

National budget priorities: Do they reflect the public interest?



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1. Introduction

A National Budget is largely and loosely defined as a statement of revenues and expenditures of government over the coming year. However, national budgets also provide accountability for previous resources as well as policy direction in form of priorities of government. Citizens would expect government priorities to reflect their own needs in terms of employment and other income generating opportunities for sustainable welfare improvement. Other citizens concerns include basic goods and services such as security, law and order, health, education, and an effective and efficient market environment.

The budget formulation process raises several challenges partly because of the multiple demands from citizens and the scarcity of resources required to fulfill them. For example, on the revenue side, the government must realize multiple objectives of raising adequate revenue to finance current obligations without overburdening future generations with debt and inadequate provision of public services. On the expenditure side, government has to decide the most critical priorities to finance given the limitations of budgets.

More so, the processes of gathering and processing the demands of citizens are neither straight forward nor without possibilities of being hijacked by private interests within and outside government. Like all processes whereby the principle beneficiary of a process has to work through an intermediary agent, there is always a possibility that the final outcome may not be a true reflection of the desired goal. In a budgeting process, the citizens (principle beneficiaries of government programs – by being owners) have to work through agents (public sector officials and lobbyists). It is, therefore, possible that budget priorities may not necessarily reflect the same

priorities of citizens even when they appear to do so on paper.

A critical component underlying the national budget is the issue of priorities, and the specific concern is how and who sets the priorities? In view of the challenges of resource mobilization and allocation to different national needs, this paper sets out to describe the process of selecting budget priorities in Uganda. The paper then analyses the extent to which the selected and eventually funded priorities reflect the interests of the citizens. Based on the finding, the paper makes recommendations to the citizens, the government, and other stakeholders.

Facts and Figures

1. A budget is a statement of revenue and expenditures of government over the coming year
2. Article 155 (1) of the Constitution requires the President to cause budget proposals to be presented to Parliament not later than two weeks before the end of the financial year
3. Effective 2015, the budget processes is guided by the 1995 Constitution (as amended) and the Public Finance Management Act of 2015
4. The 1995 Constitution (as amended) vests Parliament with powers over public finance under Chapter 9
5. In the last 10 years, the budget has been dominated education, infrastructure (transport and energy) public administration, security, and health.

6. In 2008/09, Security was allocated Shs. 477 billion but increased to Shs. 1,061 billion by 2014/15, reflecting an increase of over 120 percent in six years.
7. Similarly, the budget allocations to Works and Transport sector increased by nearly 53 percent, from Shs 1,083 to Shs. 1,656 over the same period.
8. The energy sector budget increased from Shs. 462 billion in 2008/09 to Shs. 1,564 billion, representing an increase of nearly 240 percent.

2. Setting budget priorities in Uganda

The budget process is provided for in the Constitution, and other relevant Acts and Regulations. Article 155 (1) of the Constitution requires the President to cause budget proposals to be presented to Parliament not later than two weeks before the end of the financial year. Until 2015, the relevant law besides the Constitution was the Budget Act, 2001, which provided for a detailed calendar of the budget process, requiring proposals to be presented to Parliament by the 1st of April of each year. Effective 2015, the budget processes is guided by the 1995 Constitution (as amended) and the Public Finance Management Act of 2015. The 1995 Constitution (as amended) vests Parliament with powers over public finance under Chapter 9. Specific powers include: levying of taxes (Article 152); withdrawal of funds from the consolidated fund or any other public fund (Article 153 & 154); Power to borrow (Article 156); and Accountability (article 164).

2.1. Opening the budget process increased public interest

Within the above legal framework, national budgets and implied priorities have increasingly become an area of focus by citizens and other stakeholders. This is largely due to increased sharing of budget information and opening up of space for citizens' representatives to participate in what was a closed government process. The opening up of the budget process followed the introduction of sector-wide approaches and medium-term expenditure frameworks towards the end of the 1990s. Government was required to publish the medium-term (3-year) sector budgets as well as set up sector working groups (SWGs), comprised of all major stakeholders including government, private sector, civil society, and donors. The SWGs review progress from past budgets and consider new allocations and priorities based on the annual review.

