

# Public Expenditure Management System in Uganda

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# **1 Institutional and reform context**

## **1.1 Structure of government**

### **Overview**

Following the 1995 Constitution and the Local Government Act, 1997 there are two levels of Government administration: the Central and the Local Governments. The system of Local Government is based on the district, as a unit under which there are lower Local Governments and Administrative Units. The Local Governments comprise the District Councils, Sub-county Councils, the City Council, City Division Councils, the Municipal Councils, Municipal Division Councils and the Town Councils. A city is equivalent to a District, and a City Council holds similar power like a district. A division is equivalent to a Sub-county, and exercises all relevant functions and powers conferred upon a Sub-county. A municipal or a Town Council is a lower Local Government of the district in which it is situated. A council is the highest political authority (with all the legislative and executive powers) within the area of jurisdiction of a Local Government. Figure 1 shows how the state is organized.

### **Central Government**

Central Government comprises ministries, the state secretariats and autonomous or semi autonomous institutions. Central agencies are responsible for the development of sectoral policies, co-ordination, setting national standards and regulations, inspection and monitoring and the provision of technical advice and support to the subordinate institutions and the Districts. The Council of ministers is presided over by the Vice President under delegation of the President and is responsible for directing government agencies at all levels.

### **Districts and Lower Local Governments (Sub-counties)**

There are 45 districts in the country, each of which is divided into two to five counties, which are further sub-divided into two to twenty sub-counties. On average, districts cover average area of (largest km<sup>2</sup>). A district may have 200,000 people and a Sub-county 10,000 people. Districts are governed by the District Councils comprising the District Chairperson<sup>1</sup> and the Councilors<sup>2</sup>. It is the

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<sup>1</sup> District Chairperson is the political head of the district elected by universal adult suffrage.

duty of the Executives to fulfill Council policy. District Council ensures implementation and compliance with Government policy. District executive committee performs the executive functions of the council including inter-a-lia, policy formulation for approval by the council, overseeing the implementation of Government and council's policies, monitoring and co-ordination of non-governmental organizations operating in the district; and evaluating performance of the council against approved work plans and programs.

The Chief Administrative Officer (CAO) is the head of the public service in the district, and is the accounting officer of the district. The CAO undertakes to implement decisions taken by the District Council; giving guidance to the Local Government Councils and their departments in the application of the relevant laws and policies. The CAO also supervises, monitors and co-ordinates the activities of the District and lower council's employees and departments, and ensures accountability and transparency in the management and delivery of council services. The Chief Administrative Officer is accountable to and subject to the general directions of the Chairperson and the District Council.

An urban council other than a Division Council has a Town Clerk, appointed by the District Service Commission. The Town Clerk is the head of the administration of the relevant urban council, and is responsible for the expending of the council's fund. He/she is the Accounting Officer of the relevant councils, and advises council on legal and administrative matters.

The Sub-county and Parish Chiefs are appointed by the District Service Commission and is the administrative head and Accounting Officer of the respective Sub-county or parish. They are subject to the direction of the relevant Sub-county or Parish Council and the Chief Administrative Officer. It is their duties to ensure implementation of District and Government Policies and programs in their respective area of jurisdiction.

### **Administrative Units**

Administrative Units consists of counties, parishes, and villages/ wards. Each level of administrative unit is governed by a council. The Parish Council comprises members of the village Executive

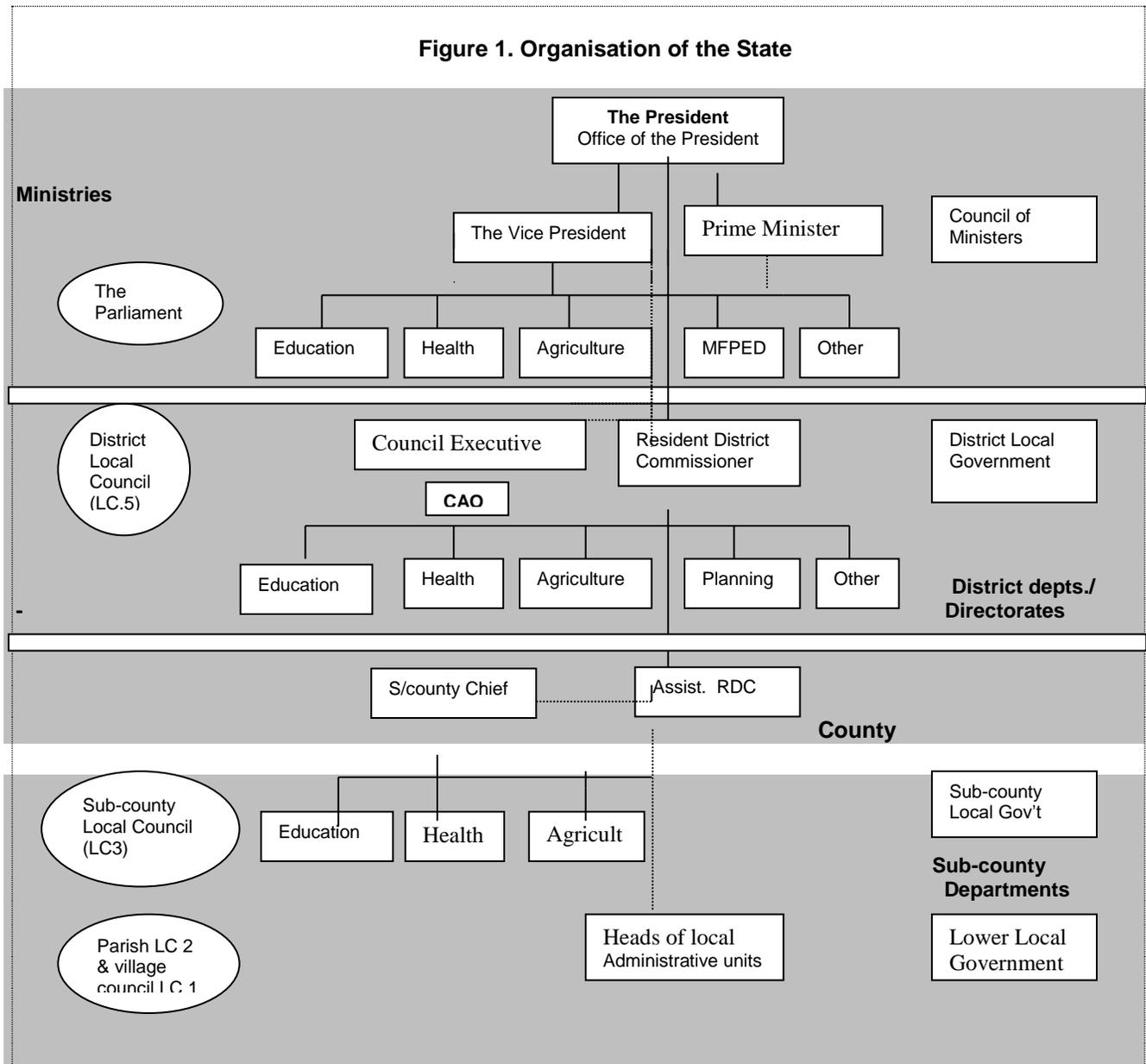
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<sup>2</sup> One councilor directly elected to represent an electoral area of a District, two councilors, one of whom is a female youth representing the youth in the district; two councilors, with disabilities one of whom is a female, representing persons with disabilities; and women councilors forming one third of the council.

