

Where do our Tax Shillings go?

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In 2010/11, over three-quarters of the government budget will be spent on five areas: public administration and public sector management; education; works and transport; defence and security; and health.

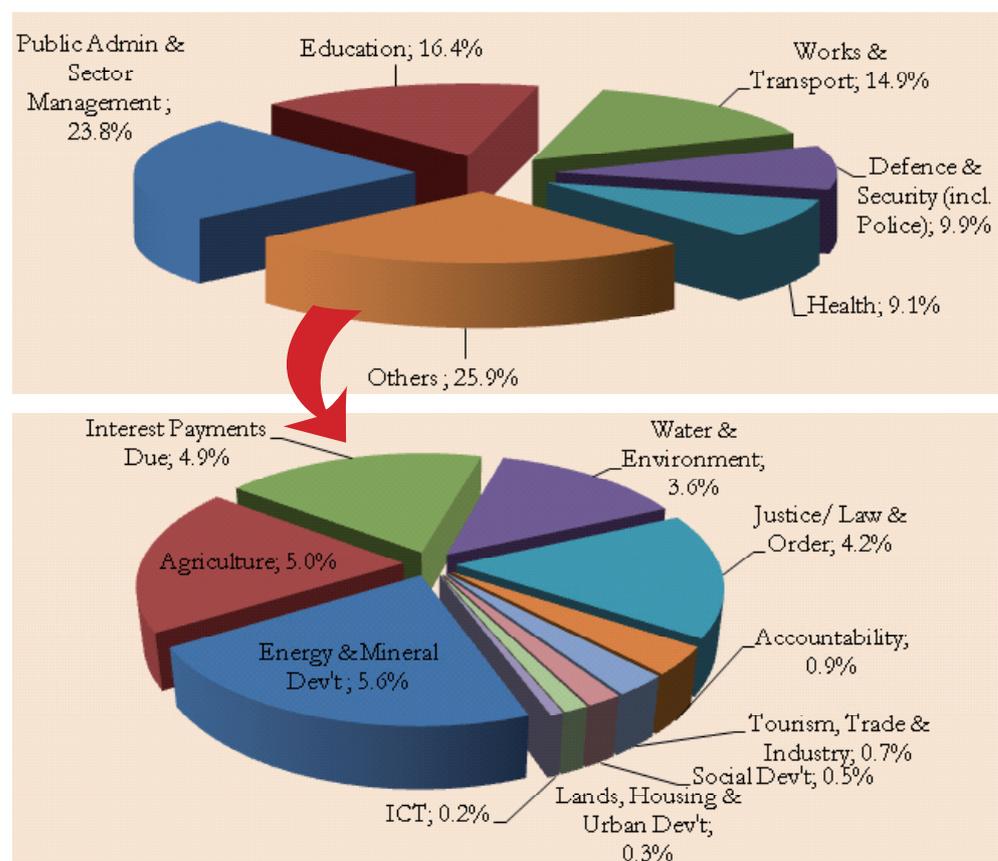
Over 24 percent of the national budget, will be spent on general public administration; making it the highest single consumer of the national budget

The government of Uganda collects taxes in order to finance various public services. As policymakers and citizens weigh key decisions about revenues and expenditures, it is imperative to examine what the government does with the money it collects.

In fiscal year 2010/11, the government is projected to spend Shs 7,323.8 billion, amounting to 19.7 percent of the nation's Gross Domestic Product (GDP). Of the Shs 7,323.8 billion, almost Shs 5,125.9 billion (around 70 percent) will be financed by URA tax and other non tax revenues. The remaining Shs 2,197.9 billion will be financed by donors and through borrowing.

As shown in *Figure 1*, five major areas of spending make up over three-quarters of the national budget.