2.2. High level budget priority processes

At a higher, national level, the budget process starts with identification of priorities by the executive through the Ministry responsible for finance and planning, which submits the initial list to cabinet for approval. The next part of the process involves communication of agreed priorities to sectors, local governments, private sector, advocacy groups including civil society, donors and any other stakeholder through a series of workshops and conferences. The approved initial priorities are presented to the

local government in form of circulars and discussed in workshops at regional levels. The circulars are letters sent by Secretary to the Treasury to government leaders within the government Ministries, Departments and Agencies (MDAs). The information shared includes potential size of the budget to be allocated and areas agreed upon by cabinet.

The consultation process ends with submission of the National Budget Framework Paper (NBFP) for discussion between Parliament/legislature and the executive leading to approval of the final budget. Before 2015, the budget presentation in June would be followed by further parliamentary debate, with a potential of causing further changes in the priorities.

3. Indications and implications of budget priorities

3.1. How significant are the budget sizes

A review of budgets over the last decade indicates that the budget has been dominated by the following sectors: education, infrastructure (transport and energy) public administration, security, and health. Budget allocations to some of these sectors have increased so rapidly to the extent that budgets have defied planned allocations. For example, in 2008/09, security was allocated Shs. 477 billion but had increased to Shs. 1,061 billion by 2014/15, reflecting an increase of over 120 percent in six years. Similarly, the budget allocations to Works and Transport sector increased by nearly 53 percent, from Shs 1,083 to Shs. 1,656 over the same period. The energy sector budget increased from Shs. 462 billion in 2008/09 to Shs. 1,564 billion, representing an increase of nearly 240 percent.

The increased interest in the Works and Transport sector is reflected in the drastic increase from the planned budget (MTEF) of Shs. 1.8 trillion for 2015/16 to the actual allocation of over Shs. 3.2 trillion, representing a sudden increase of 77 percent. Such drastic increases present a challenge of maintaining planned priorities in that other sectors have to receive less than planned amounts, which makes it difficult to sustain all the priorities as planned.

While security, transport, and energy are critical for economic emancipation and welfare improvement of the people, the impacts are more indirect and generalized compared to health and agriculture. The budget allocations to health and education, for example, do not reflect such drastic increases. The health sector budget increased by 32.5 percent while education increased by 99 percent between 2008/09 and 2014/15.

Adherence to agreed priorities can be undermined by forces beyond an individual government in case of regional factors such as drought, security/terrorism, and global events that reduce international trade. Events like these can increase the cost side of the budget while reducing the anticipated revenues. It is therefore, important to review the budget implementation processes with flexibility to allow for incorporation of additional information on the given context to inform the analysis.

3.2. Realism of high level priorities require strong focus

Besides the reflection of budget priorities by sectoral allocations of financial resources, government has also indicated broad budget priorities that seem to cut across sectors. For example in the budget for 2014/15, government prioritized: improving the business climate by undertaking key economic infrastructure investments, while maintaining peace, security, and macro-economic stability. It also planned to leverage assistance to agriculture, agribusiness, agro-processing, tourism, industry and services such as ICT. Finally, government planned to improve the productivity of the human resource by enhancing the provision of quality education, health and water services, as well as strengthening institutional governance, accountability and transparency.

High level priorities like these are difficult to relate to the basic needs of citizens much as they appear justifiable if one is only interested in overarching goals. The increase in the productivity of the human resource relates more to the provision of specific skills beyond basic primary and secondary education. Investments in vocational training, apprenticeship and support to private sector through affordable interest rates and tax rates and legal protection of investments have been limited. Interest rates have increasingly remained above 21 percent for a long period partly as a result of government borrowing at rates of 16-17 percent for two years to finance its own budget. In essence, it is not possible to conclude that the government budget has prioritized provision of a conducive business climate and employment to citizens.

