ADVOCATES COALITION FOR DEVELOPMENT AND ENVIRONMENT

Analysis of the National Budget Estimates FY 2023/24

Budget Lines for Local Government Mandates under Central Government MDAs and Proposals for Re-Allocation

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01 Introduction and Background

This is a summary of the analysis of the National Budget for FY2023/24. This analysis identifies budget lines for local government mandates held by Ministries, Departments and Agencies (MDAs). This report recognises that to enable Local Governments (LGs) to provide services to the citizens, the Central Government (CG) of Uganda is required to provide them grants in the form of unconditional, conditional and equalisation. However, over the last decade, there has been a decline in the share of transfers from CG to LGs. **The percentage of the national budget allocated to LG programmes has reduced from 22 per cent in FY 2010/11 to 13 per cent in FY 2015/16 and fell further to 9.8 per cent in FY 2023/14. The decline is primarily attributed to recentralization of functions and resources which by law are mandated under LGs.**

A study by ACODE in 2020, which was a follow-up study, found that despite recommendations of the 2019 study, the allocation of funds meant for LGs to Central Government Ministries Departments and Agencies n(MDAs) had not only persisted, but the absolute amounts as well as the proportion of the budget being retained at the CG had increased. The total amount retained at CG MDAs had grown to UGX 1.32 trillion in FY2020/21 from UGX 1.066 trillion in FY 2019/20. Consequently, with funding from the Royal Danish Embassy (RDE), ACODE commissioned this follow-up study to examine the approved national budget estimates for FY 2023/24 to identify budget lines for devolved services under CG MDAs.

The study extensively reviewed all relevant budget documents, focusing mainly on the approved estimates of revenue and expenditure (recurrent and development) FY 2023/24. The study analysed ten programmes with decentralised functions as prescribed in the Local Government Act, CAP 243 (second Schedule) and identified funds retained by the CG MDAs, yet they are mandated for LGs. The programmes analysed were Agro-Industralisation; Natural Resources, Environment, Climate Change, Land and Water Management; Private Sector Development; Integrated Transport Infrastructure and Services; Sustainable Urbanization and Housing; Human Capital Development, Community Mobilization and Mindset Change Regional Development; Public Sector Transformation and Tourism Development.

02 Key Findings

During the FY 2023/24, the LG programmes were allocated a total of UGX 5.1 trillion (9.8 per cent of the national budget. This shows a 3.2 percentage point decline from 13 per cent in FY 2015/16. The decline is largely attributed to recentralization of functions and resources which by law are mandated under LGs.

The Human Capital Development programme (which includes education, health, WASH and social protection) took the highest amount at UGX 3.6 trillion, followed by the Regional Development programme at UGX 840.7 billion and the Transport Infrastructure and Services programme at UGX 205.8 billion.

Natural Resources, Environment, Climate Change, Land, and Water transfers to LG were cut to UGX 4.5 billion; transfers for Agro-Industrialization declined to UGX 141.9 billion. However, transfers for Urbanization and housing and Private Sector Development increased to UGX 354.6 billion and UGX 2.8 billion, respectively. There were no explicit transfers to LGs for Tourism Development and Public Sector Transformation during FY 2023/24. Over 79 per cent of the transfers to LGs are recurrent components (wage and non-wage), and 21 per cent for development (domestic and external).

2.1 Budget Allocations to MDAs that are under LG Mandate

This study finds that despite the recommendations of ACODE in previous studies, the retention of funds by CG MDAs that are supposed to be allocated to LGs as mandated under the Second Schedule of the LGA (CAP 243) has not only persisted, but the amounts retained have increased. **Whereas the total amount retained by various MDAs during the FY 2020/21 was estimated at UGX 1.3 trillion, this analysis finds that the total for FY 2023/24 is UGX 3.1 trillion**, as indicated in Figure 1.

