PRIVATE SECTOR STATEMENT ON THE NATIONAL BUDGET CONFERENCE

***Theme 2021/22: Stimulating the Economy to Safeguard Livelihoods, Jobs,* Businesses and Industrial Recovery"**

PREVIEW OF 2020/2021

The COVID-19 pandemic has already unleased substantial economic damage word-over. Economic growth has been slowed substantially by 2%-3% in Uganda. This is the same world over. The impact on poverty is even greater. We already know that 2.5m people are estimated to have slipped back to poverty due to COVID-19. Employment is also suffering greatly with layoffs affecting lower cadre staff mostly the unskilled. The Budget Framework Paper shows underperformance on most of the performance indicators

1. GDP, FY 2019/20 was estimated at **Shs. 138,283 billion** in nominal terms, reflecting a 3.1% growth in FY 2019/20, which is **lower than 6.8%** growth registered in FY 2018/19 and lower than the projected growth rate of **6.0%** during the Budget Framework Paper (BFP) preparation time which is adjusted to **2-3%.**

2. The main driver of the dampening in economic activity is the triple effect of the **COVID-19 pandemic**, **locust invasion** and **flooding on the economy**.

3. Agriculture grew by **4.2%,** lower than 5.3% in FY 2018/19. The services sector has grown by **3.6%** compared to **5.7%** in 2018/19, while growth in the Industry sector is estimated to have slowed to **2.3%** from 10.1% in FY2018/19.

4. Services sub-sectors are estimated to have grown as follows; trade and repairs (-1.6 percent compared to 4.9 percent in FY 2018/19), transport **(-1.5% compared to 2.2% in FY 2018/19**), accommodation and food services **(-7.0% compared to 3.0% in FY 2018/19)**

5. Growth in Private Sector Credit (PSC) slowed gradually in FY 2019/20 relative to the growth registered in FY 2018/19. This was due to **a drop in business activity, worsening asset quality reflected by a pickup in NPLs (from 4%-10%)**.

6. Export revenues increased by 1.8% to US$3,947.2 million in the year to March 2020 from US$3,877.2 million in the year to March 2019. This was due to higher earnings from the export of **gold, coffee, cotton, maize, and cocoa beans**; albeit partially moderated by lower earnings from the **export of tea, beans, base metals, cement, sugar, soap, and other pulses**.

7. The lower export earnings are partially attributed to the impact of **the closure of the border between Rwanda and Uganda for a large part of the period under review, which resulted in a 95.8 percent (US$190.7 million) decrease in export revenue from Rwanda during the year to March 2020**, compared to the same period in the preceding year.
8. Imports **increased by 3.6%** (US$231.9 million) to US$6,690.1 million during the year to March 2020, from US$6,458.3 million in the year to March 2019, largely driven by higher private sector imports.
9. The fiscal deficit for FY2019/20 projected at **7.5% of GDP**, **2.6% points** higher than the deficit recorded in FY2018/19.
10. Estimated increase in poverty **from 22% to 30**% with **2.5 million** people at risk of unemployment due to COVID 19.
11. Still 62% of population **<u>trapped</u>** in subsistence farming, yet poverty is highest, income inequality gap widens.
12. Budget UGX45 trillions Vs. 2-3% GDP growth & 15 Tr. Tax & 9% Interest Payment UGX 4 trillion

Private Sector Foundation Uganda wishes to applaud Government for the response to the COVID 19 pandemic both on the control/prevention and treatment on one part but also on the economic response. Actions done by Government such as deferrals of tax, moratorium on loans, instituting new financing lines at UDB and other response actions have prevented even severe economic damage. One wonders what the current situation would have been, if Government never did anything. It is therefore in order to thank Government.

COVID-19: Investment Opportunities

Although the Covid-19 pandemic presents challenges for the economy, the country has also drawn **several lessons and opportunities** that inform the Government's Economic Stimulus and Growth Strategy in implementation of the Budget in the medium term.

a. **Acceleration of import substitution and export promotion strategy** for a range of goods including medicines and other health products;
b. **Agro-industrialization and light manufactures** (based on Uganda's comparative advantage);
c. **Adding value** to agricultural products and minerals;
d. **Digitalization** of many aspects of socio-economic activity to improve efficiency and reduce costs (e-Commerce; e-Government (including tele-conferencing, procurement and the dispensation of justice); e-Learning; robotic automation, artificial intelligence, cyber security and cloud computing; and digital marketing in tourism – this will entails fast-racking the Fourth Industrial Revolution (4IR);
e. **Reform of urban transport** to reduce congestion, starting with the Greater Kampala Metropolitan Area and eventually Regional Cities;

f. **Domestic tourism stimulation** to encourage many Ugandan residents to explore local touristic destinations; and
g. **Building a strong and durable economy** around eight fundamental human needs namely: Food, Clothing, Shelter, Defense, Human Resource Development (Health and Education), Infrastructure (electricity, roads, rail, ICT, Telecoms); and Spirituality.

NB: These will establish a firm basis for Service industries such as tourism, hospitality (hotels, bars, night clubs, casinos, etc.) as well as entertainment (concerts, sports, etc.) to flourish;

Partaking of COVID-19 Opportunities for recovery, resilience and growth

In order to benefit from the new normal, our Revenue and Expenditure strategy for 2021/22 must focus on macro-economic stability, development focused revenue strategy and spending strategy.