High level tends to mask specifics that budgets need to address to meet the core citizens' concerns and, instead offers the elite technocrats and politicians possible leverage to deviate the budget from core concerns and report on broad outlines of program performance. For example, government reports on education are largely anchored on aggregate figures such as enrollment rates, teacher-pupil ratios, and number of classrooms constructed. This approach tends to disregard issues of quality, teachers' salaries, and scholastic materials. In health, there has been an overemphasis on construction of physical structures and not inputs such as drugs and other supplies, and training of health workers.

3.3. Political patronage and short term focus

The elite political objectives have been reported as a more preferred priority than the social economic needs of the population¹. It was reported that, "as the project to retain political power has remained number one priority, the citizens are beginning to hold Government at "ransom", demanding for all kinds of politically driven deliverables". Consequently, a budget is no longer an instrument that reflects the strategic development priorities of Government and the country but a package of welfare programmes and responses to political constituencies. The fact that good policy is not what is popular in the short-term but what works in the medium and long-term, can no longer be adhered to or followed.

The budget being a political instrument for the ruling government, can be abused if the political objectives are allowed to be supreme over the social and economic objectives. The government budget may, indeed be redirecting citizens to seek short-term self-gratification, which is not even sufficient

¹ Mwenda Andrew, 2006, "Redefining Uganda's Budget Priorities: A Critique of the 2006/07 Budget", ACODE Policy Briefing Paper, No. 17

for everybody, as opposed to long-term social transformation and prosperity of current and future generations.

3.4. Institutions, governance and accountability

The government commitment to build strong institutions for better governance and accountability is definitely a priority that citizens would wish to realize. In cases of delegated processes involving principles (citizens) and agents (public officials), the best outcomes require strong institutions to limit the private interests of the ruling elite. Otherwise the priorities of citizens can be lost or changed during the selection of the final set of priorities or even during budget implementation.

The evidence in governance and accountability, highlighted by high level of corruption, much of it with impunity, is a testimony of failure to realize a critical interest of citizens, despite government's identification of this critical priority. It would appear, therefore, that the government has limited ability and/or willingness to carry through commitments towards citizens' and its own pronounced interest. Even when clear budget priorities have been identified and resources allocated, as in the case of pension payments to retired senior citizens, it has not been possible to implement the set priorities.

Needless to say, depending on the style of government and the underlying levels of governance, national budgets can be used to further individual interests of the ruling elite or even individual persons. The potential controversy that surrounds national budgets has led to evolution of critical aspects that ought to be adhered to if the common objective, as captured in the priorities, is to be realized and preserved. Some of the common aspects include governance, transparency and accountability. Budget governance deals with the behavior of those entrusted with control over public funds – specifically consolidated funds. It also refers to the behavior and conduct of those vested with power and authority over the budget.

Transparency is important in that it enables citizens and other stakeholders to know about the process underlying the budget decisions and outcomes of implementation. The stakeholders should have clarity on the selected priorities, reasons for doing so and budget amounts involved in meeting the priorities. Budget transparency is important for proper oversight and accountability and comprises the basic minimum for ultimate responsibility and budget discipline. The budget process (inception, planning and implementation) does not involve everybody hence the need for ultimate structures of representation that subscribe to highest level of governance, transparency and accountability.

3.5. Effects of supplementary budgets

The priorities set are affected by supplementary budgets that come during the time of budget implementation. The fact that supplementary budgets can be as big as 7 percent of the total budget implies a wide deviation from the core priorities. Considering the areas that regularly receive supplementary budgets, a new set of priorities emerge that is contrary to those identified at the beginning of the budget process. A review of analytical reports of previous budgets highlighted the following areas: public sector administration (especially state house), security, foreign missions, and internal affairs – mainly the police. As already noted, some of these expenditure may be justified but,

in an environment of limited transparency and rampant corruption, it becomes difficult to make such a conclusion.