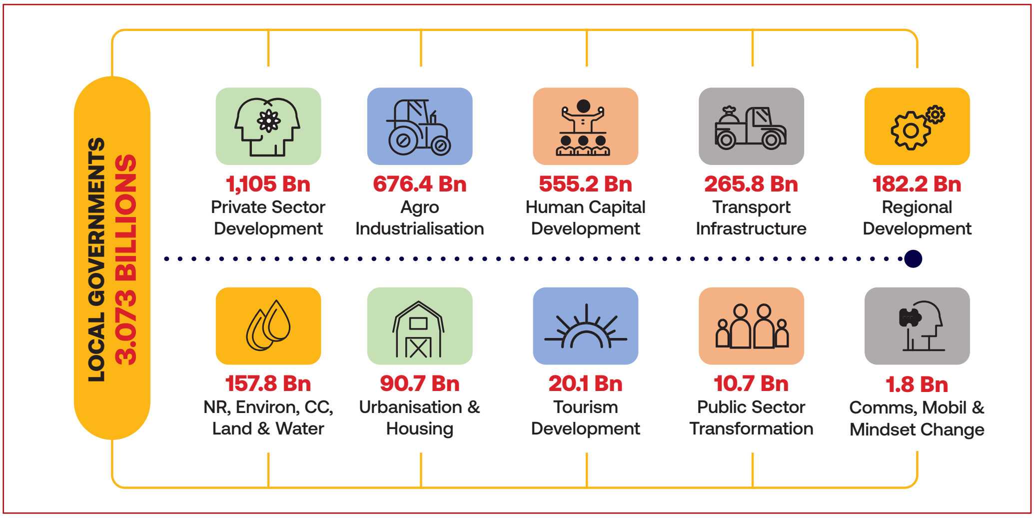

Figure 1: Budget Allocations for Local Government Mandates withheld by MDAs

The Private Sector Development programme has the highest retained funds by MDAs, amounting to UGX 1.2 trillion in FY 2023/24. This is largely due to Parish Development Model (PDM) funds retained by MoFPED. Other programmes with large amounts of retained funds are Agro-Industrialization at UGX 676 billion, Human Capital Development at UGX 555 billion, Integrated Transport Infrastructure and Services at UGX 266 billion, and Regional Balanced Development at UGX 182 billion.

The Agro-Industrialisation programme retained UGX 676.4 billion during FY 2023/24. About 80 per cent (UGX 540.7 billion) of the funds were retained by the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF), followed by the Ministry of Water and Environment (MoWE). Over half (UGX 515.2 billion) of the retained funds are external funding. Most of the retained funds (UGX 599 billion) were for acquiring heavy vehicles, other structures, and agricultural supplies and services.

The Human Capital Development (HCD) programme retained UGX 555.2 billion during FY 2023/24. About 61 per cent (UGX 339.5 billion) of the funds were retained by the Ministry of Health (MoH), followed by the Ministry of Gender, Labour and Social Development (MoGLSD). Over half (UGX 279.8 billion) are external funding. Most of the retained funds (UGX 459 billion) were for transferring to other government units, acquiring non-residential buildings, and purchasing medical supplies and services.

The Natural Resources, Environment, Climate Change, Land and Water (NRECCL&W) programme retained UGX 152.7 billion during FY 2023/24. All the funds were under the Ministry of Water and Environment (MoWE) and the Ministry of Lands, Housing and Urban Development (MoLH&UD). Over 70 per cent (UGX 110.1 billion) are external funding. Most of the funds (UGX 130 billion) were for acquiring cultivated plants, non-residential buildings, and consultancy services.

The Transport Infrastructure and Services programme retained UGX 265.8 billion during FY 2023/24. All the funds were retained by the Ministry of Works and Transport (MoWE) and the Uganda Road Fund (URF). The majority of the retained funds (UGX 262 billion) were for the acquisition (building) of roads and bridges and transferred to other government units.

The Community Mobilization and Mindset Change programme retained UGX 1.83 billion during FY 2023/24. All the funds were retained by the Ministry of Gender, Labour, and Social Development (MoGLSD) and the Equal Opportunities

Commission (EOC). The majority of the funds retained (UGX 1.7 billion) were for transfers to other government units.

The Public Sector Transformation programme retained UGX 10.7 billion during FY 2023/24. All the funds were retained by the Ministry of Local Government (MoLG) under the Local Government Revenue Management Information System project. All the retained funds are non-wages funded by the GoU for Consultancy Services and monitoring and supervision of capital works.

The Regional Balanced Development programme retained UGX 182.2 billion during FY 2023/24. Almost all the retained funds (UGX 170.7 billion) are external funding under the Ministry of Local Government (MoLG) and the Office of the Prime Minister (OPM). Over two-thirds of retained funds (UGX 128 billion) were transfers to government institutions and other government units, and acquisition (building) and improvement of roads and bridges.

Some of the reasons cited for controlling budgets meant for LGs by CG MDAs are weak capacity by most LGs, corruption, and rigidity by donors. However, the LGA (CAP 243) mandates line ministries to provide technical support to LGs, build LGs' capacity, and foster the elimination of corruption and abuse of office in LGs[1].

