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PRIVATE SECTOR STATEMENT ON THE FY 2023/24 NATIONAL BUDGET

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Presented by
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Hon. Henry Musasizi - Minister of State General Duties - Ministry of Finance Planning and Economic Development Representative of the Deputy Governor Bank of Uganda, Permanent Secretary/Secretary to Treasury, Commissioner General, Uganda Revenue Authority, Country Head, Mastercard Foundation, Mr. Adrian Bukenya, Fellow Members of the Board of Directors present.

Development Partners – SB4U, EU and World bank Members of the business community.

Media

Ladies and gentlemen,

Introduction

Uganda as a country has recognized the private sector as the engine of economic growth. However, for it to deliver to the desired levels the sector must be competitive to create wealth which translates into increased production and productivity, create employment both directly and indirectly throughout the value chains, and contribute tax revenue which supports the private sector further through service delivery and check forex hence ensuring a stable macroeconomic position for the country.
The Private Sector Foundation Uganda (PSFU) therefore appreciates the continued strides by the Government to support the delivery of a Private Sector-led economy. The 2023/24 FY budget is yet another key to consistent development, especially through the theme **"Full Monetization of Uganda's Economy through Commercial Agriculture, Industrialization, Expanding and Broadening Services, Digital Transformation, and Market Access".**

Private Sector View of the FY 2023/2024

1. The FY 23/24 National budget comes at a time when the economy has demonstrated notable strength and resilience amidst global economic dynamics. Consequently, the economy is projected to have grown by 5.5% compared to 4.6% last year with an upward trajectory of the Services sector growing at 6.2%, Agriculture at 5.0%, and Industry growing at 3.9%. **This impeccable macroeconomic policy management is highly appreciated.** Despite this progress, we live in times of global economic uncertainties which are looming large and are expected to negatively affect the operations of the business community. According to IMF report, the following risks were identified as the key areas of uncertainty.

i. Prolonged weak global and lower commodity prices, which is constraining Uganda's export earnings and widening the current account deficit;
ii. Fewer external concessional financing sources could restrict the Government's ability to borrow;
iii. Higher public debt burden could weaken the local currency, limit Government's borrowing capacity, and slow foreign investor inflows;
iv. Combination of moderate private sector credit growth, rising domestic interest rates, fiscal consolidation, and the shilling depreciation could weigh down growth and
v. Higher frequency and intensity of climate shocks, including draughts and floods, which might undermine agriculture and worsen food insecurity.

These continue to create uncertainty regarding the performance of the economy and the investments of the private sector in the country. The 2023/24 FY budget recognizes some of these risks and attempts to design interventions that can cushion these risks to the Ugandan economy. The PSFU proposes the following areas which could be implemented to ensure even much more levels of growth (growth in double digits) while mitigating the above-mentioned risks. Several of these are budget policy issues.

i. **Efficient use of public funds:** The 23/24 national budget is strong on the promotion of fiscal discipline amongst the members of the public. This is key because it ensures that the allocated resources are spent in areas that would generate much-needed returns. However, PSFU proposes that the following options which were missed be integrated;

- Ministries Departments and Agencies should ensure that funds allocated to them are efficiently used and accounted for to maximize returns on investment;
- The design and implementation of key Government projects such as Emyooga, and PDM should involve the private sector in both the design and implementation to ensure synergy;
- Address the existing program delivery challenges to ensure that the intended beneficiaries receive the expected support using existing institutions of Government as per the NDPIII;
- Rationalize the role of monitoring and evaluation of Government programs and concentrate it within efficient Ministries and Agencies.

ii. **Prioritization of investment in sectors with the quickest level of returns to the economy:** The National Budget also recognizes the prioritization of investment to deliver quick returns however, the PSFU proposes the following key areas require urgent intervention to unlock the potential of these sectors and foster growth.

a. **Domestic arrears:** Domestic arrears have increased to UGX 2.5 trillion which is verified despite the existence of The Strategy to Clear and Prevent Domestic Arrears in June 2021. For the next financial year, the government has allocated only UGX 205 billion for domestic arrears. This inability to pay back debt has suffocated the private sector and shows that the government's control system has failed. **We demand that government enforces fiscal discipline by reprimanding errant accounting officers and at the same time set aside adequate resources in the domestic arrears budget to clear the current stock of domestic arrears over the medium term.**

Failure to pay domestic arrears has also heavily contributed to the poor participation of Ugandan companies in government procurement and other contracts especially with our development partners and international organizations. This has also had a negative impact on competition in procurement by increasing the chances of having less qualified or poor service providers which has a negative impact on service delivery.

