PROPOSALS FOR NATIONAL DEVELOPMENT PLAN (NDP) III

Shared with National Planning Authority

1.0 Introduction

Uganda is implementing the Second National Development Plan (NDP) 2015/16 - 2019/20 as the overall progressive policy development framework for medium-term planning, prioritizing government interventions and mobilizing resources. The 5-year NDP is the 2nd of six, five year NDPs expected to achieve the National Vision 2040 Framework with a focus of developing Uganda from a least-developed to a lower competitive middle income status by 2020. It exhibits many improvements from NDP I as it tries to address the challenges encountered as part of its strategy is to build on the NDP I achievements during implementation to attain the desired results.

According to the African Peer Review Mechanism (APRM)[1], while progress is being made in implementing the NDP II, constraints remain and overcoming them is a sure gradual process. To realise Vision 2040, the report notes that the following challenges need to be addressed; a) weak public sector management and administration; b) inadequate financing and financial services; c) inadequacies in human resource capacity; d) inadequate physical infrastructure; e) gender stereotypes, mind-sets and prohibitive cultural practices; f) low application of science, technology and innovation; and h) inadequate supply and limited access to critical production inputs. As National Planning Authority prepares to formulate the NDP III, strategies to address the above constraints need to be considered.

1 APRM (2017). Uganda Country Self-Assessment Report

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2.0 UDN Overview:

UDN is a national policy advocacy organization that promotes and advocates for poor and marginalized people to participate in influencing poverty focused policies. The organization empowers citizens to demand for their rights and monitor service delivery to ensure prudent, accountable and transparent resource generation and utilization. UDN operates in 24 districts and through partnerships with Local Governments and nurturing CBOs at Sub national Levels. At the national level, the organization engages with various Government Ministries, Departments and Agencies on issues of Debt management, service delivery, public sector accountability, budget processes and policy alternatives; some of which have been adopted by the various relevant institutions.

3.0 Proposals for NDP III

UDN is cognizant of the vital role played by the National Planning Authority in shaping Uganda's development agenda with various stakeholders for a better future economy. Numerous achievements have been realized within her mandate which can't go unnoticed in the areas of harmonizing and coordinating development planning, providing guidance on policies and strategies for national development, partnering with various stakeholders in evaluation of Government performance as well as providing capacity building for local level administrative units to engage in national development planning. In order to take advantage of inclusive and consultative spaces to participate in the national development planning in terms of policy formulation, implementation, monitoring and evaluation for to ensure continuous improvement, UDN identified proposals for incorporation into the NDP III as noted below;

1. ***Public Debt Sustainability:*** Although Uganda's public debt is projected to remain sustainable over both the medium and long term, performance has declined from low to moderate risk of debt distress level. By 2015, the national debt portfolio was already underperforming with absorption levels below 50% (OAG Report, 2015). In December 2016, IMF debt sustainability assessment indicated that Uganda's debt distress is exposed to increasing vulnerabilities such as export shocks and amplified and non-concessional borrowing. Public sector debt rose from 34.6% of GDP[2] in 2015/16 to 37% in FY2016/17 and now stands at 38.1% in nominal terms (Budget Speech, FY 2018/19), moreover depicting only disbursed debt stock. But, a report by Bank of Uganda (June, 2016)[3] noted that public debt stock stood at Shs46.1 trillion (including commitments undisbursed). This was approximately US$13billion by April 2016, which was about 52% of GDP already beyond the 50% threshold and is pushing the country into another debt trap. In December, 2016, the Auditor General also reported that the ratio of interest payments to total government revenue reached 16%, beyond the cap set in the Public Debt Management Framework, 2013 of 15%. Currently, the cost of debt in terms of interest payments is causing stress to the national Budget as they increasingly become a priority, taking 3rd position in the next FY2017/18 (12.2%) compared to 4th position in FY2015/16 and FY2016/17, with an average share of 10.4% of government expenditure. In FY 2018/2019, it is the 2nd priority on the national budget and makes the 1st call on domestic revenue, making it first priority on government expenditure thereby depriving allocation to investment service provision sectors. This has been alluded to by NPA in its Assessment Report of the Certificate of Compliance, FY 2017/2018. With such a trend, Uganda could easily drift into debt financing through additional loan contraction, further increasing the burden and raising debt sustainability concerns. Debt management in Uganda faces a huge challenge of non-performance of projects. However it's not clear whether this is deliberate but this trend discourages donors, creditors and puts the economy at a risk of not generating anticipated income for re-investment in the required timeframe. For

