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AFIEGO AND PARTNERS' STATEMENT ON UGANDA'S 2017/2018 BUDGET

INTRODUCTION

On Thursday, June 8, 2017, Uganda's Minister for Finance, Planning and Economic Development, Hon. Matia Kasaija, delivered the 2017/2018 budget speech in Kampala. Among others, the minister highlighted the economic performance of the country in the 2016/2017 financial year, showed why economic growth slowed down in the same year and noted strategic interventions that government would undertake to improve economic performance in the 2017/2018 financial year.

Following his speech, AFIEGO and her partners from six districts including Kampala, Kasese, Kanungu, Rukungiri, Hoima and Buliisa held a meeting at AFIEGO's head office on Monday, June 12, 2017 during which observations about and recommendations for the 2017/2018 budget were made.

The partners who participated in the meeting include: Guild Presidents' Forum on Oil Governance (GPFOG), Kanungu Youth and Women's Association (KYWA), Energy Governance Initiative (EGI), Oil Refinery Residents Association (ORRA), the Finished Products' Oil Pipeline Governance Taskforce Committee, Kakindo Orphans and Kwatanisa Women's Group. They made the following observations:

OBSERVATIONS

(a) **High literacy and life expectancy rates being compromised in oil region:** First, participants reflected on the budget speech by the minister noting highlights such as the fact that the minister reported that life expectancy stands at 63 years today, the literacy rate for adults stands at a good 74%, safe water access stands at 79% and that electricity access stands at 20.4%. Participants commended government for the reported milestones registered. However, they noted that a primary school completion rate of 61.6% as of 2016 and a secondary one of 40% as of the same year was still too low. Moreover, participants said, government was comprising life expectancy and literacy rates owing to its development projects. Participants cited the case of the refinery project which affected 7,118 persons and which project is still affecting the life expectancy and literacy rates of over 100 families due to government failure to compensate and relocate them five years after it started on the process of acquiring land for a proposed oil refinery. The families' access to healthcare and education is constrained because health centres and schools such as Nyahaira P/S and Kyapaloni P/S that used to serve the refinery area collapsed since the land acquisition process started in 2012, participants noted.

(b) **Bottlenecks to trade including poorly-executed compulsory land acquisitions must be addressed:** Like the minister did, participants also noted that Uganda was far from attaining her objectives of prosperity for all people and noted that unless bottlenecks to trade for the ordinary man and woman are meaningfully addressed, the economy would continue to register slow growth with Ugandans hardly feeling the effects of even this slow growth. Some of the bottlenecks that were identified include bad roads, inadequate electrification efforts and disruptions of markets and economic activities in compulsory land acquisitions by government. Participants reminded themselves that the economy had grown at a rate of only 3.9% over the projected 5.5% in the 2016/2017 financial year.

(c) **Inadequate analysis of causes of slow economic growth:** Per the budget speech made by the minister, challenges such as climate change caused by environmental degradation, conflicts in key markets such as South Sudan, corruption and delayed completion of government projects were responsible for the slowed economic growth; climate change had slowed growth of the agricultural sector. Participants however noted that the minister and indeed the entire executive had failed to apportion themselves responsibility as regards inadequacies in initiating and implementing policies that would enable meaningful growth.

(d) **Stronger stance on environmental protection needed:** For instance, participants said that while recognising that environmental degradation contributed to climate change and thus slowed economic growth, the budget allocation to the National Environment Authority (NEMA) was inadequate. Without adequate support to NEMA, the agency, would be constrained in protecting Uganda's sensitive ecosystems. Further, participants said, wetlands, river banks and lake shores had been encroached on for activities such as sand mining and flower in addition to other types of farming with relevant government entities including NEMA looking on. In addition, participants noted, government has insisted on plans to licence out Ngaji oil block in the eco-sensitive areas of Lake Edward and Queen Elizabeth National Park for oil exploration. Oil exploitation activities are also planned for Murchison Falls National Park. Participants called on government to walk the talk by protecting sensitive ecosystems from unsustainable development activities including those on oil and gas. They noted that while countries such as Norway have managed to avoid pollution in the exploitation of their oil, no Africa-producing country has been able to do the same. Moreover, NEMA is under-resourced and could therefore be rendered unable to protect the environment from oil and other environmental degradation threats.