A major cause of budget distortion is the power vested in the executive to carry out variations during implementation and the element of participation without effectiveness. Quite often, the involvement of other actors, besides selected members of the executive can be rated at the passive rather than active levels. Overtime, the President's wishes have been interpreted to mean policy and directive rather than a task that require further consideration and refinement.

The relevant legal and process structure notwithstanding, "the budget is an expression of political rather than economic priorities", since politics dominates². The contemporary practice of democracy tends to increase budget deficits through ideological preferences and more fragmented government coalitions and taking government nearer to their people for direct involvement. Selection and maintenance of relevant budget priorities is further constrained by the fact that previous and ongoing projects, amidst limited growth in budgetary resources limit the ability to introduce new relevant priorities that may emerge over time.

Long-term structural forces triggered by societal divisions and representative electoral rules have more ambiguous implications and increase budget pressures. The question of whether budgetary legal structures and institutions can counteract political indiscipline, is often answered in the negative. The increasing size of government has been largely dictated by the need for more political institutions such as Parliament and the Local Governments than anything else.

3.6. Harmonization of social and political seasonal factors

Constitutional provisions determining electoral rules play a big role in determining fiscal outcomes through their impact on the form of government. Representative electoral processes geared towards achieving more inclusiveness – 'everyone with a district' – have come at the cost of reduced political and fiscal discipline. Where societies are divided along ethnic or religious lines, electoral rules are inclined to try and accommodate those interests leading to a proliferation of priorities and competition for fiscal resources. Thus, the issue of inter-governmental revenue sharing and fiscal transfers is subdued by the bigger problem of inadequate revenues. Reduced revenues feed into both deficits and borrowing for future generations, as well as unfunded priorities.

In light of the above, the argument that the national budget should be responsive to the development needs of the country can only be true after rethinking public expenditure towards societal expectations of employment, economic growth and stability in a secure country of law-abiding citizens. Sadly, but inevitably, this would be a painful process involving structural reforms, which, as can be seen in the Euro zone today (especially Greece), are not popular and hence not likely to be adopted in political environment of elections. In other words the politics will continue to dominate the process and consequently lead to continuation of suboptimal results in terms of low growth, limited job creation and inadequate service delivery.