2 MoFPED, DSA Report, December 2017

3 BoU State of the Economy Report, June 2016

instance, IMF (June, 2018) noted that projects are not being delivered on time, on budget and with the planned impact.[4]

Recommendation: *The NDP III should;*

1) Embrace a debt sustainability approach by planning for projects under a borrowing financial basis that can ably be financed within the NDP implementation period, can be effectively monitored and financed through an appropriate payment schedule. This will enhance efforts in reducing unsustainable debts and aid dependency, and boost Uganda's resource mobilization strategy to enable accumulation of savings for other investments.

2) The plan should also be in alignment with;

a) The Cabinet Adequacy Checklist (Form D, Cabinet Memorandum on a Proposal to Borrow);

b) The new Public Debt Management Framework and Cash Management Policy being formulated by the MoFPED to ensure consistency in national debt management strategies.

2. *Poor alignment of Development Plans to the NDP II:* According to Sec 13 (7) of the PFM Act 2015, the NPA is expected to submit a Certificate of Compliance of the annual budget of the previous financial year. While the Assessment report for FY 2015/16 showed a fair compliance level to the annual budget of 68.2 per cent, a decline to 58.8 per cent was registered in FY 2016/17. This change was partly attributed to the declining performance at macro level of 48.1 percent compared to 71.4 percent of FY2015/16. The general trend has further declined to 54%, registering unsatisfactory performance according to the Assessment Report FY 2017/18 by NPA[5] While there was an improvement at the LG level at 62.2% in compared to 51.8% in FY 2016/17, UDN undertook a Mid-term review of the NDP I which revealed limited awareness and knowledge of its contents among government officials as a major challenge to its implementation right from the planning stage. Some officials indicated that departments had to depend on the district planner to plan and budget for the district in alignment with the NDP because limited copies were available for the entire district to share[6]. Part of the non-compliance and alignment to the current NDP II could be due to such remnant reasons across sectors and other levels like being non-conversant with the content of the current plan by some officials eg RDCs[7].

Recommendations:

a) Prioritization of capacity building of both;

i) government officials as implementers to ensure effective planning and alignment of budget priorities with the NDP

ii) and politicians especially if they are new in office to help them appreciate Uganda's development agenda to enable them execute their oversight role;

b) A penalty mechanism should be devised to punish institutions that do not comply with the alignment requirements of the NDP eg not releasing funds as their contribution to national development would be outside the set standard since expenditure would be costly to the economy.

3. *Numerous Government administrative structures increase public expenditure:* In an effort to take service delivery closer to the people, the Government introduced the decentralization system in the FY 1994/95 to 13 districts. By 1997, all 39 districts received financial transfers to implement the

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5 National Planning Authority (2018). Certificate of Compliance for the Annual Budget FY 2017/18

6 Uganda Debt Network (2013), Review and Analysis of District Development Plans and their alignment to the National Development Plan: (Case study of Moroto, Bukedea, Bushenyi and Kanungu Districts) Discussion Paper No. 4

7 National Planning Authority (2017). Certificate of Compliance for the Annual Budget FY 2016/17, pg 48

policy under the Ministry of Local Government[8]. The decentralization system saw the division of districts into smaller administrative units creating a total of 112 districts by 2014 thereby increasing public administration costs[9]. Today, June 2018, Uganda records 121 districts. Many of these districts however have been criticized for not providing quality service delivery as had been envisaged. The multiplication of districts implies creation of counties, sub counties, parishes and constituencies which calls for recruitment of civil servants and political representatives which increases operational costs. .The resources to maintain these administrative units could be allocated to develop other sectors.

Recommendations: *An approach towards regional planning can be adopted by the NDP III since different regions have unique challenges shared within proximate localities. This will enhance regional development with designated districts (5 across the country) as call centres to enable harmonization of development plans. Partition the country into 5 major regions with one administrative unit in each region to identify general gaps/areas across districts within a region for their action. The governance structure should be separated from the districts to meet development needs within the whole region since the division of districts has not yielding desired results. While it's agreeable that NPA may not be in position to address the challenge of division of Administrative units, this hard talk needs to be dealt with squarely.*

4. ***Inadequate resource allocations for curbing Illicit Financial Flows (IFFs)*:** The practices that propel IFFs deprive Uganda from mobilizing enough revenue to finance its expenditure to ensure public service provision. According to Uganda Revenue Authority (URA) in 2011, Uganda loses UGX 2 trillion (approx. USD 866 million) annually through "economic and tax fraud/crime*."*[10]. While technological development has eased communication around the globe, it has precipitated crime with regard to IFFs since on-line money transactions can be quickly effected. The NDP II alludes to the existence of illicit financial flow practices and notes that by 2030 IFFs should be significantly reduced to promote economic justice for all and inclusiveness for sustainable development at all levels.[11] This means citizens loss out on their financial resources to other countries.