Committees in that parish while the village council comprises all persons of eighteen years of age or above residing in that village. The duties of the councils (of the administrative units) is to draw the attention of the District Chairperson, the Chief Administrative Officer and the Assistant CAO at county level or attention of the Parish Chief to any matter that rouses their concern or interest. Their role is also to advise the area members of parliament on all matters pertaining to the county.

The lower Local Government Councils also serve as the communication channel between the Government, District Council and people in the area. They are charged with the responsibility to monitor the administration in their respective areas and report to the District Council. Their duty is also to monitor and supervise projects and other activities undertaken by Government, Local Governments and NGOs in their area. Local Governments have the rights and obligation to formulate, approve and executive their budgets and plans provided the budgets are balanced. Urban Local Governments have autonomy over their financial and planning matters in relation to the District Councils but their plans are incorporated in the District Plan.

**Figure 1. Organisation of the State**



## 1.2 Core Financial Management and Planning Institutions

### Ministry of Finance, Planning and Economic Development

The Ministry of Finance, Planning and Economic Development (MFPED) was created in 1998 by the merger of the Ministry of Planning and Economic Development with Ministry of Finance and Economic Planning (MFEP). The Ministry (MFPED) derives its mandate from the Finance Acts, Chapter 149-189 of the Public Finance Act 1964, various Finance Statutes and Decrees. The

function of the Ministry is to manage and control public finances in a prudent and sustainable manner to ensure efficiency and effectiveness of all spending and to oversee the planning of national strategic development initiatives in order to facilitate economic growth, efficiency, stability, eradication of poverty and enhance overall development. The Ministry is also charged with managing the economic activities of the country through fiscal and monetary policies so as to ensure sustainable economic growth, price stability, increased level of employment, and a fair distribution of income.

The Ministry is organized as follows: The Permanent Secretary/Secretary to the Treasury heads the Ministry as its Chief Executive. The office of the Deputy Secretary to the Treasury is supported by three Directorates namely, Directorate of Economic Affairs, Directorate of Budget, and Directorate of Accounts. The Directorates comprise departments undertaking specialized functions; each headed by a Commissioner, who is answerable to relevant Director. In addition, there are two units reporting directly to the Secretary to the Treasury. Detail description about the function of the MFPED is provided in Appendix 4 and the organizational structure is summarized in Figure 2.

### **Semi autonomous bodies**

In addition to other functions, the MFPED is responsible for the following semi autonomous bodies: (i) The Uganda Bureau of Statistics (UBS), (ii) Uganda Revenue Authority, (iii) Central Tender Board, (iv) Government Central Purchasing Corporation, (v) Departed Asian Property Custodian Board, (vi) Uganda Insurance Commission, (vii) Capital Market Authority, (viii) Privatisation Unit, (ix) Parastatal Monitoring Unit, (x) Uganda Investment Authority, (xi) The Population Secretariat, (xii) Uganda Computer Services, (xiii) National Council of Science and Technology, (xiv) Tax Appeals Tribunal and (xv) the Non Performing Assets Recovery Trust.<sup>3</sup>

### **The Central Bank**

The Bank of Uganda, established under the Banking Act, 1966 is the Central Bank of Uganda. The Bank is an autonomous institution whose principal mandate is to formulate and implement monetary policy directed to economic objectives of achieving and maintaining economic stability. It's a banker to the Government and is responsible for regulating and supervising the banking sector, and advises

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<sup>3</sup> Ministerial Policy Statement to the Parliament for the Financial Year 1999/2000

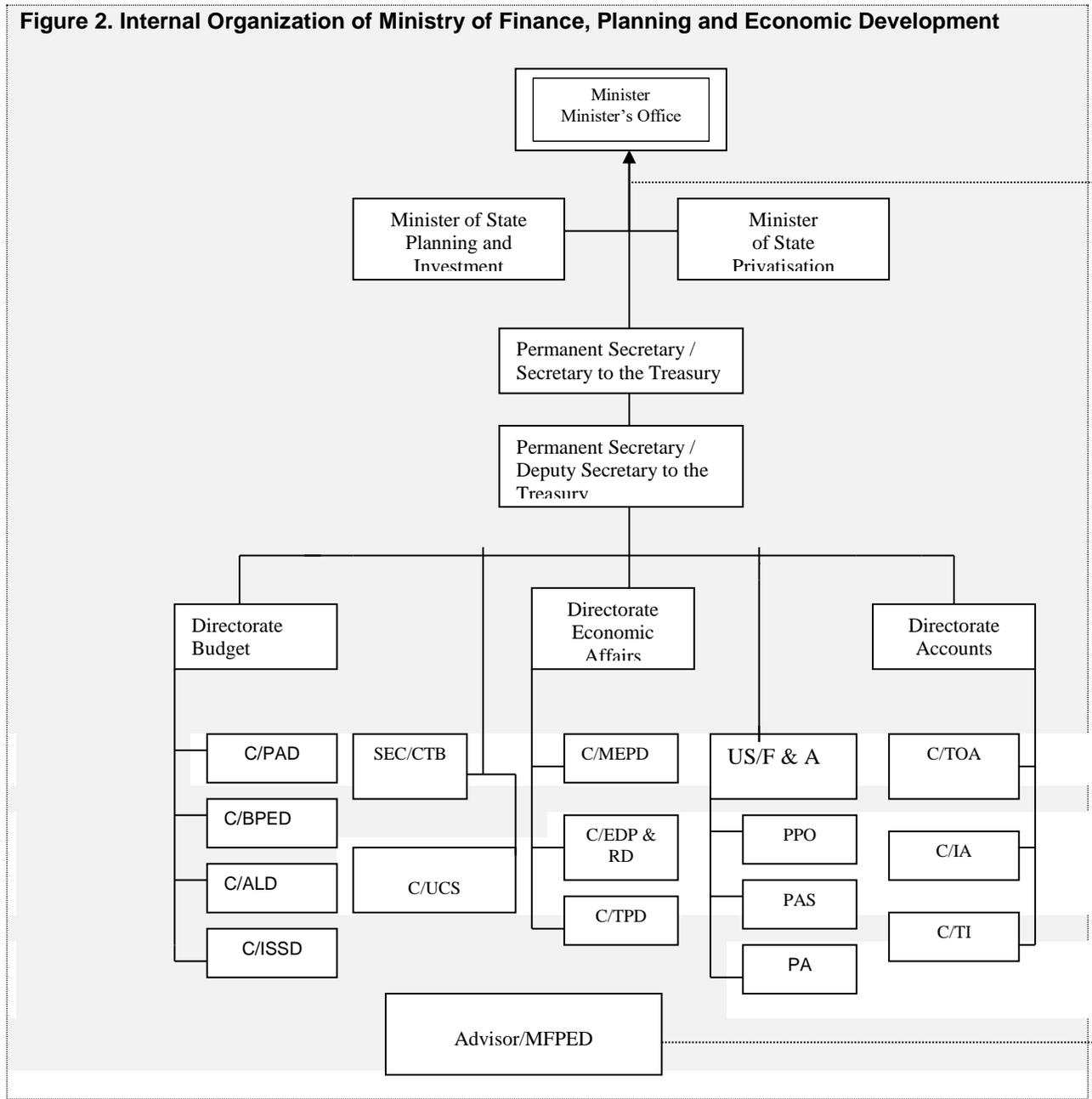
Government on monetary policy. Other functions of the Bank include maintaining monetary stability, maintaining external assets reserve, issue currency notes and coins. The authority of the Bank is vested in the Board consisting of a Governor and a Deputy Governor appointed by the President with the approval of the Parliament, plus other Directors.