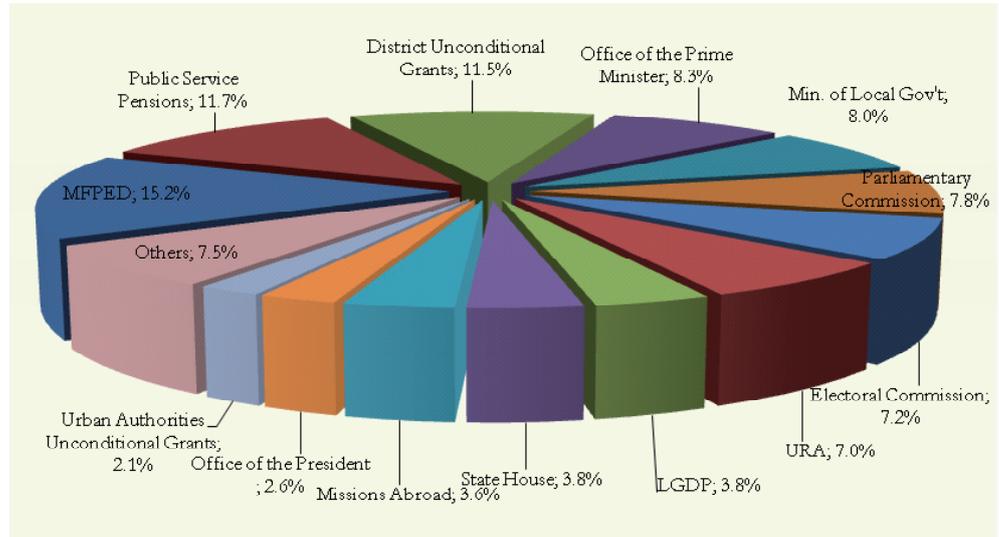
Figure 1: Top Government Budget Priorities, FY 2010/11



Source: Author's calculations based on MOFPED, Budget Speech, FY 2010/11.

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Figure 2: Priorities in public administration and public sector management budget, FY 2010/11

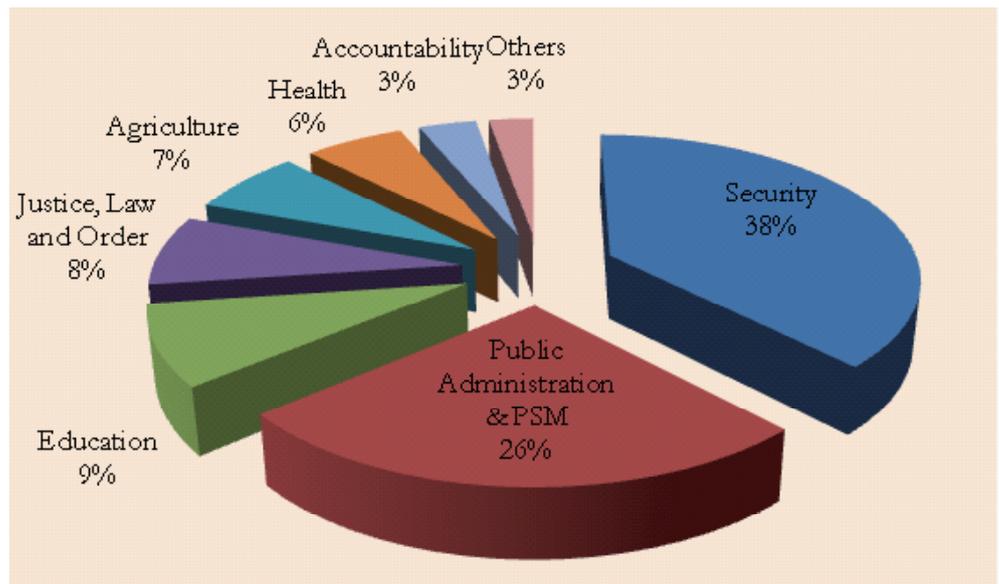


Source: Author's calculations based on MFPEP, Budget Speech, FY 2010/11.

It is disquieting that, general public administration spending is five times more than what is spent on the agricultural sector which employs over 73 percent Ugandans, majority of whom live on less than \$1 (about Shs 2,000) per day. Agriculture will receive only 5 percent of the national budget, or Shs 346.88 billion.

In addition to claiming the lion's share of the national budget, general public administration and security continue to claim a large share of supplementary budgets (see Figure 3).

Figure 3: Approved Supplementary Expenditures for FY2008/09 (Incl. Arrears and Taxes)



Source: Author's calculations based on MFPEP, Annual Budget Performance Report Financial Year 2008/09

Only 7% of the entire public administration and local management budget or Shs. 44.95 Billion will be spent on Local Government related activities, almost implying that decentralization has not changed Uganda's budget architecture.

...education sector priorities are primary and secondary education...

Local Government

While Local Governments are the key service delivery points, a scrutiny of the public administration budget reveals that only 27 percent of the entire public administration and management budget or Shs 446.95 billion will be spent on local government related activities. This means that decentralization has not necessarily increased spending at local government levels.

The high cost of public administration should be curtailed in a bid to re-allocate more funds towards key sectors such as agriculture that are critical for achieving socio-economic transformation of Uganda.

Education

Over 16 percent of the 2010/11 national budget, or Shs 1,139 billion will be spent on education. As shown in *Table 1*, around 42 percent of the education budget, or Shs 482 billion will be spent on district primary education (Universal Primary Education) while over 78 percent of the Shs 482 billion, will be spent on salaries and wages largely for primary teachers.

