

Investment Trends & Public Expenditure Decisions:

Lessons from Components of the Environment and Natural Resources (ENR) and Agriculture Sectors in Uganda



Budget Analysis Series

EXECUTIVE SUMMARY

Introduction

This study was motivated by continued observation that the Agricultural and the Environment and Natural Resource (ENR) sectors continued to receive limited funding despite their known importance both to the overall economy and individual livelihoods. All the efforts based on researched evidence and international declarations had yielded little or no increase to the budgetary allocations for the two sectors. Even passionate appeals to the feelings of those involved in the allocation of resources did not make the situation any better.

With these observations, Environmental Alert was convinced that a new strategy was required beyond recitation of the importance and declarations of the two sectors. Consequently, the basic study objective was to provide research evidence for use in advocating for increased prioritization and resource allocation to the two sectors. Government, both at national and district levels, and existing reports, would obtain the required evidence through a critical analysis of the investment decision-making processes. The purpose was to establish the factors that influence resource allocation decisions in order to come up with an appropriate advocacy strategy.

Methodology

The adopted methodology was to rely on literature review, statistical and qualitative methods. The reviewed literature revealed findings and recommendations from related efforts by scholars and international organisations. The statistical tools of analysis helped to decipher the actual trends in resource allocations for the two sectors. Actual budget releases were analysed using tabular and graphical tools. Finally, qualitative methods were used to understand the underlying policy process including the location and distribution of various power centres. Beginning with observed outcomes, the study considered the past decision processes and mechanisms responsible for these observations in order to recommend suggestions for the design of an effective advocacy strategy.

MAJOR FINDINGS

Budget allocations seemed to depend on the following:

- Available resources, which are never enough meaning that allocations have to be subjected to a given criteria.
- Constitutional mandates/demands such that expenditure items such as salaries and wages have the first call on resources.
- Knowledge about the consequences of not funding the given activity (the cost of not taking action - opportunity cost). The consequences may be both to the individual sector or other dependent sectors. The costs may be in terms of the number of people affected positively/negatively by the investments in question. This also relates to the implications on other sectors in case appropriate action is not taken,
- Directives by individuals within the policy making process had significant influence on the budget process. It was observed that certain persons/offices both at the national and district levels had 'veto' powers over sections of the budget (not the entire budget) and their decisions could not be challenged by the system.
- Other possible alternative sources of funding could be considered at the SWG level where a number of donors were involved.
- The political costs involved as some investments received significant interest and hence support from the politicians quite often because of the perceived impacts on the feelings and views of the voters. In some cases the feelings did not necessarily have to be of economic or social value but rather persuasive results that could easily rally more political support.
- Conditions by the Centre limited district level budget decisions to a few areas and amounts mainly related to unconditional grants and local revenues.

Table 2.1: Sector Contributions to GDP and GDP Growth (at basic prices)

Sector/Years	2001/02	2002/03	2003/04	2004/05	2005/06
Contribution to GDP					
Agriculture	39.9	39.1	37.4	35.6	34.0
Industry	18.9	19.3	19.8	20.6	20.5
Services	41.2	41.7	42.8	43.8	45.5
Total GDP at Factor Cost	100	100	100	100	100
Contribution to GDP Growth Rates					
Agriculture	1.6	0.9	0.3	0.6	0.1
Industry	1.5	1.3	1.6	2.1	0.9
Services	3.3	2.3	3.5	3.7	4.0
Total Growth in GDP (factor cost)	6.4	4.5	5.4	6.4	5.1

Source: Uganda Bureau of Statistics

REASONS FOR THE OBSERVED LIMITED FUNDING AND RECOMMENDED SOLUTION

Policy and strategic factors

1. The agricultural sector policy appears to be shrouded in a maze of policy frameworks and statements that do not highlight the major areas of investment that need critical funding. The current Plan for the Modernization of Agriculture (PMA) has several facets, some of which, though important to agriculture, can be funded through their major domain sectors. For example the budgets for roads and water should be moved to the respective sectors.
2. In addition to the above observation and recommendation, increasing the agricultural budget will require rethinking of the current strategies of delivering agricultural development. The current design of delivering agricultural development is largely dependent on the private sector. However, such an assumption requires empirical validation, as the sector does not appear to be attracting enough private investments.
3. As a strategy, it is recommended that a committee be put in place to review both the agricultural policy and strategy in order to produce a detailed costed Agricultural Sector Strategic and Investment Plan(s) that will be a basis for increasing budgets and guiding the utilization of such increases.

Inadequacy and poor use of relevant information by the decision makers

1. It was clear that poor funding of the two sectors, especially the ENR, was partly a result of limited information about the opportunity cost of such decisions. Quite often environmental and natural resources are treated as given and communal in nature to an extent that it is easy for users to externalize individual costs to the community. Since the nature of the cost (environmental deterioration) may be a slow and long-term development, it is not easily captured in annual budgeting processes that are of a short-term nature.
2. As a point of emphasis, it is clear that the current energy crisis, and all its attendant social, economic and political costs, has more to do with limited investments in the ENR sector. The lack of hydro power plants but more so reduced water flows are the two most important factors underlying the energy crisis in the country. With the ENR sector broadly covering both energy and the environment, it is clear that adequate sustained investments would have helped to avert the situation.
3. The study finds a need for specific impact studies to show empirical consequences of providing limited funding to the two sectors. A number of impact assessment methodologies including counterfactual approaches may be applied to compute the implied opportunity costs. In the absence of evidence to link negative (costs) events to developments in the two sectors, efforts to increase budget allocations may remain in word and easy to sideline when budget priorities are being made.