### **National Bureau of Statistics**

The Uganda Bureau of Statistics (UBS) was established under the Act of Parliament to collect information necessary for sound economic management and planning. The overall mandate of the UBS is the collection, analysis, and publication of accurate, relevant, reliable and timely statistical information necessary for the proper management of Uganda's national economic and social institutions. This involves the creation and regular updating of a National Data Bank on the economy in general for use by both government and the private sector. The UBS carries out regular programme of data collection, including (i) Consumer price indices (monthly) and (ii) Index of Industrial Production (every month to quarterly), (iii) Migration statistics (annual), and (iv) External trade statistics (annual). UBS handles (v) Microeconomic statistics which entails the preparation of estimates of expenditure on the GDP in current and constant prices, estimation of all National Accounts aggregates on both a calendar and fiscal year basis, and the preparation of Input-Output table, which is a vital input to the planned macro-modeling. Apart from the 1991 census, the UBS carried out a Household Budget Survey in 1998/89 and an Integrated Household Survey (IHS) annually since 1992/93. In 1995, a Demographic and Health Surveys (DHS) was also carried out.

Studies on poverty and inequality of income distribution are currently being undertaken, based on the Household Budget Survey, and further studies are planned when the results of the Social Dimensions of Adjustment (SDA) Survey become available. Another priority is to develop a series of sample surveys, which will monitor economic trends in all main sectors on a long-term continuing basis. The UBS is further working with the Decentralization Secretariat to assist the districts to build their own database.

**Figure 2. Internal Organization of Ministry of Finance, Planning and Economic Development**



- **Director Budget**
  - (i) Commissioner, Public Administration Department (C/PAD)
  - (ii) Commissioner, Budget Policy and Evaluation Department (C/BPED)
  - (iii) Commissioner, Aid Liaison Department (C/ALD).
  - (iv) Commissioner, Infrastructure and Social Services (C/ISSD)
- **Director Economic Affairs**
  - (i) Commissioner, Macroeconomic Policy Department (C/MEPD)
  - (ii) Commissioner, Tax Policy Department (C/TPD)
  - (iii) Commissioner, Economic Development Policy and Research (C/EDP & R)
- **Director Accounts**
  - (i) Commissioner, Internal Audit Department (C/IA)

- (ii) Commissioner, Treasury Office of Accounts (C/TOA)
- (iii) Commissioner, Treasury Inspectorate (C/TI)
  
- US/F&A = Under Secretary, Finance and Administration (reporting directly to the Deputy Secretary the Treasury)  
The following units and at section level are part of the structure:
- Systems and Service Unit (attached to the office of the Deputy Secretary to the Treasury)
- Privatisation/Parastatal Monitoring Unit

**Notes:** Below the Heads of Department (i.e. Commissioners, Under Secretary) are Assistant Commissioners heading Divisions, Principal Officers heading Sections and Senior/Principal Officers heading units.

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## 1.3 Administrative Reform

### Overview

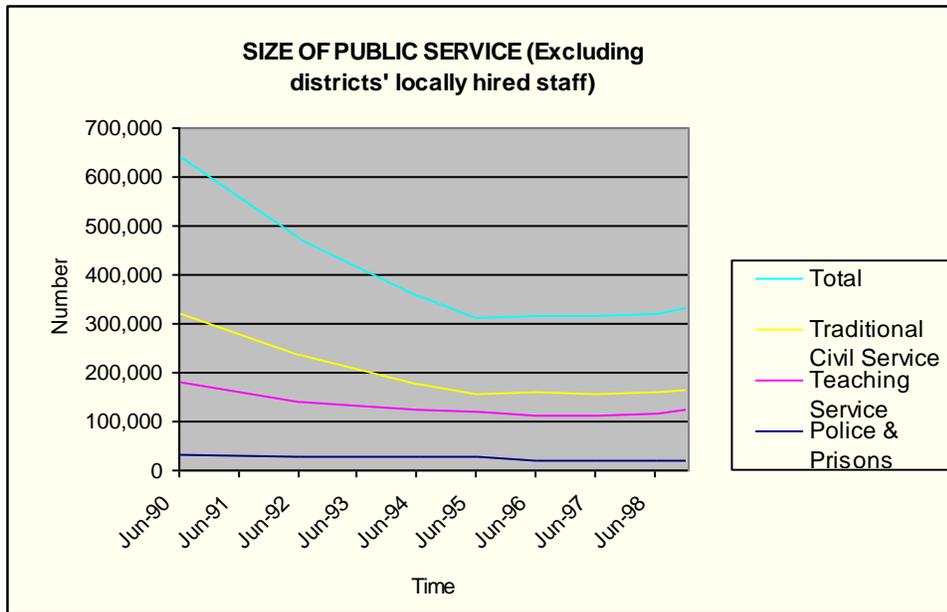
The Government adopted Public Service Reform in 1992 with the goal to improving efficiency, and effectiveness of service delivery through the creation of a smaller, better paid, better equipped, more highly skilled and motivated Public Service<sup>4</sup>. The reform consisted of restructuring of Government Ministries, reductions in the size of the Public Service, the introduction of Results Oriented Management (ROM), Decentralization, and the Divestiture of the non-core functions and reforming the Budgetary and Financial Management System. The reform aims at (i) optimizing the size and structure of the civil service; (ii) enhancing skills by improving training and evaluation and introducing pay reform; (iii) strengthening control systems; and (iv) monitoring and improving operating efficiency and effectiveness. The number of ministries was reduced from 38 (in 1992) to 17 in 1998 and the number of staff employed in the Public Service was reduced by over 3,000. According to the 1998 Public Service Reform Programme Report, the number of staff employed in the Public Service was radically reduced from over 320,000 in 1990 to 157,189 in June 1997. A further reduction in number of staff by 2,036 was achieved between October 1, 1997 and December 31, 1998. Staff reduction has been achieved through maintaining recruitment freeze/discipline, payroll cleaning, rationalizing the position of non teaching staff in secondary and tertiary institutions, the introduction of the

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<sup>4</sup> On 28<sup>th</sup> November 1997 a new five year Public Service Reform Programme (PS2002) was launched by H.E. the Vice President (although the components and activities of the reform Programme have changed, the goal has remained the same since 1992). The mission of the Public Service Reform Programme is to develop a Public Service which delivers timely, high quality and appropriate services at the least cost to the nation, supports national development and facilitates the growth of a wealth creating private sector. The Public Service Reform Programme consists of six core components: Management of the Reform, enhancing efficiency and effectiveness, management of information and control systems, developing human resources, time management and organizational discipline and good governance and private sector development (*Administrative Reform Secretariat, Ministry of Public Service*)

Special Voluntary Retirement Scheme, and retrenchment. The graph in Figure 3 illustrates how the size and composition of the public service have changed over the last eight years.

**Figure 3. Trend in size of public service over the last eight years**



Source (data): Administrative Reform Secretariat, Ministry of Public Service

Appendix A shows the linkages between various reform components. The reform cuts across all Ministries and Districts. According to recent report by the Reform Secretariat, all four of the IMF/ESAF benchmarks have been met concerning reductions in the size of Public Service. To ensure effective co-ordination and integration between the Public Service Reform Programme and the ongoing Decentralization Programme, arrangements were made for Local Government to be represented on the Reform Programme Steering Committee and at meetings of Project Managers. Meetings have also been held between the Administrative Secretariat and at the Decentralization Secretariat to discuss issues of common concern.