Nonetheless, analysis of the composition of the funds retained by MDAs partly supports the notion of "donor conditionality". Nearly half of the retained funds by MDAs are under the non-wage component, followed by external funding (mainly projects) and the development component.

1 Republic of Uganda (1997), Local Governments Act Chapter 243

Table 1: FY 2023/24 Budget Classification of Retained Funds by Programme, (UGX Bn)

Programme	Non-Wage	GoU (Dev't)	External Funding	Total
Agro-Industrialisation	36.4	124.8	515.2	676
Human Capital Dev't	227.1	48.2	279.8	555
NRs, Environ., CC, Land & Water	4.1	38.6	110.1	153
Transport Infrastructure & Services	104.9	161.0	-	266
Comm. Mob. & Mindset Change	1.8	-	-	2
Private Sector Dev't	1,100.2	-	5.0	1,105
Public Sector Transformation	0.0	10.6	-	11
Regional Dev't	7.9	3.6	170.7	182
Urbanisation & Housing	0.6	-	90.1	91
Tourism Dev't	0.5	19.6	-	20
Total	**1,483.6**	**406.4**	**1,170.8**	**3,061**

Source: Authors' calculations based on the Approved FY 2023/24 National Budget

2.2 Projectisation of the budget

The "projectisation" of the budget perpetuates the behaviour of MDAs of retaining funds under the LG mandate. Most of these projects are looped by MDA and limit integration at LG. **This analysis shows that for FY 2023/24, the Agro-Industrialization programme has the highest amount (UGX 640 billion) of retained funds under projects**, followed by Human Capital Development at UGX 328 billion, Regional Development at UGX 174 billion, Transport Infrastructure & Services at UGX 161 billion, and Urbanization & Housing at UGX 90 billion. In terms of proportion of the retained programme budget under projects, Public Sector Transformation has the highest share (100 per cent), followed by Urbanisation and housing at 99 per cent, Tourism Development and Natural Resources, Environment CC, Land and water both at 97 per cent and Agro-Industrialization at 95 per cent.

Table 2: Distribution of FY 2023/24 Projects by Programme

Programme	GoU (Dev't)	External Funding	Total	No. of Projects	Share of retained Programme Budget
Agro-Industrialisation	124.8	515.2	640.0	16	95%
Human Capital Dev't	48.2	279.8	328.1	5	59%
NRs, Environ., CC, Land & Water	38.6	110.1	148.6	13	97%
Transport Infrastructure & Services	161.0	-	161.0	4	61%
Comm. Mob. & Mindset Change	-	-	-	-	0%
Private Sector Dev't	-	5.0	5.0	1	0%
Public Sector Transformation	10.6	-	10.6	1	100%
Regional Dev't	3.6	170.7	174.3	7	96%
Urbanisation & Housing	-	90.1	90.1	2	99%
Tourism Dev't	19.6	-	19.6	3	97%
Total	**406.4**	**1,170.8**	**1,577**	**52**	**52%**

Source: Authors' calculations based on the Approved FY 2023/24 National Budget

The direct implementation of the projects by CG MDAs with minimal involvement of LGs in design and implementation has negative implications on the ownership and sustainability of such projects. Consequently, taxpayers' monies are wasted on such projects, which become white elephants due to a lack of ownership and maintenance. In addition, the centralisation of projects makes it hard for the LGs to monitor and ensure accountability since they are not in charge of their implementation.

2.3 Budget Allocations to MDAs that can be rationalised.

This study identified certain budget lines which are not necessarily relevant to LGs but may be rationalised to free more resources to LGs to improve service delivery. These include Monitoring, Supervision, Acquisition of vehicles and transport equipment, Welfare and Entertainment, Workshops, Meetings and Seminars, Acquisition of land, Consultancy Services, and travel (inland and abroad).

During FY 2023/24, UGX 167 billion budgeted by various MDAs for the ten programmes may be rationalised to free more resources to LGs or within the MDAs to improve service delivery. The Human Capital Development programme has the largest amount at UGX 57.3 billion, followed by Sustainable Urbanization and Housing at UGX 30.5 billion; Agro-Industrialisation at UGX 28.9 billion; Private Sector Development at UGX 16.1 billion; Natural Resources Environment CC, Land & Water at UGX 9.1 billion; Public Sector Transformation at UGX 4.2 billion; Tourism Development at 3.3 billion; Community Mobilization & Mindset Change at UGX 2.3 billion; and Transport Infrastructure & Services at UGX 1.2 billion. Over 46 per cent of the budgets that can be rationalised are external funding. The Government of Uganda's development funds are second at 18 per cent, and the non-wage budget is 35 per cent.