Another big spender of the education budget is the ministry of education and sports headquarters. It takes about one quarter of the budget, (around Shs 279.46 billion). However, this seems to be too high compared to the activities the headquarters implement. Thus, the ministry needs to improve its allocative efficiency, by shifting more funds towards poorly funded sub-sectors such as district tertiary institutions and technical colleges.

District secondary education is third on the priorities of the education sector, taking around 19 percent of the budget, or Shs 220.25 billion with about 56 percent of this going to wages and salaries. The fourth biggest expenditure is on tertiary education especially universities, which take around 11 percent of the budget, or Shs 121 billion.

From the above analysis, it's clear that the education sector priorities are on primary and secondary education. Although the efforts directed at primary education are crucial, tertiary education is instrumental in catching up with the developed world. Using the example of the East Asian countries, government should expand primary education and higher education simultaneously. We should aim to gain both universal literacy and a cadre of highly skilled individuals capable of absorbing advanced technology. Thus, more budgetary resources are required in tertiary education sub-sector.

Table 1: Education Sector intra-sectoral allocations, FY 2010/11

Sub-Sector	Wage	Non-Wage Recurrent	Domestic Dev	Donor Project	Total incl. Donor Projects
District Prim Education (incl. SFG)	78.1%	9.0%	12.9%	0.0%	42.3%
Headquarters (incl. Primary Education)	3.7%	34.2%	15.8%	46.3%	24.5%
District Sec Education	56.0%	39.7%	4.4%	0.0%	19.3%
Tertiary Institutions- Universities	37.0%	29.2%	16.8%	7.9%	10.7%
District Tertiary Institutions	67.3%	32.7%	0.0%	0.0%	2.2%
District Health Training Schools	58.7%	41.1%	0.0%	0.0%	0.5%
Education Service Commission	10.9%	76.6%	12.3%	0.0%	0.5%
%ge of Total	50.5%	24.3%	12.0%	12.2%	100.0%

Source: Author's calculations based on MFPED, Budget Speech, FY 2010/11.

Works and Transport

After years of underfunding, the works and transport sector budget was increased tremendously in the last two financial years. The sector will be allocated 15 percent of the national budget, or Shs 1,037 billion in the FY 2010/11. The biggest expenditure in the sector of around 37.4 percent, or Shs 388.38 billion, will be spent by the Uganda National Roads Authority (UNRA). The second priority of the sector is the Road Fund, which takes around 27 percent of the sector budget.

The Road fund was established by an act of Parliament in 2008, to mainly finance routine and periodic maintenance of public roads at national and local levels. The fund also finances road safety activities and selected projects; operational expenses of the UNRA; Administrative expenses of the Fund; Research related to maintenance of roads; and other relevant activities as may be determined by the Board.

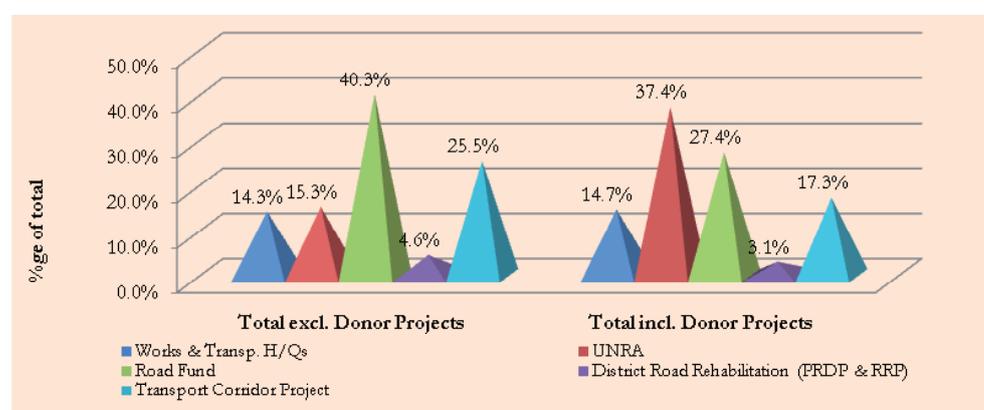
Table 2: Uganda's Road Network

Classification	Responsibility	Road Length
Community Access	LC III	30,000 km
District Roads	MoLG	27,500 km
Urban Roads	Urban Councils	4,300 km
National Roads	MoWT	10,800 km

Source: <http://www.roadfund.ug/>

The Road fund puts more emphasis on the national road construction and maintenance. Although this is a good move given the poor state of national roads, the neglect of district and community access roads will jeopardize the poverty reduction efforts. Empirical research by Fan, S., Zhang, X., and Rao, N., (2004), showed that investment in rural road infrastructure in Uganda, particularly feeder roads, has a marginal high return and can have large effects on growth and poverty reduction. The marginal returns to public spending on feeder roads on agriculture output and poverty reduction is three to four times larger than the returns to public spending on murrum and tarmac roads.