### **Role of government**

Following the 1992 Public Service Reform, the Government divest itself of all non-core functions especially those concerned with service delivery. The overall objective is to reduce costs, improve the quality of service and increase private sector participation. Divestiture measures include delegation of some roles to agencies, Parastatals, Contracting Out, Franchising,

and Privatization. The functions of the central Ministries are now largely confined to policy formulation, co-ordination, setting national standards and regulations, inspection and monitoring and the provision of technical advice and support to the Districts. The core role of the Government (as defined in second schedule of the Local Government Act, 1997) is to create enabling environment (political and economic environment) for social and economic development. Virtually, all service delivery functions have been transferred to Local Governments. Within the overall context of public sector reform and the changing role of the state in economic production, Government role has for instance, reduced substantially in commercial activities in the agricultural sector.

The new policy stance is such that the core functions of the Ministry of Agriculture, Animal Industry and Fisheries is limited to planning and policy formulation, setting regulations, design of extension methods, setting extension standards, training, monitoring and evaluation of progress on the modernization of the Sector. The remaining public activities are delegated to the National Agricultural Research Organization (NARO) and the District Governments. The private sector is now responsible for agricultural production, agro-processing, internal and external trade and the supply of agricultural inputs. The role of Government in these areas is limited to setting rules and regulations (Background to the Budget 1999/2000: 82-85).

### **Personnel management**

The principal changes in personnel management within the context of public sector reform include: (i) streamlining the structures of ministries (ministerial restructuring) and increase in staff pay (ranging between 10% and 30%); including (ii) Job evaluation to provide a more transparent, simplified and fairer pay and grading system. (iii) establishment of an Asset Register and rehabilitation of records; (iv) retrenchment control and accounting arrangements; (v) providing management training; (vi) implementation of Result Oriented Management (ROM) across all ministries and districts and setting of service standards; (vii) divestiture and introduction of affordable pension scheme; (viii) financial management and expenditure control systems through a computerized integrated personnel and payroll system; and (ix) decentralization.

Measures to improve performance in public service include: (i) introduction of strategic planning approach with increasing management accountability and a shift in resources and management attention from activities to achievement of clear measurable objectives, outputs and service standards within specific time and cost targets. This is achieved through implementation of ROM; (ii) improvement in management information needed to exercise tight control over resources and expenditure, and to make effective decisions. The purpose is to improve personnel and payroll system, and budgeting and Financial Management systems. It is also to strengthen Assets Management, Records Management, Pensions Management and Audit and Inspection.

The new financial and management information system is supposed to bring about clear and consistent accounting policies and regulations, to improve resource management and financial control, and to support the devolution of responsibility and the move towards output oriented budgeting and results oriented management. The Financial Management System/Expenditure Management System is made to link the accounting and personnel and payroll system and is networked to all Ministries and Districts; (iii) providing staff with the skills and competencies they require through training.

This include a shift from providing training on an ad hoc basis to training, which is practical, relevant and properly managed and appropriately targeting resources to reflect the business and professionalism needs of the Public Service; (iv) replacing Confidential Staff Performance Appraisal Scheme with a more open, interactive scheme that enable individual to be assessed against jointly agreed performance targets (standards) that are clear and measurable. This includes mentoring to help to improve performance, and sanctions against those who fail to meet those standards. This new approach is based on ‘result oriented management’ (ROM); (v) increasing motivation and honesty among public servants through improving pay<sup>5</sup>; and (vi) introduction of public service examinations and modern assessment techniques to ensure that recruitment, selection and promotion are based on merit.

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<sup>5</sup> Although Public Service pay has improved over the last five years, efforts are still required to improve wages. Low pay results in low morale and difficulties in recruiting and retaining high calibre staff. Pay Reform is a Government Priority. The recommendations of the Job Evaluation and Pay Comparator Study presented to Cabinet by Ministry of Public Service imply both a substantial increases in pay rates towards private sector levels and a reduction in the salary spread between higher and lower paid workers.

Studies have shown that salaries are about 42 percent of that paid in the private sector. The Government intends to raise these to about 75 percent.

## **Decentralization**

The Government has been implementing the policy of Decentralization since 1993.<sup>6</sup> The aim has been to encourage good governance, increased participation in an informed decision-making process by the people through devolution of powers to the appropriate levels of governance (Local Governments). The emphasis has continued to focus on enhancing the capacity of lower Local Governments to take charge of all aspects of planning, allocation of resources and management of development initiatives for purposes of promoting poverty eradication. Four forms of Decentralization; political, administrative, fiscal and market decentralization have been implemented in Uganda.

### **Political decentralization**

Political decentralization aims to give people and their political and civil leaders more power to public decision making, and more influence in formulating and implementing policies. This is exemplified in the institution of the Local Council system (up to the grassroots - lowest decision making level). The selection of political leaders from local electoral jurisdiction allows the electorates to better know their political representatives and allows elected officials to better know the needs and desire of their people.

### **Administrative decentralization**

Government implemented measures aimed at redistributing authority, responsibility, and financial resources for providing public services among different levels of government. It is the transfer of responsibility for planning, financing, and managing certain public functions from the Central Government and its agencies to the Local Government. Administrative decentralization has followed 3 major paths:

*Deconcentration* - Deconcentration involved redistribution of decision making authority and financial and management responsibilities among different levels of the Central Government

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<sup>6</sup> Decentralization is the transfer of legal, political, administrative and financial authority to plan, make decisions and manage public functions and services. The transfer is from the central Government to lower levels of administration.

(line Ministries). Workload is transferred from the central government ministry headquarters to district staff, who may be given the authority to decide on how these functions are to be performed. This is characterized by direct reporting to parent ministries, direct staff holding offices at the pleasure of national executives, and technical supervision being done by the central ministries.

### *Delegation*

Through delegation the Central Government has transferred some of its responsibilities for decision-making and administration of public functions to Local Governments and semi-independent organizations not wholly controlled by central government but ultimately accountable to it e.g. public corporations, project implementation units, etc. In Local Government context, delegation means giving powers to an individual or body to carry out a function on behalf of the council. A council may delegate its functions and powers to any of the following: The Chairperson of the Council, the Executive Committee, a Standing Committee, An ad hoc committee (one established for a specific purpose after which it is disbanded).

The Local Government Act 1997, define functions, which cannot be delegated to include approval of annual budget estimates, approval of supplementary estimates, making bye-laws for proper conduct of council's own business, approval of development plans. Power to raise loans or mortgage council property, and any other function or power that may be added by the minister of Local Government with approval of parliament may also not be delegated.

### *Devolution*

Devolution in the Uganda's decentralized context has involved transfer of authority for planning, administration and financial management to autonomous Local Governments with legally defined powers.

### **Fiscal decentralization**

Financial responsibility is a core component of decentralization in Uganda, aimed at empowering the Local Governments to access adequate revenues, which can enable them to carry out decentralized functions effectively. The Local Government has the power to raise local revenue, receive transfer from Central Government and make expenditure decisions. Financial

decentralization has therefore taken two forms: inter-governmental transfers from Central Government to Local Government for general and specific uses, and Local Government's assumption of legal rights to impose taxes.

### **Economic or market decentralization**

The most complete forms of decentralization from Government perspective are privatization and deregulation whereby responsibility for public functions has been shifted to the private sector. In the context of decentralization, privatization means contracting out the provision or management of public services or facilities to commercial enterprises. In essence, the delivery of certain services is left to the private market and local governments are no longer responsible for the delivery or financing of such privatized services. Deregulation is seen to have reduced the legal constraints on private participation in service provision and have leveled the ground for competition among private suppliers for services previously provided by the Government through the Government Tender System. Local Governments are also contracting out services provision or administration through the Local Government tender arrangement.