(e) **Big energy sector allocations with few returns:** As regards the electricity sector, participants noted that for over three years now, the energy sector has been allocated over

Shs 2 trillion on the premise that development of the sector would spur industrialisation and employment. Participants recalled that in the coming 2017/2018 financial year, the sector has been allocated over Shs 2.3 trillion but despite these big allocations over the years, only a small percentage of Uganda's population – 20.4% - has access to electricity. Moreover, participants said, the few people with access to this electricity are largely not using this power for industrialisation or even small scale enterprises for as even the president of Uganda has severally pointed out, over 500mw of Uganda's power is un-utilised during off-peak hours. The expensive nature of electricity and the fact that government, by and large, does not sensitise communities on using electricity for income-generating activities were pointed out as challenges hindering efficient electricity use in Uganda. Participants said that these challenges must be addressed.

(f) Bujagali dam power price reduction strategies unsustainable: Participants were mindful that interventions are being taken to address the high cost of electricity from Bujagali dam through acquisition of a loan from the African Development Bank (AfDB). However, they were skeptical of this approach's effectiveness in addressing power access and affordability in Uganda. They noted that getting another loan to offset the high cost of electricity from Bujagali was jumping from the frying pan into the fire because it would increase Uganda's tax burden, a burden that would have to be offset by heavily taxing other sectors. Participants reminded themselves that Uganda's debt burden stood at 33.8% of Uganda's Gross Domestic Product (GDP) by December 2016. This debt burden was alarming, participants said. Participants noted that if Uganda avoids secrecy, corruption, political insecurity and if the country invested prudently, we would not need loans to offset loans.

(g) Need for prudent investment in more affordable renewable energy sources: Prudent investments would include investments in renewable energy sources other than in hydro-energy. Participants noted that onus had been put on completion of the Karuma and Isimba dams in addition to the Lubilia, Kyambura and Nyamwamba among other hydro power projects. As experience has shown however, hydro power, will not meet the needs of Ugandans because it is expensive. Participants noted that though "113 out of 117 districts have been connected to the grid" as was said by the minister, the Uganda Bureau of Statistics noted in 2014 that the rural electrification rate stands at only 10%. Participants called on government to explore other renewable energy sources such as solar for which monthly payments are not required. They cited the example of Cameroon which tackled the challenge of low electrification by harnessing solar power. The country's electrification rate stands at 56.8% today. Investment in solar energy helped in attainment of this rate.

(h) Secrecy and corruption in energy projects: In the budget speech, minister Kasaija decried corruption and noted that it was one of the factors that slowed economic growth in 2016/2017. Participants said that in order for electricity to drive economic growth, government has to be mindful of secrecy in the negotiation of contracts; secrecy enables corruption that leads to inflation of costs of projects such as dams, participants noted. The

250 mw-Bujagali dam was pointed to as an example with participants noting that it is one of the most expensive dams in the world with a unit of electricity costing 11 US cents. Secrecy enabled the signing of a Power Purchase Agreement (PPP) with an unreasonably high return on investment of 19%.