In Uganda, the Financial Intelligence Authority (FIA) was established in 2014 under the Anti-Money Laundering Act, 2013 for the prohibition and prevention of money laundering. However, the effectiveness of FIA depends on the availability of resources (skill and monetary) necessary to tackle a problem as complex as IFFs and money laundering. Problems like low funding of the FIA have frustrated efforts to bridge compliance gaps. While the institution commenced operations in September 2014, initial budget allocations amounted to only UGX 1.7 billion ($564,000) a relatively small resource envelope depleted by recurrent expenditure such as rental bills, staff welfare expenses and transport costs. Faced with limited resources, plans for purchase of a sophisticated financial monitoring software platform valued at $ 200,000 remained on hold[12]. In addition, an amount worth UGX 5.1 billion required for full operationalization of the FIA was part of unfunded priorities in FY 2016/17[13]. Such deficiencies lead to inadequate systems for obtaining information on customer identity and reporting suspicious transactions. Despite the establishment of FIA, several other challenges have propelled the practice; eg i) Poor sequencing of trade related taxes, ii) Unclear strategies leading to insignificant progress in fighting IFFs; iii) Insufficient resources to undertake IFFs investigations; iv) Weak regulatory and supervisory regimes (Anti-

8 STEFFENSEN J. et al. 2004. A comprehensive Analysis of Decentralization in Kenya, Tanzania and Uganda; Country Study – Uganda, pgs 8&9.

9 WIKIPEDIA. Districts of Uganda. [On line]. Available at: http://en.wikipedia.org/wiki/Districts_of_Uganda : [Accessed: 28th. March. 2014].

10 Stefan Gara / Flickrhttps://financialtransparency.org/proactive-strategies-for-addressing-illicit-outflows-in-uganda/

11 Second National Development Plan 2015/16 – 2019/20, Pg 278

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13 CSBAG (2017). CSO assessment of the Accountability Sector Performance FY 2016/17, Paper presented at the Annual Sector Joint Annual Review 31st August 2017, Speke Resort Hotel Munyonyo

terrorism institutions and frameworks) characterised by disjointed coordination among institutions; v) complicated political economics surrounding IFFs and conflict of interests; vi) limited tax transparency of all domestic and foreign operations in Uganda (tax paying culture poor); vii) lack of data and limited information sharing on the consequences of IFF; viii) economic liberalisation challenges mitigation of IFFs; ix) On-line /e-commerce/ digital economy/ business transactions, among others. IFFs have further led to increasing income inequality and deepening unequal distribution of power hence undermining the ability to achieve the Sustainable Development Goals, 2030.

Recommendation: *The NDP III should consider adequate resource allocation for the Accountability Sector institutions like FIA, URA, police CIID, Anti-corruption agencies among others to facilitate updating their functional capacities to curtail IFFs especially, through commercial transactions by Multi-National Corporations. In the process, related cyber-crime should be handled. Collaboration with a clear implementation strategy among institutions is key for effectiveness. Curtailing IFFs and the mechanisms facilitating them will strengthen the mobilization of domestic resources for long-term sustainable development.*

5. ***Government to prioritize budget allocation for investment in the agriculture sector:*** The AU/ NEPAD Comprehensive Africa Agriculture Development Programme (CAADP) is one of Africa's main programmes with the goal to eliminate hunger and reduce poverty through, i) agriculture, and improvement of food security and nutrition, and ii) increase incomes in Africa's largely farming based economies.[14] In Uganda, the NDP II and the World Bank report (2018) agree that agriculture is a leading economic sector and main driver of sustainable and inclusive growth. The sector is a major source of employment accounting for 70% of the population though characterized by small farms, covering half of land area and provides half of all exports and contributes one-quarter of GDP[15], and is also a major source of raw materials to the local industries. The further NDP II identifies Agriculture as one of its priority sectors for investment[16] to move the economy to low middle-income status (with per capita income of US$ 1,033) by 2020. Unfortunately, the sector is faced with several challenges which hinder its potential development. According to EPRC (June, 2018)[17], the sector is challenged by a number of factors including;

