase expenditures. (Details for some of the MDAs accounting for the largest vehicle purchase expenditures are provided below in a table).

Ministry, Department or Agency	*Amount to be spent on vehicle purchases in 2023/24 (in Ugx billions)*
Judiciary (Courts of Judicature)	21.8
Office of the President	14.2
Directorate of Public Prosecution	8.8
Uganda Revenue Authority	8.0
Uganda Bureau of Statistics	4.5
State House	2.7

[12] Annex 2d of the Second Budget Call Circular

[13] Annex 2d of the Second Budget Call Circular

The entire sum to be spent on vehicle purchases in the next financial year (Ugx 116 billion) is enough to cater for the shortfalls on wage (Ugx 47.9 bn) for regional referrals hospitals across the country, and as cater to their water and electricity bills (Ugx 3.7 bn).

Recommendations

ISER calls on Parliament to hold MoFPED and other MDAs to stick to the fiscal guidelines for the FY2023/24 in relation to; -

- the 50% cut on workshops and seminars
- the freeze on new vehicle purchases in 2023/24

Conclusion

Our analysis of the government's 2023-24 resource measures indicates numerous major issues regarding the continuous budget cuts, increased reliance on external commercial lenders, dwindling reserves, and the inadequate efforts to decrease needless spending. These concerns have substantial implications for the fulfilment of social and economic rights, and overall fiscal stability.

To sum up, our analysis points to the need for a balanced and sustainable approach to resource allocation and fiscal management. ISER's recommendations aim to safeguard social and economic rights, promote fiscal stability, and ensure progress towards sustainable development goals. It is crucial for the government and Parliament to consider these recommendations in their decision-making processes to foster a rights-based economy and a just recovery for everyone.

About the Initiative for Social and Economic Rights

ISER is a registered Non-Governmental Organization (NGO) in Uganda founded in February 2012 to ensure full recognition, accountability and realization of social and economic rights primarily in Uganda but also within the East African Region.

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