Figure 4: Works and Transport intra-sectoral allocations, FY 2010/11



Source: Author's calculations based on MFPEd, Budget Speech, FY 2010/11.

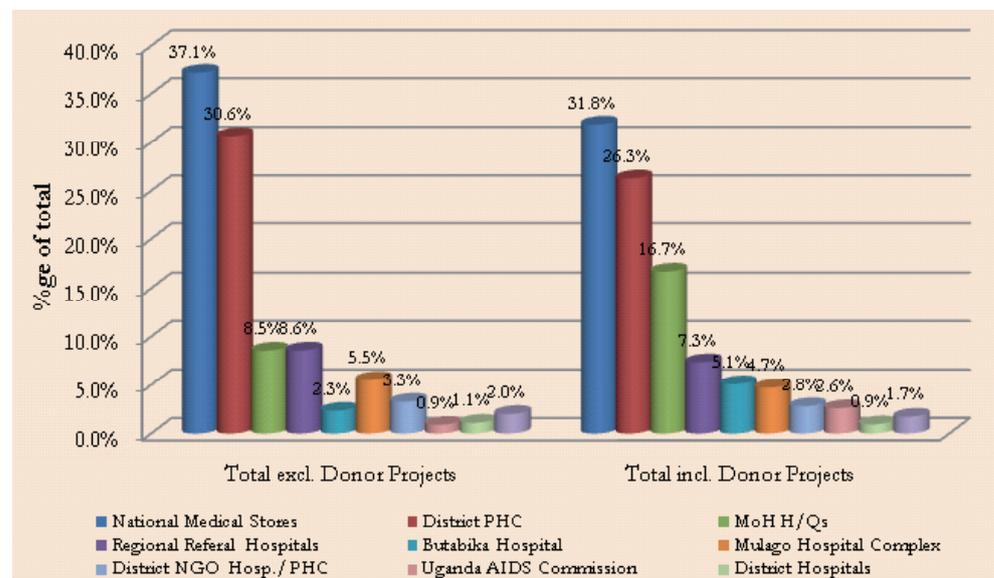
Health

About 9 percent of the 2010/11 national budget, or Shs 633.50 billion will be spent on Health. One third of the sector budget, or Shs 201 billion, will be spent on provision of drugs under the national medical stores and about one quarter, or Shs 166.38 billion will be spent on primary health care services at district level. The Ministry of Health headquarters will take about 16 percent of the budget, or Shs 105 billion. The high spending at the headquarters can be attributed to the fact that 56 percent of the head quarter budget are donor project funds.

The share of the health sector budget in the national budget has stagnated at around 9 percent for the last ten years; providing only \$ 12.5 per capita expenditure. This is contrary to \$ 41.2 per capita expenditure estimate under the Uganda National Minimum Health Care Package (UNMHC).

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Figure 5: Health intra-sectoral allocations, FY 2010/11



Source: Author's calculations based on MFPEd, Budget Speech, FY 2010/11.

Despite high spending on drugs through the NMS, there is persistent lack of drugs in public health facilities, especially the district hospitals and lower health centers. For instance, according to Ministry of Health (2008) only 26 percent of health units are without stock-outs of five tracer medicines and supplies.

Studies have shown that qualified personnel is the key determinant of effective health service provision. However, the sector continues to face funding gaps in relation to recruitment and retention of health workers. For instance, in the FY 2010/11 only one quarter of the sector budget, or Shs 151.57 billion will be spent on wages and salaries of health workers. This is insufficient to cater for decent remuneration of health workers in the country.