Table 3: FY 2023/24 Budget Classification of Funds Proposed for Rationalisation by Programme, (UGX Bn)

Programme	Non-Wage	GoU (Dev't)	External Funding	Total
Agro-Industrialisation	-	9.1	19.8	28.9
Human Capital Dev't	46.0	1.3	10.0	57.3
NRs, Environ., CC, Land & Water	1.6	6.9	0.6	9.1
Transport Infrastructure & Services	0.0	1.1	-	1.2
Comm. Mob. & Mindset Change	2.3	-	-	2.3
Private Sector Dev't	4.3	1.8	10.0	16.1
Public Sector Transformation	2.7	1.3	-	4.1
Regional Dev't	0.5	6.5	6.9	13.9
Urbanisation & Housing	0.2	0.6	29.6	30.5
Tourism Dev't	1.4	1.9	-	3.3
Total	**59.1**	**30.6**	**76.9**	**167**

Source: Authors' calculations based on the Approved FY 2023/24 National Budget

The proposed funds proposed for rationalisation during FY 2023/24 by the programme include:

- Agro-Industrialisation: acquiring light vehicles and transfers to other private entities.
- Human Capital Development: travel inland, workshops, meetings, and seminars.
- Natural Resources, Environment, Climate Change, Land and Water: acquiring cultivated plants, travelling inland, monitoring and supervising capital work, and acquiring light vehicles.
- Transport Infrastructure and Services: travel inland, monitor and supervise capital work, and acquire other machinery and equipment.
- Community Mobilisation and Mindset Change: inland travel, workshops, meetings, and seminars.
- Private Sector Development: consultancy services and capital and travel inland.
- Public Sector Transformation: travel inland, consultancy services, and research expenses.
- Regional Balanced Development: acquiring cycles, travelling inland, workshops, meetings, and seminars.
- Sustainable Urbanisation and Housing: acquiring light vehicles, appraisal and feasibility studies for capital works, and monitoring and supervising capital works.
- Tourism Development: research expenses, travel inland, and acquiring other machinery and equipment.

The Community Mobilization & Mindset Change programme has the highest share of its budget, which should be rationalised at 6.4 per cent. This is followed by Urbanization & Housing at 5.6 per cent; Natural Resources, Environment

CC, Land & Water at 2.1 per cent; Public Sector Transformation at 1.8 per cent; Agro-Industrialisation at 1.6 per cent; Tourism Development at 1.3 per cent; Regional Development at 1.2 per cent; Private Sector Development at 0.8 per cent; and Human Capital Development at 0.6 per cent.

The proposed re-allocations of programme budgets to LGs are grounded in existing legal and policy frameworks as enshrined in the Constitution of the Republic of Uganda 1995 (as amended), the LGA (CAP 243) and the Decentralization Policy. Although most MDA activities are eventually implemented directly or indirectly (through LGs), the agencies that control the budget (funds) matter. The practice of MDAs controlling the budget (funds) has undesirable implications for service delivery. For instance, studies by Operation Wealth Creation (OWC) found that most of the equipment provided to LGs by CG MDAs was redundant and sometimes vandalised.

03 Recommendations

In line with the findings mentioned above, we recommend the following:

a) Parliament and the Ministry of Finance, Planning and Economic Development (MoFPED) should re-allocate UGX 3.1 trillion, which various CG MDAs retain. Yet, these funds should be allocated to LGs as mandated under the Second Schedule of the LGA (CAP 243).

b) Parliament, MoFPED and MDAs should rationalise UGX 167 billion budgeted by various MDAs on certain expenditures to free funds for LGs.

c) Parliament should amend the Public Finance Management Act (2015) to ring-face funding to LGs as per the 7th Schedule of the Constitution of the Republic of Uganda and provide for a Certificate of Compliance, which would be required before approval of the national budget by Parliament.

d) All MDAs should ensure that the funds they appropriated but meant for LGs are communicated to the beneficiary LGs per the MoFPED directive in the 2nd Budget Call Circular for FY 2021/22.

e) MoLG, LGFC and the Uganda Local Governments' Association (ULGA) should ensure LGs are represented in projects' negotiations with development partners when negotiating external assistance to support the decentralised services.

f) MoFPED should ensure that LG projects are included in the Public Investment Plan and represented to the Development Committee (DC) to enhance their participation in project identification and design.

With support from:

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