Furthermore, the existing domestic arrears are affecting private sector access to financing thus opting for money lenders. This has heavily affected liquidity and private sector growth and competitiveness. Also, the outstanding arrears have led to inflating of costs while applying for government contracts which essentially leads to high government spending and less value for money.

b. **Agro Industrialization – UGX 1,787.7 –** an increase of UGX 337.89 billion: We commend the government for the increment towards agro-industrialization from UGX 1,449.81 billion in FY 2022/23 to UGX 1,787.7 billion an increase of UGX 337.89 billion (23.31%). However, given the importance of the program to the recovery of the economy, this increment is still insufficient to achieve the intended outcome of the program. The insufficient release of funds by the government has affected the timely completion of scheduled project activities and thus distorting the project's timelines. In FY 2022/23, only 45.72% of the program's budget was realized which meant that most of the activities could not be completed due to insufficient funds. This indicates a threat to the achievement of the NDP III goals.

This calls for a dedicated release of funds towards the program if positive outcomes are to be achieved. Key areas should be prioritization of infrastructure for water for production. Once water is brought closer to farmers/farms (small, medium and large scale), they will be able to tap it and invest in irrigation systems for consistent production and productivity.

c. **Digital transformation – UGX 191.8 billion an increase of UGX 67.574 billion:** With only 2 years to the end of the NDP III, unimplemented projects leave a query of whether the country can surely deliver as planned. In the financial year 2023/24, the program has been allocated a total of UGX.191.8 billion an increase of UGX 67.574 billion for both recurrent and development expenditures. This increase is impactful towards achieving the critical programs highlighted in the national budget framework which are the National Postcode and addressing Geographic Information System as well as the GOVNET project. **PSFU proposes that effective mainstreaming of local content in these projects be considered to create markets for the business community and stimulate the economy.**

2. **Budget financing** - It is expected that the Domestic sources will finance 79.8% of the national budget. While this is appreciated as it ensures that the budget financing continues to be resilient, domestic borrowing should be discouraged as it crowds out the business community in the financial sector.

In addition, the private sector doesn't see how the URA is moving to widen the tax base but rather sees that the existing players are instead paying more tax revenue which is instead tax deepening.

It is critical to design interventions that center job creation as a key tax incentive scheme for compliance taxpayers as it will widen the tax base and yield more jobs for the economy.

3. **Improve access to markets and growth of Uganda's export:** Uganda's population is growing at 3% annually. Equivalent to nearly 50 million people in the country currently. This population can potentially be bigger than the export market if their capacity to consume goods and services is enhanced. Existing regional markets, Kenya, Rwanda, Sudan, South Sudan, and DRC which dominate as the key destinations to Uganda's exports are currently affected by the prevalent NTBs which continue to affect more than 9 million producing households.

In recent times it has become a common practice that our products such as maize, milk, electric poles, eggs and sugar among others have been denied access to regional markets. For instance, in the dairy sector alone, the ban on Uganda's milk accessing the Kenyan market affected prices of milk from over 4.2 million households involved in the sector, causing more than 40,000 direct job losses, more than 30,000 value chain indirect jobs.

Therefore, the Parish Development Model which is prioritized as an economic development model to boost household incomes should not only be production-driven but also market driven. In addition, the consumption ability of the population is not significantly unlocked in the budget. The FY 2023/2024 budget should prioritize the following.

i. **Support for exports:** As part of budget support for exports, the government should concentrate on interventions that will drive down the cost of our exports. Such interventions include (but not limited to) export financing facility, investing in the standard and metre gauge railway and water transport.

ii. Government should consider **structuring demand** to plan and program the markets and supply for domestically produced goods to ensure guaranteed markets and farm gate prices for the local producers which will ensure consistent production for goods and services. To start with, integrate buffer stocks in the Parish Development Model for products such as critical food crops for the local market. For this to be actualized, there is a need for good monetary policy, and fiscal policy coherence to spur production.

iii. As already pointed out, it is also important to address the prevalent NTBs with the key export markets while also prioritizing investment to improve the competitiveness of the exports.

iv. It is also important for the government to incentivize sectors such as housing, tourism, industry, and mining whose returns on investment are massive given the fact that they maximize our foreign exchange earnings.

In conclusion - the theme for the FY 2022/23 national budget, *"Full monetization of the Ugandan Economy through commercial agriculture, industrialization, market access and digital transformation"* avails opportunities for the business community in Uganda, especially through the increase in the budget expenditure lines and the proposed tax regime. However, to exploit these opportunities, the private sector implores the government to ensure that the set interventions are implemented in a manner that can promote private sector growth and competitiveness.