Macroeconomic stability:

Despite the COVID-19 challenge, macroeconomic stability is key in ensuring that the economy does not collapse but also facilitate its recovery and eventual return to growth. PSFU therefore applauds Government's effort to continue the focus on maintaining macroeconomic stability. We note the strong tendency by Government to maintain economic stability (fight inflation and exchange rate depreciation) through monetary operations. This comes at a significant cost to Ugandans through paying high interest rates for TBs etc. The private sector urges government to adopt a right **fiscal monetary policy mix** that will stimulate production, create wealth/jobs and grow exports to address both inflation and exchange rate and interest rate challenges.

Resource Envelope and resource mobilization strategy:

PSFU applauds the Government for having launched the Domestic Revenue Mobilization Strategy late last year. The budget for FY2021/22 will be the first on which revenue mobilization is based on the new DRMS. This strategy couldn't be more appropriate than today during the Covid 19 times. We are pleased the approaches of this strategy such as

- Predictability of the tax regime for medium term planning by tax payers
- Focusing on import substitution and export competiveness
- Using taxation to catalyze development such as through promoting value addition
- Ensuring tax framework is progressive and fair to citizens (people and corporate)

We therefore urge government to consider the following to enable Ugandans overcome Covid 19 effects by retaining more of what they earn so that impact on quality of life is maintained besides maintaining aggregate demand which is key to recovery and growth of the economy through.

1. Working towards putting in practice the tax principle of fairness by ensuring that low income earners are taxed at the same level with high income earners. We therefore request that the

lower tax band on PAYE is increased to say Ushs500,000. Similarly, the Corporate Tax is reduced moreover even at 30% today mere 4% is effectively collected.

2. Work towards a progressive tax regime to ensure that tax revenue should grow due to growth in GDP but not arbitrary new taxes otherwise. We therefore urge an excise duty regime that supports BUBU having no or low exercise duty on goods manufactured using locally sourced raw materials.

3. Work towards competitiveness of tax regime particularly VAT with our biggest trading partner in Kenya. This will improve competitiveness of our locally produced products.

4. Ensure maintenance of prices. In worst case scenario prices should not increase because of taxes. We recently saw increase in prices of DTS able goods because manufacturers had to spend to fix stamps on the products as required. Let Government incur the cost of these stamps. This will protect consumers.

5. Licenses/ fees and levies should be discouraged since they are for regulation but not income generation. These constrain growth.

6. Growth in tax revenue remains discretionary with 80% of the tax base being accounted for by only less than 20% of tax payers. Building tax efficiency and formalizing the huge informal sector remains a challenge. These two challenges need to be managed well to attain the revenue targets while allowing the private sector to grow and contribute more to economic development. Government should partner with the private sector in tax education and business formalization.

> The short message I have for you today is "reduce taxes to maintain business and personal income to maintain and restore growth in the economy". This is the stimulus expected in the 2021/22 budget. This was a major message that came out the first ever e-conference that PSFU held on ……

1. Ensure that the health or lives of the population and businesses are saved from the COVID 19 pandemic.
    a. Prioritize health sector by increasing financing in the lines of primary health care- sanitation, hygiene, nutrition and exercising, use of PPP with private hospitals to support public COVID 19 testing, procure and use of innovative testing mechanisms for COVID 19 testing
    b. Implore interventions that are geared towards increasing liquidity (HH incomes) in the population through (i) continued expansionary monetary policy, (ii) tax regime that is geared at increasing disposable income (iii) reduction in unproductive expenditure such as financing cities Vs. job/ business survival (iv) defer interest payment on loans to improve disposable income.

c. Digitalization strategy for the country needs to be developed with targets on ICT infrastructure and innovation funds.

2. Stimulate effective demand in the population to facilitate growth in the industry sector
    a. Adopt market driven production technologies that are organized along an off taker/ cooperative or market leader. Channel different interventions/ support using this model
    b. Reduce the cost of doing business through (i) progressive tax, non-tax revenue and licensing regime (ii) close skills gaps through focusing on ECD (iii) enactment of required policies, regulations and laws and address business informality
    c. Use PPP policy working with UDC, UDB and UIA to attract FDI to invest in common user facilities in the industrial parks which are well facilitated
3. Implement and focus on import substitution strategy
    a. Ensure that Local content and BUBU is working and well aligned with other respective policies
    b. Consider guarantee schemes for priority sectors to address the cost of financing
    c. Provide export guarantee schemes for companies exporting in hard to reach markets
    d. Address the long standing NTBs

Conclusion:

Private sector appreciates the government strategy through the national budget framework paper 2021/22 to ***Stimulating the Economy to Safeguard Livelihoods, Jobs,*** **Businesses and Industrial Recovery".** The business community however, believes that the set targets can only be achieved if a well-coordinated framework on implementation and budget performance monitoring, comprising of the public, private and the donor community is established. To achieve this, implementation needs to be driven by leaders in the respective productive value chains while encouraging them to work with the other players in the sector. Accountability must be enforced to ensure value for money.

For God and My Country