### **Co-ordination of decentralization process**

The Ministry of Local Government is charged with the responsibility of establishing, developing and facilitating the management of the government decentralized system. The Ministry of Local Government has continued to co-ordinate the Local Governments for the purposes of harmonization and effecting the decentralization policy with a deliberate effort to inspect, monitor, offer technical assistance and supervision, and training for all Local Governments. The Ministry undertakes research and provides advice on formulation of national policies on all taxes, fees, levies and rates for Local Governments and disseminates national standards in regard to accountability.

### **Principal problems in decentralization process**

Decentralization has improved decision-making, revenue collection and improved accountability as well as flow of resources to the districts through conditional and unconditional grants. However, there are still a number of problems to contend with e.g. the inadequate co-ordination between the various actors resulting into duplication of efforts; the Local Government Act has

some provisions that contradict each other like on the roles, powers and responsibilities of the different organs at the district level. Creation of parallel structures has led to power struggles and tensions between competing leadership/agencies (agency problem). Question of ‘who is bigger than who’ in the hierarchy has often been a common place. For example, power separation between the RDC and the Chairman LC 5, and that between Municipality Majors and the District Chairman is blurred, leave alone the relationship between the police and the local councils. Related to the agency problem is political attitude of using political office or position for selfish ends (material gains). There is always tension between bureaucrats and politicians. To the politicians, the civil servants are corrupt (thieves), conservative and inefficient though the entire population would look at the politicians as dishonest figures.

Another problem is the partial decentralization of powers. There are reported incidences where a district attracts external resources independent of central government but must first seek approval of central government to acquire them. The autonomy in resource management in the face of regional disparity in equity means that the rich districts will become richer and the poor ones will become poorer. Poverty, which has resulted into bribing electorate for votes, has undermined the principles of democracy. Weak infrastructure and narrow financial base have also affected service delivery hence watering down the cherished objective of “bringing services nearer to the people”.

Another negative aspects of decentralization include a potential for promoting nepotism and sectarianism through employing people from the same district only (each district justifies having their own people: “*sons and daughters of the soil*” in positions of responsibility other than selection based on merit). There is also potential for manipulation and dictatorship at local level. Lack of political supports from central government officials e.g. central government officials sometimes sabotage the decentralization process for fear of losing power and influence. Other problems include lack of competent personnel (especially at local government level), political differences, fear of national disintegration due to ethnic tensions and sectarian tendencies. Political differences and opportunism (as occurred in the last elections) tend to override democratic principles.

The existence of several donor funded programmes under Local Governments with varied accountability and reporting procedures complicate their operations. In light of this, it has become imperative to focus on the plans and strategies for implementation of decentralization related programmes especially the financial aspect of decentralization.

### **Budget reform**

This concerns changes in budgetary procedures including, closer integration of recurrent and development budgets, introduction of a three-year forward budget and the itemization of project expenditure allocations. Other measures concern strengthening of financial management and accounting procedures.<sup>7</sup> Government accounting policies and regulations are in the process of revision. Also, new financial and management information systems are being developed. All these are aimed at establishing clear and consistent accounting policies and regulations, to improve resource management and financial control, and to support the devolution of responsibility and the move towards Output Oriented Budgeting (OOB) and Results Oriented Management (ROM).

These two management techniques are very closely related. As is noted in later discussion, OOB seeks to measure the success of activities carried out by sectors, while ROM tries to identify and determine the necessary level of output by individuals, departments and institutions to achieve sectoral outputs that are consistent with overall objectives. In an attempt to improve monitoring and accountability of PAF programmes, a new District Monitoring and Accountability grant has been introduced.<sup>8</sup>

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<sup>7</sup> Fiscal transfers to Local Governments have continued to rise with the increased flow of funds under Poverty Action Fund (PAF) and the Local Government Development Programme (LGDP). Decentralization of the development budget started in the financial year 1999/2000. Local Governments have received directly from Government Ush 28 billion last financial year for primary school construction. As part of the process to empower Urban Authorities to exercise the financial autonomy, as per the 1997 Local Government Act, arrangements have been made to send Unconditional Grants directly to Urban Authorities beginning with the 13 Municipal Authorities as independent Votes.

<sup>8</sup> Accountability Sector is in the process of being formed, which aims to reduce corruption, improve auditing and streamline financial management systems.

## **2 Planning**

### **2.1 Overview of the planning system**

#### **Hierarchy of planning instruments**

The principal planning instruments are the Vision 2025, the Poverty Eradication Action Plan (PEAP), Background to the Budget, and Sector Plans. The PEAP has been the foundation for the Government overall planning framework since the Plan was first developed in 1997. Chart 1 shows the relationship between PEAP and other plans. It provides a framework for the development of detailed sector plans and investment programmes. In recent years, major advances have been recorded in production of the Ten Year Road Sector Development Programme, the Education Strategic Investment Plan, the Health Sector Plan and the Plan for the Modernisation of Agriculture.

In the face of continued resource constraint, sector plans are linked to the Medium Term Expenditure Framework (MTEF) which is presented to Cabinet as part of the annual ‘Budget Framework Paper’ covering three fiscal years. MTEF ensures that the main priorities are properly targeted and funded. In order to achieve this each sector is required to link resources with measurable performance indicators, to allow progress to be monitored objectively.

#### **Principal problems in planning system**

Capacity constraints within line ministries have been a serious limitation in sector planning. The achievements in recent years in improving planning reflect the institutional strengthening that has occurred with MFPED. It has not been matched by any systematic building of capacities of ministerial planning units in the line ministries. The planning and costing of some sector programmes is relatively weak, partly reflecting the lack of good administratively collected data on the existing performance of the sectors. Split of responsibility between development and recurrent budgets within line ministries is unhelpful. A stronger linkage of programmes to monitorable indicators of output is needed. This is an area to which MFPED needs to give special guidance and support and one which also deserves donor support. There is current attempt to address this through the spread of outcome based budgeting, through the development

of sector programmes together with donor partners, and by moves to strengthen sector level planning.

Another problems relate to difficulties in integrating the long terms plans into the short and medium term plans and the budget process; lack of universally agreed institutional framework for formulating the plans, and publicity. The plan has less support of the legislature, which thinks that it is a MFPED document.

## **2.2 Government-wide planning**

### **Medium to long term planning**

There have been a large number of initiatives to strengthen the planning process. They include major consultative exercises concerning Uganda's long term goals and objectives, such as Vision 2025, describing national aspirations, and the first Poverty Eradication Plan as a national planning framework to guide detailed medium term sector plans and district plans. In turn, detailed sector-wide plans and investment programmes for various sectors have reached varying stages of completion, set within an overall medium term expenditure framework. A programme of strengthening district capacity to prepare medium term expenditure frameworks is also underway. Figure 4 describes the flows and relationships between different plan/policy processes in Uganda. Under the co-ordination of the Ministry of Finance, Planning and Economic Development, key elements<sup>9</sup> of the planning framework have been strengthened.