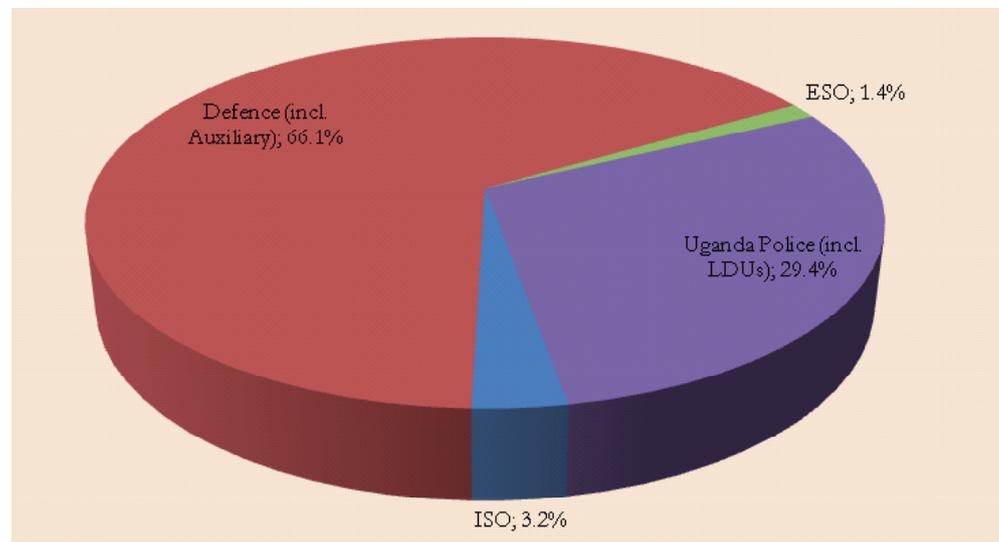
Despite the fact that Uganda has over 65 district/ general hospitals, only 0.9 percent of the sector budget, or Shs 6 billion (less than 6 percent of the head quarters budget) will be spent on running these facilities. This gross under funding is curtailing effective health service provision in the country.

Defence and Security

The security sector will take 10 percent of the 2010/11 national budget, or Shs 692.45 billion. Most of the sector funds are allocated to Defence. Defence takes around 66 percent of the sector budget, or Shs 457.47 billion. Uganda police takes around 29 percent of the sector budget, or Shs 203.24 billion.

Since most of the spending under this sector is classified expenditure; meaning that they are not audited by the Auditor General or their audits are not made public, it's hard to ascertain the level of efficiency in the utilization public funds under this sector. For instance, an official audit done in 2004 showed that the UPDF was up to 20 percent below its authorized strength due to corruption of officers claiming the pay of over 10,000 “ghost soldiers”

Figure 6: Defence and Security intra-sectoral allocations, FY 2010/11



Source: Author's calculations based on MFPED, Budget Speech, FY 2010/11.

Although the Medium Term budget projections under the Medium Term Expenditure Framework envisages no substantial increase in security spending in the next three years, the expenditure will still be high. The end of the war in the northern Uganda that required large resources in recent years should be reflected in reduction on security sector spending.

However, there are fears that the shift in Uganda's foreign policy towards Somalia will most likely increase Uganda's defence spending once the country starts a military offensive against the Al Shabaab.

Appendix:

We based our estimates of spending in fiscal year 2010/11 on the most recent data released by the Ministry of Finance, Planning and Economic Development in the Budget Speech, FY 2010/11.

The broad expenditure categories presented in this paper were constructed on the basis of classifications presented in the Medium Term Expenditure Framework (MTEF). The categories are constructed by grouping related programs and activities into broad sectors, which are further broken down into sub-sectors. The details of how the categories used in this paper were constructed from those sectors and Sub-sectors are described below:

Public administration and public sector management: This include Public Sector Management (Votes: 003, 005, 011, 021, 108, 146, 147, 501-850); Public Administration (Votes: 001, 002, 006, 100, 102, 201-231); Legislature (Vote: 104); Ministry of Finance, Planning and Economic Plan (Vote: 008); Sub County Development Grant (Vote: 008); Treasury Operations (Vote: 130); URA (Vote: 141); Uganda Bureau of Statistics (Vote: 143).

Education: This includes all expenditures on education and sports under Votes: 013, 111, 132, 136-140, 149, 501-850). This also includes District Health Training Schools.

Works and Transport: Includes expenditures on Ministry of Works and Transport headquarters (Vote: 016), Uganda National Roads Authority (Vote: 113), Road Fund (Vote: 118), District Roads Rehabilitation under Peace, Recovery and Development Plan of Northern Uganda (Vote: 501-850) and transport corridor project (Vote: 113).

Health: This includes all expenditure on MoH headquarters, national referral hospitals, district/ general hospitals, statutory bodies, District Primary Health Care, Uganda Blood Transfusion Service, Cancer and heart institutes. This is under the following Votes: 014, 107, 114-116, 134, 151, 161-162, 163-175, 501-850.

Defence and Security: This includes expenditure on Internal Security Organization (Vote: 001), Defence (Vote: 004), External Security Organization (Vote: 159) and Uganda Police (Vote: 144).



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