(i) **Ineffectiveness of Youth Livelihood Programme:** Ineffectiveness of youth projects was also cited by participants as one of the factors hindering economic growth, a factor that was largely not owned up to in the budget speech and the June 6, 2017 State of the Nation address by the president. Both the president and minister Kasaija pointed out that youth unemployment was still high. To address this challenge, the president noted that initiatives such as supporting youth groups in Katwe, Nsambya and Najjera with Shs. 271 million, Shs. 375 million and Shs. 337 million respectively. However, as the NTV June 11, 2017 report, *Kampala youth groups divided over president's money*, showed, some of the youth say they have not received this money. The Youth Livelihood Programme (YLP) which will be injected with Shs 67 billion to benefit 68,400 youth has also been inundated with corruption scandals with media and other reports noting reported beneficiaries had not received the funding they had been said to have received. Without addressing dishonesty, greed and corruption, the 2017/2018 budgetary allocations will not deliver benefits, participants said.

(j) **Need for more stakeholder engagement in oil sector:** Away from the electricity, participants took note of the fact that one of the projected factors for growth in the 2017/2018 financial year is "increasing production and productivity in the key primary growth sectors of minerals [and] oil and gas" among others. Investments in the oil and gas sector will take the form of development of the oil refinery, the crude oil pipeline and Kabaale International Airport in Hoima. Noting that over 100 families are yet to either be relocated or compensated, participants called for the relocation and compensation of these families before works on the above infrastructure can commence. Further, they noted that without adequate stakeholder engagement and transparency in the selection of investors and negotiation of agreements, the above projects would be marred by corruption too and would deliver few to no benefits. Participants reminded themselves of the Shs 6B golden handshake which was unlawfully and secretly awarded to government officials using oil revenue. Participants also recalled that a former minister of energy admitted that she signed oil agreements with tax exemptions with Tullow Oil without reading them and caused Uganda a financial loss of $223 million. Participants noted that officials who cause financial loss through reported ignorance or corruption must be heavily penalised to remove bottlenecks to economic growth.

(k) **Be mindful of borrowing against oil:** Finally, participants called on government to be mindful of the effects that arise from increased borrowing by states which have discovered commercial oil. Participants noted that with Uganda Revenue Authority being able to only collect 13.8% of GDP yet government has big development plans, government could be forced to mortgage Uganda's oil in order to borrow as it had planned to do to acquire financing for the Standard Gauge Railway (SGR). Participants reminded government that not only is this against Section 74 of the Public Finance Management Act (PFMA), it could lead to debt unsustainability.

Recommendations

In view of the above, the following recommendations are made:

(i) **Avoid unsustainable development activities, including oil activities, in sensitive ecosystems:** Government should avoid all activities that will further lead to environmental degradation and consequently, climate change and its negative impacts on agriculture and the economy. Oil activities in sensitive ecosystems such as Lake Edward, Queen Elizabeth National Park (Ngaji block) and Murchsion Falls National Park must be avoided.

(ii) **Increase investments in off-grid renewable energy sources such as solar** to increase energy access and drive economic growth. Ugandans, especially rural communities, should also be sensitised by the Rural Electrification Agency on how to economically benefit from electrification of rural areas.

(iii) **Inquire into and improve youth social welfare initiatives:** The Youth Livelihood Programme and related youth initiatives such as the presidential youth donations to groups in Nsambya, Katwe and Najjera should be inquired into and audited by the Auditor General with the view of providing an independent view of their effectiveness and identifying gaps that need to be closed for the programme to benefit the youth. Corrupt officials who mismanage youth funds must be punished to prevent more corruption.

(iv) **Enable more effective stakeholder engagement in energy projects through penalties for ministries and agencies that fail to consult stakeholders on projects affecting them.** For instance, parliament and development partners should refuse to approve loan requests for oil, electricity and other projects that are shrouded in secrecy and for which effective wide-ranging stakeholder consultations and agreements have not been undertaken and acquired respectively.

(v) **Finally, government should institute heavy penalties for government officials who ignorantly or selfishly sign deals** that cause financial loss; such deals include the Bujagali dam and the Tullow-Uganda ones in which Ugandans lost over $223 million in Capital Gains Tax. This will help to prevent corruption and see Uganda avoid electricity and other deals that further constrain Ugandans in as far as debt acquisition and repayment is concerned.