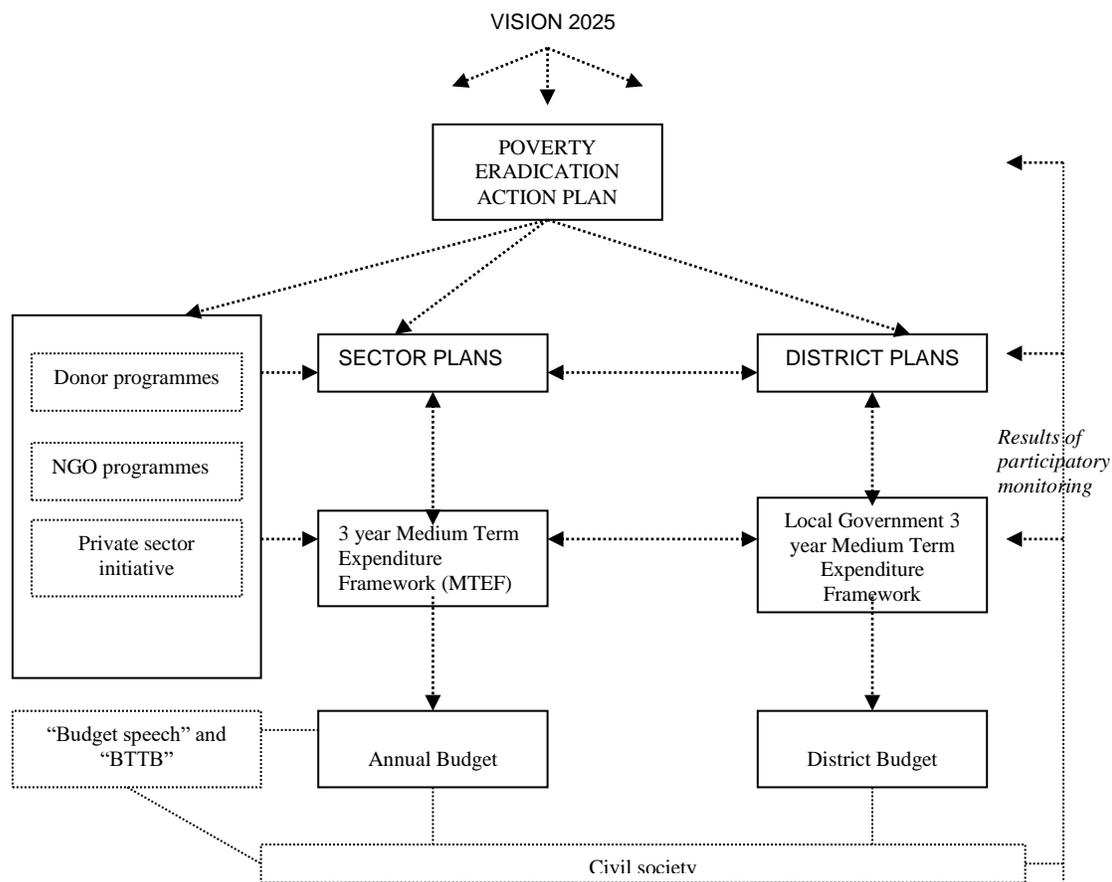
### **Annual plans**

The national planning process begins with commissioning a study and collecting views from different stakeholders, which are discussed in a workshop. The vision of the District development contained in the District Development Plans, is the main reference point during the planning process for the medium term for the District.

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<sup>9</sup> These elements interact in an ongoing process

Figure 4. Overview of planning / information flows



**Quick guide to planning processes**

<b>Vision 2025</b>	An overview of long term goals and aspirations by the year 2025
<b>The PEAP</b>	The national planning framework on which to develop detailed sector strategies
<b>Sector Planning</b>	Technical specifications of sector priorities, disciplined by hard budget constraints
<b>District Planning</b>	Implementation plans for sector strategies based on local priorities / needs
<b>MTEF</b>	Annual, rolling 3 year expenditure planning, setting out the medium term expenditure priorities and hard budget constraints against which sector plans can be developed and refined
<b>District MTEF</b>	Setting out the medium expenditure priorities and hard budget constraints against which district plans can be developed and refined
<b>National &amp; District Budgets</b>	Annual implementation of the three year planning framework
<b>Donor; NGO; Private sector</b>	Participatory and sharing information / ideas in developing sector plans and budgets
<b>Participatory processes</b>	Bottom-up participation of districts in the planning and monitoring process, as well as participatory poverty assessments, providing essential feedback on progress towards poverty eradication goals.

Adopted from the Revised Volume 1 of the Poverty Eradication Action Plan (PEAP), MFPEd, May 2000.

The Local Government Budget Framework Paper has helped Local Governments in the process of planning on a realistic basis as against the resources that will be available to it from all sources (transfers from the Central Government, donors and locally raised revenues).<sup>10</sup>

The planning process begins with the budget conference, which is supposed to be held in the month of January. This was rarely adhered to in the past. With the need to integrate the Local Government Budget Framework Paper into the national Budget Framework Paper, all Local Governments were obliged to hold their budget conferences earlier than before. In the past, Local Governments did not seriously relate their budgets to resource constraints. A few technocrats often drew District budgets, on their own, in a non participatory integrated manner and as a result, Local Governments were hardly able to contribute effectively to their missions.

The introduction of Local Government Budget Framework Paper has played important role in strengthening the process of planning and budgeting by relating resources to District priorities. During the regional workshop, all the plans are put in the context of the Medium Term Expenditure Framework.

### **Reporting on plan implementation**

The Poverty Action Fund (PAF) is now being used to pilot a new system of planning, reporting and release of funds for conditional grants. The aim is to give the Districts more freedom in the planning of the use of conditional grants in line with their needs and priorities. It is also intended to create a system of uniform reporting (in all the sectors), which links funds to outputs and harmonizes the reporting procedures across sectors, and to condition the release of funds to quarterly reporting. Districts are expected to submit a quarterly progress report, accumulative progress report, and a quarterly work plan budget request, not later than 30 days after the end of the quarter (using standard reporting format). All reports are submitted to the Director of Accounts, MFPED and copied to the Director of Budget, MFPED. The first release of funds takes place in the first month of each quarter and is one-twelfth of the annual budget to cover implementation whilst the previous quarter's progress reports are being compiled, and the second release takes place in the second month of each quarter. Releases are delayed (1 month) in case of late submission of reports.

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<sup>10</sup> The Local Government Budget Framework Paper plays a pivoted role in the process of planning and budgeting for the

To ensure transparency in the use of funds under PAF (especially for benefit of end users), districts and sub-counties are required to post mandatory public notices for every conditional grant under PAF each quarter on receipt of funds (notices are posted in public places).

### **Legal framework and guidance**

The 1995 Constitution provides for National Planning Authority (although it has not been established up to now), and both the national and district planning and budget has a constitutional basis. The State Budget is supported by comprehensive legislation. The Local Government Act, 1997 also provides for District Development Plan and District Budget. Government planning has support of the line ministries, legislature, civil society, private sector, and community organizations. The legislature approves the budget and monitors its implementation.

### **Nature and use of performance targets**

The Budget Framework Paper spells out the resource envelope; the medium term budget strategy; the priorities for public expenditure; and the outputs and performance indicators by which performance will be monitored over the medium term. The purpose of the retreat for Sector Working Groups this year was to develop performance indicators suitable for each sector in order to facilitate a more focused process of monitoring and evaluation. For example, the primary education sub-sector, indicators such as total enrolment, pupil/classroom and pupil/teacher ratios and book to pupil ratios have been developed, with clear targets set over the medium term. The health sector also has set a number of outcome indicators to be achieved by year 2005. They include reducing the infant mortality rate from 97/1000 live births to 68/1000 and reducing HIV prevalence from 9.51% to 6.18%.