² Fabrizio and Mody (2006) IMF Working Paper

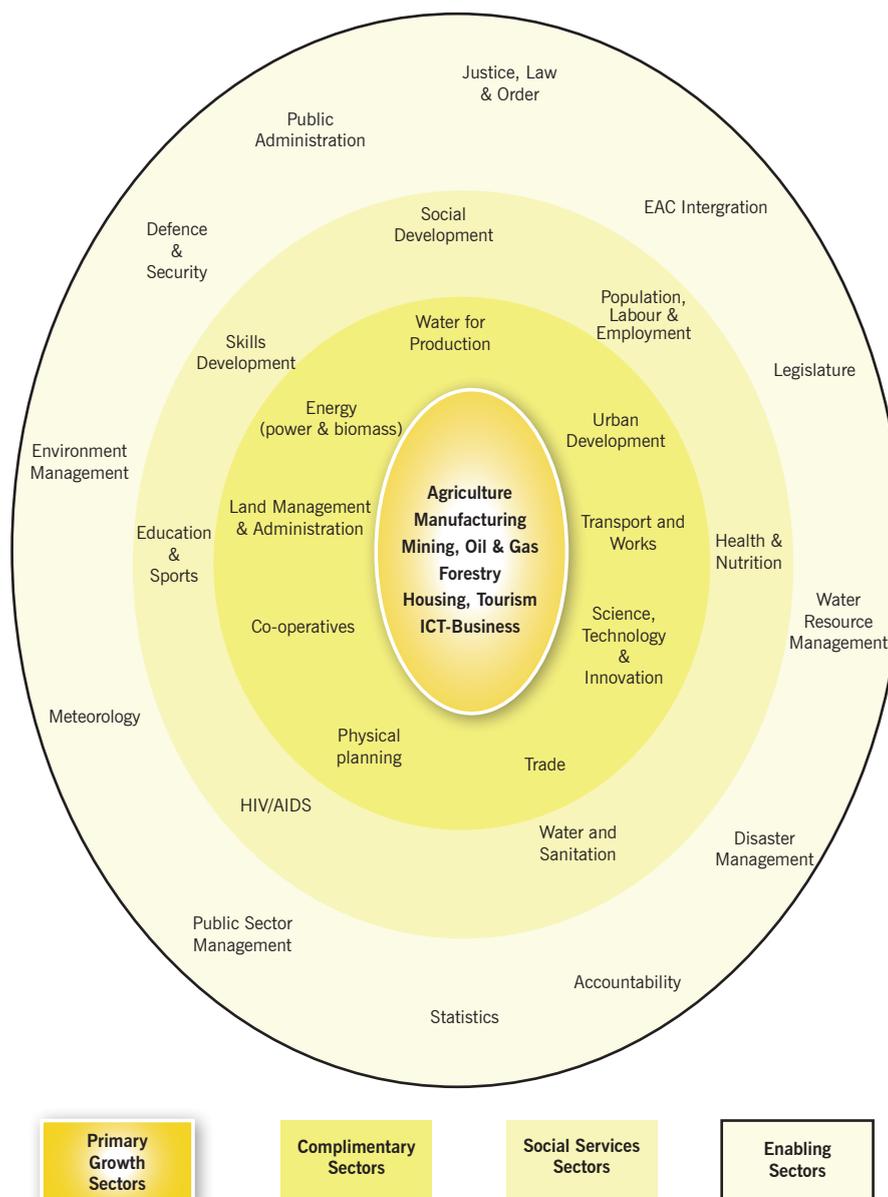
The common logic of keeping political priorities aligned to national priorities has tended to follow the strategy of keeping to higher level plans or long-term aspirations, as already indicated. For example, FY 2014/15 budget strategy was based on objectives that included: (i) achieve real economic growth rate of at-least 7% per annum; (ii) keep annual inflation within single digit; (iii) maintain a competitive real exchange rate which can support export growth. The associated expenditure priorities to buttress these objectives include: maintenance of national security and defense; infrastructure development in transport and energy; and human capital and skills development. Others include: enhancement of scientific research, technology and innovation for industrialization, competitiveness and employment creation; and continued strengthening institutional of governance and public service delivery.

Broadly, an infrastructure budget (roads and energy), maternal mortality, agricultural productivity etc. relate to welfare improvements over time and hence require to be comprehensively integrated into the detail. For example, the dominance of decentralization processes by political agendas undermined the mission of bringing services nearer to the people. The resultant LGs have not been empowered to provide services and/or local development.

3.7. Too much participation is a challenge to selection of a few priorities

The planning and hence budgeting space has been 'democratized' in a sense that every argument has been put on the table with no clear prioritization beyond the claim of budget sizes as shares of the total budget. Accordingly, a lot of resources are allocated on the basis of ensuring some allocation to every sector, ministry, department or agency (MDA). Despite a good logical design that was reflected in the NDP I, using the 'egg analogy', (see diagram) budget allocations did not fully reflect the implied interrelations between MDAs.

Annex 1: The Egg Concept (Sectoral Linkages)



4. A need for a reform agenda

The future of budget allocations requires policy and institutional reforms to realize consistent alignment of budgets to priorities and accommodation of emerging socio-economic challenges. The changing global economic, social and political environment seems to imply that Uganda should take on the needed reforms. The fact that Europe, North America and China, among others, have embarked on major reforms is an indication that budget priorities should always be focused on the people and be adjustable to balance the short and long-term.