4. Even when the information has been provided, there is need to design strategies for its utilization as most of the information intended for use in the budget process was not read. The politicians indicated difficulty in reading reports partly because of the technical nature in which they were prepared and adequate time to do so. Most reports were drafted in a non-friendly manner with lots of tables and technical jargon and were very bulky with some running into hundreds of pages. The reports were often delivered late hence leaving little or no time for detailed reading.

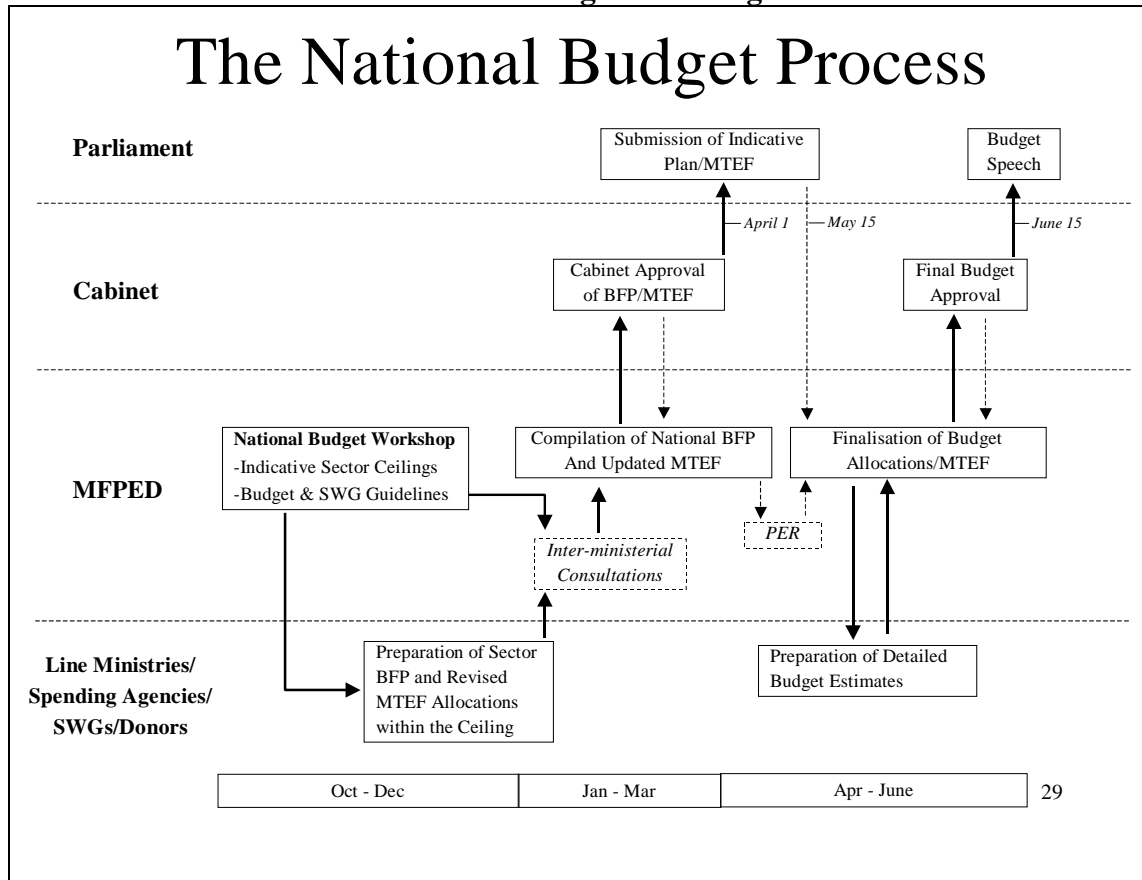
Inflexibility in the national and sector budgets

1. With salaries given top priority in budget allocations, sectors such as education, health and security, which have more salaried employees than agriculture and ENR, are bound to take up a bigger proportion of the national budget. This implies that, given the limited resource envelope, increasing budget allocations to agriculture and ENR may involve restructuring of other sectors where substantial resources may be tied up in suboptimal activities such as payments to ghost employees.

Concentration of power in the budget process

1. The budget process was highly consultative both in principle and practice, it was not void of loopholes, at least over certain sections. The presence of 'veto' practices in the budget process indicates that certain budgetary demands may be given greater urgency (actual or perceived) and result into changed priorities to an extent that final allocations of resources do not mirror the initial plans. This is a governance issue that should be taken into consideration in designing an advocacy strategy. Apart from the recent threat posed by the foot and mouth disease, which led to an increase of about Ushs 4.5 billion in the agricultural sector, a lot of emergencies have been associated with public administration, security and to an extent the health sectors. Requirements in the democratic process (referendum on political parties and multiple elections for various administrative levels) and the current size of the legislature have contributed to the current size of the public administration budget.
2. Finally, constant advocacy is required for sustenance of adequate resources in the two sectors. Whatever strategy is evolved, the method of implementation should involve continuous visits to strategic power and decision centres. These include the District Executive Committee, SWGs, Donors, Members of the Executive, and Member of Parliament.

Chart 2.1: Interactions and Timing of the Budget Process



ENVIRONMENTAL ALERT (EA) is a Non Governmental development Organisation born out of the need to address the alarmingly low levels of agricultural productivity in the country, high levels of food insecurity and low incomes in both rural and urban poor communities, in addition to protecting against rapid degradation of natural resources on which community livelihood depends.

Environmental Alert is also a 1st prize winner of one of the most prestigious awards for environmental sustainability in the world, The Energy Globe Award.

Our Mission:

To contribute to improved livelihoods of vulnerable communities by enhancing agricultural productivity and sustainable natural resource management

Our Vision:

We envisage communities free from hunger and managing their natural resources sustainably

Our core business is therefore pursuing

- An enabling natural resources policy and practice environment
- Increased civic expression of vulnerable communities
- An enabling policy framework for food security and nutrition