



What are the business continuity options for the Accountability Sector amidst COVID-19 Pandemic?

Overview

According to the International Monetary Fund (IMF), Uganda's economy was projected to grow by 6% in the Financial Year (FY) 2019/20. However, because of the 2019 Coronavirus Disease (COVID-19), it is now expected to grow by only 3.3%. The key sectors affected include: services and tourism, hospitality, construction and manufacturing. Poverty is anticipated to increase by 2.6 million Ugandans in the worst-case scenario, the report further opines.

Monthly performance reports by the Uganda Revenue Authority (URA) indicated that revenue collections (domestic and taxes on international trade) registered shortfalls of 16% and 40% in the months of April and May 2020 respectively against the targets.

The pandemic has affected the inflows that contribute to the foreign exchange earnings. For instance, foreign direct investment, remittances, exports and tourism declined. This exacerbated the limited resources for fiscal support. Consequently, the need for additional resources remains undebatable as expenditure increased, and is set to increase further at least to respond to COVID-19 in the health and other social services sectors amidst the need to sustain the economy.

The Accountability Sector is responsible for: a) Economic Management; b) Resource Mobilization and Allocation; c) Budget Execution/Accounting; and d) Audit and Anti-corruption. The sector contributes to the fourth objective of the second National Development Plan (NDP II) which is to Strengthen Mechanisms for Quality, Effective and Efficient Service Delivery.

The policy brief analyses and proposes some continuity measures for the Accountability Sector in response to the predicament in which the COVID-19 pandemic has become an eye-opener.

Key Issues

- Failure to achieve the set revenue targets for the FY.
- Delayed commencement and/or implementation of projects.
- Inadequate funds and numerous reallocations due to the pandemic.

Introduction

The COVID-19 pandemic created a situation that governments and businesses had never anticipated and were completely ill-prepared to deal with. To date, they are still grappling with the enormity of it all. A study by the Economic Policy Research Centre (EPRC) found that four out of five businesses in Africa were significantly affected by the crisis, rating the effect as, highly severe.

For the policy makers and business leaders, the focus is on interventions that can prevent business closure and minimize damage to peoples' livelihoods. Post the extension of lockdown, it is relatively certain that the economic effects will continue to impact the Accountability Sector for the foreseeable future.

The Budget Monitoring and Accountability Unit (BMAU) monitors the Accountability Sector, and focuses on the thematic areas with a thrust placed on Votes: 008 Ministry of Finance, Planning and Economic Development (MFPED), 141 Uganda Revenue Authority (URA), 153 Public Procurement and Disposal Assets (PPDA), and Microfinance Support Centre subvention.



The Accountability Sector is concerned with the mobilization, management and accounting for the utilization of public resources to facilitate the delivery of quality and equitable services.

The COVID-19 impact and business continuity options by thematic¹ area

Economic Management

Economic growth was projected at 6.3% in FY2019/20, (end period of the Accountability Sector Strategic Plan), although the economy drastically slowed down in the second half of FY2019/20. The COVID-19 pandemic led to a severe contraction in economic activity due to a combination of factors such as: disruptions in the global supply chain, internal and external travel restrictions, measures to limit contact between persons, and the sudden decline in aggregate demand. Consumer-facing sectors have been severely affected by social distancing measures and heightened uncertainty, while the manufacturing sector has declined on account of disruptions to the inflow of raw materials.

Continuity options should include:

- Increase awareness of available credit facilities that include: The Agricultural Credit Facility, Uganda Development Bank (UDB), and Microfinance Support Centre (MSC), to boost local production and support affected sectors and Small Medium Enterprises (SMEs). These

should be issued at affordable interest rates not exceeding 9%.

- Increase allocations to existing organized social protection and/or special interest groups that include the Uganda Women Empowerment Programme (UWEP), Youth Livelihood Programme (YLP), and *Emyoga* (skills, talent, and motivation groups), these should be accompanied with stronger oversight and control measures.
- The MFPED should assess the financing deficit, prioritize application of debt accessed under COVID-19 with effective oversight and enforceable controls over debt application.
- The Bank of Uganda should agree a minimal rate with service providers (MTN, Airtel) to reduce the costs of mobile money transfer services and waiver roaming charges to facilitate mobile and digital transaction services, by influencing regulators and service providers.

Resource Mobilization and Allocation

The Government of Uganda (GoU) projected to collect Ug shs 21,537.8bn in FY 2019/20. However, revenue performance during the half-year period July to December 2019 was below target. URA collected a net revenue of Ug shs 9,042.01bn against a target of Ug shs 9,739.39bn, registering a deficit of Ug shs 697.38bn.