i) The low levels of technology use, despite climate change and weather shocks; and the progress made on agricultural research, reveals challenges with technology dissemination

ii) High level of counterfeit Agro-inputs. Only 25 and 15 percent of farmers had ever used fertilizer and improved seed, respectively,

iii) Irrigation is a common practice by few rice farmers among others

iv) Limited access to extension services,

v) Inadequate seed supply and piecemeal interventions under Operation Wealth Creation Programme,

vi) Limited budget allocations to the agricultural sector have suffered fluctuation for the past 11 years (1997/98- 2018/19) between 3-5 percent, yielding very low impact.

vii) Farmers' limited access to agricultural credit

viii) Land tenure insecurity and fragmentation

In addition, most farmers use rudimentary farm implements which are time wasting and hampers performance. The dependence on unreliable and unpredictable rainfall further challenges agricultural production amidst climate variations. Increased agricultural production and productivity will depend on Government's commitment

14 https://www.monitor.co.ug/OpEd/Commentary/African-Union-Agenda-achievable/689364-2727230-8kjyox/index.html.

15 World Bank, 2018. Closing the Potential Performance Divide in Ugandan Agriculture, pg1

16 In 12 Agricultural Enterprises including coffee, cotton, tea, rice, maize, beans, cassava, fish, milk, beef, citrus and bananas.

17 Economic Policy Research Centre (2018). Uganda's Agriculture Sector at Crossroads: Is it a Myth or a Reality?, pg.12

to invest in strategies that will improve the performance of the sector. With the existence of the National Irrigation Policy, 2017 to guide coordinated interventions to boost agricultural production, its implementation will determine its effectiveness.

Recommendations: The NDP III should consider;

i) Planning for adequate financial resources to enhance investment in the agriculture sector in alignment with African Union - CAADP and Malabo declarations of 10 percent commitment of the government budget. Increased budget allocations for agricultural projects should be aligned with capacity to ensure faster project completions, increase efficiency and effectiveness; and subsequent benefit realization.

ii) Together with the line ministry, plan for strategies to enhance economic empowerment for women and youth who are the majority group engaging in agriculture by enhancing access to financial resources for investment. In addition, refocusing on technology promotion, subsidization of fertilizer prices, and application and use of improved seeds will address crop resistance uncertainties and support sustainable agricultural production and productivity.

iii) Investing in sustainable irrigation methods or specific mechanisms by engaging in water harvesting ventures and wetland management to avail the necessary water in drought prone parts of the country should be adopted (case of Israel). In addition, building the capacity of farmer on adopting climate change strategies and soil improvement like manure application, mulching, and shade tree inter-planting among others should be conducted continuously to improve on farm production.

6. ***Local Economic Development (LED) challenges:*** The NDP II upholds the LED program through which LGs, the private sector and the communities are expected to form partnerships to mobilize, manage and invest resources effectively into economic ventures. This is aimed stimulating development and growth. If implemented appropriately, it should be able to create the business enabling environment in order to achieve its objectives. The NDP II expects the LED program to contribute to poverty reduction and improving the quality of life of the community. While the approach allows independence of LGs from the central government with the aim of improving local capacity for sustainable economic growth through MSME growth and job creation, it is still facing challenges and needs to be revised to allow achievement of the goals as stated in the policy. According to ACODE while *Assessing Capacities for LED* in 2018, noted that only 45% of district leadership in Uganda indicated good knowledge of the program but there is limited community awareness about the policy which continues to undertake a top to bottom approach rather than bottom up hence stifling ownership by the local communities. On the other hand, Uganda's private sector which is a potential driver for job creation is largely defined by Micro, Small and Medium Enterprises which account for 90% of private sector production[18], yet contributing approximately 75% of the GDP[19]. The informal sector is dominated by MSMEs[20]. The majority are less than 5 years old. MSMEs typically have a high mortality rate with 90% operating for less than 20 years. Many informal small enterprises are family owned and often do not have a fixed address. This makes it difficult for them to access information and financial services to help their business grow and survive in competitive markets. Government, Development Partners and the private sector have come up with several initiatives to promote and develop the sector. However, these efforts have been generally scattered, uncoordinated, conflicting and isolated[21]. A range of factors have further stifled the LED program and MSME growth, including