Progress is also reported in other sectors such as Roads and Works, and Water and Sanitation. This is expected to pave the way for identifying the poverty eradication interventions that are succeeding and to highlight the areas of interventions that need further development, amendment or cancellation. Out put indicators are used to judge whether implementation (of the plan) is on track and are used for

accountability and for monitoring and evaluation purposes.<sup>11</sup> However, performance over the past two years for these broad indicators cannot be measured because evaluations are only undertaken at 5 to 10 year intervals.

A new initiative in the Budget Process has been the introduction of Output Oriented Budgeting (OOB), which aims to provide clear links between objectives, inputs, and outcomes. The input here refers to a resource (financial, physical or human resource) that is used in a particular activity. An output is the result of that activity, while the outcome is the stated purpose of the programme or activity, which is meant to meet the objective. In the water and sanitation sector, for example, bore holes drilled are an example of an output, while improved health as a result of this is an outcome.

### **Links to budget process**

Government forecasts a three-year resource envelope based on macroeconomic projections. The Medium Term Expenditure ceilings set out in more detail the ceilings which sector ministries and district local government have been given, and around which their budget submissions for the MTEF period will be prepared. Both the Central and Local Government prepare their three-year budget bids consistent with ceilings proposed by Ministry of Finance, Planning and Economic Development. As far as possible, donor support is included alongside Government domestic resources. BFP has been an important instrument for achievement of sustained macroeconomic stability. By setting out future limits of expenditure consistent with low inflation and exchange rate stability, the BFP has helped in setting realistic budgets.

The Local Government Budget Framework Paper is the main tool in the implementation of the District Development Plan. It has distinctly brought out detailed costing, activities and outputs and outcomes in the successive Financial Years. Local Governments budget estimates in the past were characterised by unrealistic revenue estimates in particular. This led to unsustainable expenditure estimates being factored into the budget. The expectations of the people, therefore, could not be met. For the past two years, all Local Governments have been projecting budget estimates based on outturns instead, which has proved to be helpful in making for workable Local Government budgets.

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<sup>11</sup> Public Expenditure Review Meeting: Budget Framework Paper 2000/01 to 20003

## **Consultation, process co-ordination**

The Budget Framework paper (which forms the basis of planning and budget) is the result of a series of consultations that start annually in October. At that time, a workshop is held during which the Medium Term Expenditure ceilings for each sector are circulated. In addition, the Sector Working Groups (SWGs) are formed as a forum for consultation and soliciting inputs from stakeholders in each sector. These stakeholders include line ministries, local governments, donors, the private sector and other special interest groups. The SWGs are required to prepare a Sector Budget Framework Paper (SBFP) which reviews the budget issues and make recommendations for the next budget and the medium term. These SBFPs form the basis for the overall BFP that is prepared by the Ministry of Finance, Planning and Economic Development. At the end of April or first week of May, the Honourable Minister of Finance presents to Cabinet the overall BFP together with a Cabinet Memorandum that seeks out summary of the main issues and highlights a series of recommendations to support resource allocation, budget policy decisions or sectoral policy priorities and strategic reprioritisation.

## **2.3 Public expenditure planning**

### **Institutional responsibility**

MFPED Directorate of Economic Affairs with assistance of IMF forecasts a three-year resource envelope based on macroeconomic projections. The Budget Policy Department does the MTEF and constitutes a budget (consultative) meeting to refine the ceilings for distribution of resources. Both the Central and Local Government (with assistance of Sector Working Groups and Local Government Finance Commission) prepare their three year budget bids consistent with ceilings proposed by MFPED. Prudent fiscal policies, which are needed to maintain macroeconomic stability, mean that Government must contain its expenditures, as set out in the Medium Term Expenditure Framework (MTEF), within the available budgetary resource envelope. The resource envelope is composed mainly of tax and non-tax revenues and disbursements of donor loans and grants. For the next three years the budgetary resource envelope will increase at an average of just over 10.4%, per annum in nominal terms and just over 5% in real terms. The increase in resource envelope is attributed to both the rise in domestic revenues and increased budget support, which includes the additional debt relief made available through the enhanced HIPC initiative.

## **Policy and procedural guidance for agencies**

Each year, the MFPED draws up a draft terms of reference for the Sector Working Groups to identify priority project areas within their line ministries. It also requires them to identify all sources of revenue, both taxes and non-tax revenues, including the rates and revenue projections. The MFPED provides ceilings within which the Sector Working Groups are expected to budget, and discusses with them various working documents required during the planning. The MFPED also avails the budget codes to help in the costing, and the PEAP document to ensure that the sector and district plans are consistent with the Government priorities. Plans are linked to MTEF to ensure that the main priorities are properly targeted. The MTEF is based on the medium term budget strategies aimed at the eradication of poverty and the structural transformation of the economy. The main vehicle for implementing these strategies have been the Priority Programme Areas (PPAs) and the Poverty Action Fund (PAF).

## **Poverty Action Fund**

The Poverty Action Fund (PAF) was established during the 1998/99 financial year. It has directed funds from the HIPC debt relief initiative and mobilized donor resources towards the implementation of programmes within the original Poverty Eradication Action Plan (PEAP). PAF is now in its second year of operation, and has provided an effective mechanism in ensuring that these additional resources are safeguarded and is contributing to improvement in service delivery on the ground. PAF is now fully integrated within MTEF (the PAF budget is presented over the medium term, with resources and expenditure planned over the three years of MTEF). The role of PAF within the MTEF is to focus Government and donor resources (including HIPC) to the priority sectors identified in the revised PEAP, and to maximize the impact of those resources on these sectors.<sup>12</sup>

## **Process and method of resource planning**

The planning process starts in November with the Central Local Government Budget Framework Paper (LGBFP) workshop at which the planning process is outlined. At the first Regional workshop (for LGBFP) in January, the planning guidelines for each grant are presented. Districts then prepare the Draft LGBFP and sector work plans for discussion at the second LGBFP workshop in early

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<sup>12</sup> Budget Framework Paper 2000-2003

March. Each line ministries assesses district plans to ensure that it is in line with district and Government priorities and policy. If it is not satisfactory, the line ministry gives recommendations for improvements, and requests the district to resubmit the plan (Table 1).