The deficits have consistently increased over the subsequent months of the FY 2019/20. Domestic and international taxes combined registered shortfalls of Ug shs 267.83bn and Ug shs 637.71bn in months of March and April 2020, it is estimated the deficit could reach at least Ug shs 2,000bn by the end of June 2020.

¹ Objectives include; increase equitable access to finance, reduce interest rates, increase private investments, increase tax to GDP ratio, improve public financial management and consistency in the economic development framework, enhance public contract management and performance, and improve compliance with accountability rules and regulations.



Table 1: Revenue collection shortfalls for 11 months in FY 2019/20

S/no	Month/Period	Ug shs bn
1	July-December 2019	697.38
2	January	125
3	February	150
4	March	267.83
5	April	637.71
6	May	685.5

Source: URA Statistics, and MFPED Performance of Economy Reports

This has a direct bearing on the budget financing arrangements in the FY 2019/20, which may affect the quality of service delivery, as well as exacerbate the domestic arrears.

Continuity options should include:

- Fast-tracking the digitalization processes at URA. This should include rolling out of electronic fiscal devices and digital tax stamps.
- Prioritizing the health and safety of URA staff and taxpayers. There is need to evaluate transmission risks in tax offices and other external engagements. Consider a rapid testing plan at border/entry points by URA and Ministry of Health to minimize and mitigate further spreading of COVID-19 at the customs points and porous borders.
- The MFPED and URA should consider granting taxpayers flexible payment plans that include a combination of monthly or bimonthly instalment payments over a certain period beyond the expected due dates. A flexible payment plan may be the same across taxpayers, or differ dependent on the compliance history of the taxpayer economic sectors.
- The URA should constantly communicate with taxpayers, while identifying each required measure to help and support them

during this crisis. This should be done through various channels like telephone calls, emails, radios, newspapers etc. The tax body should openly engage with the taxpayers to assess how different taxpayers have been affected.

Budget Execution and Monitoring

According to the Auditor General's Report 2019, 43 Government Projects had funds available with Ug shs 2.31tn budgeted to implement project activities, but only Ug shs 1.58tn was spent resulting in an unutilized balance of Ug shs 736bn² which represents a low absorption capacity of 68% (OAG 2019).

Out of a total of 31,921 quantified activities assessed, 1,883 (44%) activities were fully implemented, 829 (20%) were partially implemented, while 480 (11%) were not implemented. A total of 1,056 (25%) activities were not quantified to enable measurement of performance.

The failure to quantify outputs was a result of the absence of M&E functions to review work plans and the information entered in the Programme Budget System by the planners (OAG 2019). This led to loss of resources and affected effective service delivery. Going forward, there is need to have clear costing of outputs to enable proper follow-up and remove ambiguity in the expenditure of public resources.

Continuity options should include:

- Improving investment management, funds for public infrastructure tend to be lost due to inefficiencies, efforts to reduce implementation lags and guide expectations should be supported. MFPED should establish a pipeline of appraised investment projects, that can be

² Mainly for externally financed projects



implemented when the health crisis subsides and plan discretionary measures that can be deployed quickly.

- Policy makers should ensure that COVID-19 procurement data is readily available for citizens to minimize loss of key information, and avoid losing out on opportunities. Having access to open, complete, and high-quality data can help to predict and manage supply chains. It is critical for monitoring the performance of response measures.
- The PPDA should on case basis suspend penalties and contractual liability measures with regard to economic operators for delays in performance of public contracts and concessions where contractors prove that those delays are due to COVID-19.
- The PPDA should support entities having difficulties in carrying out direct purchases of medicines, sanitary materials, or medical equipment necessary to combat the COVID-19 pandemic.

Conclusion

Uganda was already witnessing the economic impact of COVID-19 crisis even before its impact on health systems, and may experience slow growth that could push millions of people into extreme poverty. The containment measures established by government to protect the population from the pandemic are estimated to cost the economy at least Ug shs 2,000bn in revenue collections. This has consequences for implementation of government programmes and service delivery. Government is yet to know how long the COVID-19 crisis will last, but recovery and continuity measures need to be determined. The business continuity strategies include improving

economic governance to ensure funds benefit the most affected sectors and people, strengthening developments in the digital economy, and redesigning financial systems for better use of domestic financial resources.

Policy Recommendations

- Arising from the FY 2020/21 budget review exercise, MFPED should ensure resource allocation to the reprioritized sectors/areas and ensure effective use of the resources
- The MFPED should pursue debt service suspension for a period of at least one year to free up resources that could be channeled to the key sectors.

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