18 MoFED (2017), National Strategy for Private Sector Development: Boosting Investor Confidence for Enterprise Development and Industrialization, 2017/18-2021/22, Pg 3.
19 Ministry of Trade, Industry and Cooperatives. "Buy Uganda, Build Uganda Policy" 2014
20 Financial Sector Deepening Uganda (2015), National Small Business Survey of Uganda, pg 1
21 Ministry of Trade, Industry and Cooperatives (2015), Uganda Micro, Small and Medium Enterprise (MSME) Policy, pg 1

the high level of informality, over protection of foreign investors, long procedures for starting a business, low innovation and productivity, government's domestic borrowing and credit access challenges[22]. Government support has been minimal despite the sector's size[23], a practice that will continue to suppress innovation, capacity, productivity and competitiveness of MSMEs. Communities and private partners are key in achieving this strategy. With adequate information and awareness, they are capable of achieving the desired growth levels as they would act as a source of employment and revenue mobilization through taxes for government to finance the NDP.

Recommendations:

i) The is need for adequate budget allocations to facilitate the pre-requisite conditions for LED Program like awareness creation, the participation of public and public private partnership in planning; Service Delivery; Human Capital and Skills; ICT infrastructure and skills; and basic physical infrastructure among others to ensure effective implementation of the LED policy.

ii) NPA should ensure that LGs align their development plans and budgets with adequate LED content if efforts to achieve improved livelihoods and sustainable growth in Uganda is to be realized. Joint stakeholder identification of enterprises based on competitive advantages of the different regions is key to curb incidences of mismatched planning dictated by central government. Achieving awareness and buy in of stakeholders will help in developing and implementing a Capacity Building Framework for LED.

7. ***Poverty alleviation programmes delivery constraints;*** The NDP II agrees that Government has demonstrated commitment and progress towards poverty eradication and wealth creation by implementing several programmes such as NAADs/Operation Wealth Creation (OWC), PMA, Primary Health Care, UPE and USE, Prosperity for All, Community Driven Development, Northern Uganda Social Action Fund (NUSAF)and Peace, Recovery and Development Plan (PRDP), Youth Livelihood Programme (YLP) and Women Empowerment Program (WEP)among others. The current OWC Programme is still plagued by poor quality seedlings, late deliveries and supply of products not based on demand[24]. However, the low community demand and ownership of these programmes could mainly be attributed to inadequate mobilization and limited access to development information which hampers effective participation and decision-making. While the country emphasizes investments in large scale infrastructure projects, focus on prioritization of social sectors essential for the accelerating human development should not be lost.

Recommendation: *With current poverty trends, the NDP III should adopt a broad-based poverty eradication approach by aligning such programmes to budget allocations to ensure sustainable socio-economic development. Effective and constant monitoring to ensure proper management and increased efficiency of resources should be upheld by competently trained personnel who are able to evaluate the programmes and advice on the interventions for reducing poverty and inequality. Interventions that focus on improving livelihoods of households so that they build resilience to economic shocks should be strengthened as incentives for productive sectors of the economy to produce working and on-job training opportunities as part of skilling for sustainable employment and economic empowerment of the youth should be implemented.*

22 i) World Bank (2015), Doing Business Survey, pg 2 ii) MoFPED (2017).National Strategy for Private Sector Development, 2017/18-2021/22,Pg 11
23 PSFU (2014), An Analysis of Private Sector Growth Challenges and Proposals for Policy Reform, pg11
24 http://www.monitor.co.ug/News/National/Gen--Saleh-changes-Operation-Wealth-Creation/688334-4280758-format-xhtml-10k2803z/index.html

8. ***Alignment of the NDP III with other African Development Strategies;*** African countries have developed and endorsed several development programmes expected to drive socio-economic transformation across countries. Some of these include; i) CAADP; ii) Accelerated Industrial Development (AIDA), iii) Programme for Infrastructure Development (PIDA); iv) Africa's Agro-Industry and Agri-business Development Initiative (3ADI), v) Science and Technology Plan for Action among others. These have been adopted by Heads of States of African Governments and incorporated within the Africa Agenda 2063.

Recommendations:

NPA should evaluate the performance of such initiatives and align and integrate their provisions into the NDPIII to avoid deviation from the general African Development Focus Agenda. There is a need however to harmonize the provisions of the plan with those of the African initiatives and timelines to help assess any significant contributions to socio-economic transformation.

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