4.1. Need for policy and institutional reforms

Institutional reforms should, among others, focus on reducing wasteful and consumptive expenditure while increasing budget effectiveness and efficiency. For example, decentralization should deviate from creation of new LGs but revisit the service delivery agenda using models based on technical rather than political or ethnic considerations. Policy reforms are required to realign budget policy and practices to realistic and correct priorities geared towards citizens' aspirations regarding employment, service delivery, and security of person and property.

The current budget policy space has been so infiltrated by various interest groups using subjective rather than objective ideas. In the end a lot of policies are more experimental (trial and error) than experiential (based on analytical facts), with a tendency of throwing budgets at problems rather than the underlying causes. For example, there have been arguments to feed the children in schools rather than increasing agricultural production and productivity for more food security at household level. Similarly, there has been persistent focus to increase the agricultural budget rather than necessary reforms in the agricultural institutions, the model of agricultural support and land tenure systems.

The policy reform agenda should blend democratic rights of participation in budget processes with technical dimensions of a professional nature required for effective budget design and implementation. The involvement of the communities in decision-making by the people does not imply engagement in technical matters. Instead, it involves providing knowledge and information to the public on what is going on in terms of how, why and when certain policy decisions were made and anticipated results.

Budget policy should be prioritized at the input and output level, but with a clear linkage to outcomes and impacts that are provided by more strategic documents such as the development plan. The people responsible can then be held accountable for delivery in terms of timing, quality and quantity in respect of the budget.

5. Taxation for revenue generation, redistribution and equity

The process of tax collection is one of the most powerful lenses in political economy to assess the distribution of power and the legitimacy of the state and of powerful interest groups in civil society. The collection of tax not only requires substantial coercive power, but more importantly requires a state to be legitimate since the vast majority of tax is collected when there is a high level of voluntary compliance (Levi, 1988). 'Taxes not only help to create the state, they also help to form it'³. The experience of Uganda provides one exception to the trend of low-income countries experiencing a reduction in tax revenues. Under the Museveni regime, trade liberalization (that led to the decline in import and export tariffs) was imposed gradually over the period 1986–98. The case against rapid tariff reduction as a means for maintaining and increasing fiscal resources, a key element in state consolidation and state-building, is one of the main lessons in the political economy of the Ugandan post-war reconstruction. It is important to consider however that trade taxes may have created disincentives for production and distortions in the economy Collier & Reinikka (2001).

³ Schumpeter, Joseph

Uganda's broad tax policy objectives that include: establishment of a semi-autonomous revenue authority, enacting new laws, and rationalizing the overall tax structure. In Uganda, all tax implementation are imposed by Acts of Parliament in accordance with Article 152 of the constitution of Uganda (1995 constitution). There are statutes and laws for imposing the different taxes also enacted by Acts of Parliament, for example; Local Governments Act 1997 (for Local Government Revenues); Income Tax Act Capital 340(for Income Tax) and East African Community Customs Management Act 2005 (for management of import duty). Despite all these laws, revenues are still very low (less than 13 percent of GDP) and do not reflect equity given the large informal sector that has been difficult to tax, and politically motivated exemptions.

6. Conclusion

The paper has shown that Uganda still has an uphill task in ensuring that the process of selecting budget priorities is protected from elite capture and poor implementation due to a lot of deviations. The stated priorities are either very high level ambitions or quite vague that they become difficult to realize. The budget has a lot of focus on political rather than socio economic aspirations of Ugandans, which would ensure a more focused future for current and future generations.

7. Keys Issues

- (i) How can the country balance the short and long-term interests and ensure a steady budget trajectory that leads to national prosperity for all citizens and generations?
- (ii) How can an appropriate balance between politics and economics be established and maintained?
- (iii) What type of political and economic organization is right for Uganda?