**Table 1. Planning for Conditional Grants under the Poverty Action Fund**

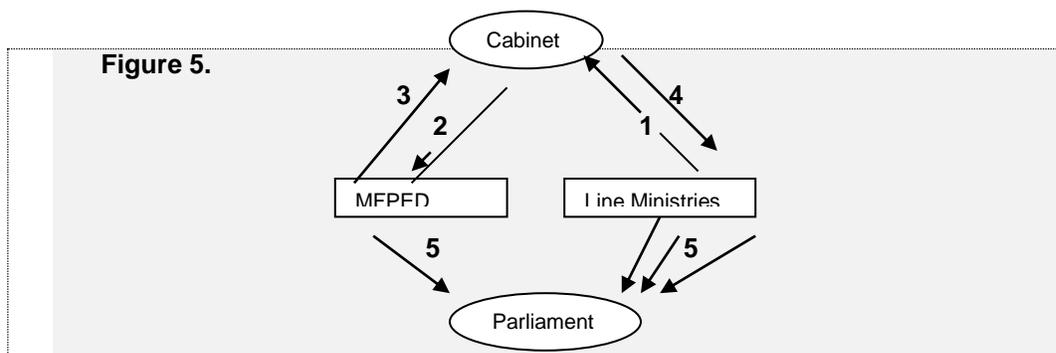
Central LGBFP workshop	<ul style="list-style-type: none"> <li>▪ Outline planning process</li> <li>Present District of Budget Ceilings</li> </ul>	November (end)
First LGBFP regional workshop	<ul style="list-style-type: none"> <li>▪ Presentation of sector specific guidelines</li> <li>▪ Review of progress in sectors</li> <li>▪ Identification of priorities</li> </ul>	January (beginning)
Preparation of preliminary Draft	Identification of appropriate strategies District prepares the first draft of the workplan	February (end) Submission of draft
Second LGBFP workshop	Analysis of preliminary drafts Recommendations for improvement	March (Early)
Preparation of final workplan	Districts make improvements in their workplans	
Approval within Local Government	The concerned secretaries of executive committee of the Local Council approve the workplans.	April (End)
Processing of final plans by line ministries	The line ministries analyze final plans submitted by districts	May/June
Agreement of plans	If the plan is satisfactory, the ministry will sign the letter of understanding. If the plan is not satisfactory the line ministry will give assistance to the district to improve the standard of the plan, and the district resubmits the plan	By end of June
Reading of the budget	Reading of the budget i.e. final budget allocations	Mid-June
Changes in the budget	In the event that allocations change at the time of the budget, districts are required to adjust their work plans and submit amended plans to the respective line ministries.	
Agreeing alterations	Line ministries examine amendments. For those grants for which changes in the budget was greater than 10%, the line ministries notify districts of approval/suggested changes.	By end of July

The MTEF tables specify the ceilings, which sector ministries and District Local Governments have been given, and around which their budget submission for the MTEF period will be prepared. Resource planning takes a long process of consultation between line ministries and the cabinet, MFPED (which coordinates the activities), and between line ministries and the parliament as illustrated in Figure 5. Sector plans are submitted to cabinet (arrow 1), which forwards it to MFPED for technical review (2). The MFPED submit the plans back to cabinet for approval (3). On approval plans are sent back to line ministries (4) for presentation in parliament (5).

### **Outputs of resource planning process**

The MTFEF comprises the Resource Envelope distributed over a three year period, the by sector. The resource envelope is composed mainly of tax and non-tax revenues and disbursements of donor loans and grants. The MTEF integrates policy making with economic planning and budgeting in

context of a multi-year budget cycle and ensures that expenditure programmes are driven by strategic priorities and disciplined by hard budget constraints. MTEF helps Government to manage the tension between demands for expenditure (‘needs’) and the resources realistically likely to be forthcoming from both domestic and external sources (“availability of resources”). The content of MTEF is based on the Cabinet decision, and is, in a way the tool of the Cabinet although it is prepared by MFPEP. The MTEF process completely replaced the traditional methods of budgeting.



### Variation between forecasts and final allocation

Government negotiated a revision of the PRGF program with the IMF to allow part of the revenue shortfalls, which imposed severe constraint on the budget to be offset by higher domestic bank borrowing. This enabled some of the cuts, notably in the development budget, to be restored to maintain the medium term growth prospects. Both of the largest components of the resource envelop, tax revenues and budget support, have been subject to considerable volatility in recent years, which has complicated budgetary management. It would greatly help Government’s medium term planning if donors were able to give firmer commitments of the levels of budget support they will disburse over the medium term.

## 2.4 Poverty Planning and monitoring

### Poverty monitoring and diagnosis

Government has set up a poverty database and information system as a basis for co-ordinating, analysing and monitoring poverty issues, enhancing the poverty focus of existing Government strategy, establishing a framework for assessing improvements in the poverty focus of Government

policies and programmes, and enhancing awareness of poverty issues. There are a variety of monitoring techniques, such as technical assessments of project/programme performance, statistical surveys, and more participatory methods to complement the traditional household survey methods such as the Uganda Participatory Poverty Assessment Project, which is attempting to bring the voice of the poor into national, district, and lower level planning. The results of monitoring activities provide feedback at all levels of the planning system. Government is in the process of designing a Poverty Monitoring Strategy which will outline a clear structure for the public institutions involved in monitoring, and for other institutions which collaborate with Government. The main institutions involved are given in Table 2.

**Table 2. Institutions involved in poverty monitoring**

<b>Institution</b>	<b>Role in monitoring</b>
Poverty monitoring and Analysis Unit, Economic Policy Development and Research Department, MFPED	Coordinate data collection. Analyse the whole range of data. Publish reports which present a holistic view of poverty in Uganda and review the implementation of the PEAP, and disseminate findings to Government and civil society.
Uganda Bureau of Statistics	Collection of Census and surveys (including household surveys and Demographic and Health Surveys) and construction of national accounts; analysis of the trends in these data and their causes.
Uganda Participatory Poverty Assessment Project	Collection of participatory evidence on people's experience of poverty trends and causes.
Ministry of Public Service	Run National Service Delivery Survey providing information on users' experience of service quality and their preferences about services.
Sectoral ministries, particularly Planning Units	Design indicators and collect administrative data on service delivery and outcomes in the sector; analyse this data in conjunction with other data sources, and identify policy responses.
Budget Department, MFPED	Coordinating the design of indicators under the MTEF
Macroeconomic Department, MFPED	
Poverty Action Fund	Monitor implementation of directly poverty reducing expenditures
Uganda AIDS Commission	Coordinating data and policy response on AIDS.
District Authorities	Develop a database at the district level; collect information on outputs and inputs
Economic Policy Research Centre	Implement research on all aspect of economic policy including poverty.
Directorate of Employment, MGLSD	Identify data needs for monitoring of the labour market.
Donors	
OCHA	Currently coordination and publishing data on the number and living conditions of displaced people and refugees.

Table 2 demonstrates that poverty monitoring is a process in which many institutions have a stake. The new Poverty Monitoring Strategy will ensure that all aspects of monitoring are covered without duplication.

## **2.5 Sector policy and planning**

### **Sector policy**

The Sector Working Groups (SWGs) are formed as a forum for consultations within respective ministries and for soliciting inputs from stakeholders in each sector. Each sector undertakes to conduct professional studies, which helps it to make informed decision. Information derived from the studies supports the development of sector plans. Out of such studies specific policies are derived after wide consultations and debate, involving civil society, line ministries, the parliament, local governments, donors, private sector and other special interest groups.

Public Administration has been one of the largest and least controlled areas of public expenditure. In spite of the restructuring of the public service, which led to the retrenchment of a number of civil servants, there has been a large expansion at the level of executive appointments at the centre and in the Districts, including the proliferation of Commissions.

## **2.6 Local Government planning**

### **Districts**

The Ministry of Finance, Planning and Economic Development is currently responsible for coordinating all development plans at the national level. This function is envisaged to change if the Constitutional provision for parliament to create a National Planning Authority (NPA) is effected. District planners are required to produce three-year rolling development plans incorporating investment plans from sub-counties and lower level local councils (LCs 2 and 1). The MFPED receives the development plans from the districts and incorporates them in the overall national development plans.

The planning cycle runs from November to June. Between January and April, Districts should prepare their annual work plans for each conditional grant. Sectoral ministries provide guidance and technical assistance on drawing up sector work plans. Work plans form part of the Local Government Budget Framework Paper, (prepared separately). Each District has a Technical Planning Committee where officers of various departments make plans for consideration and approval by the

District Council. The provision for district planning capacity has been the establishment of specialized unit, the District Planning Unit and the posts of District Planning Officer, District Statistician and District Population Officer.

## **2.7 Project and program planning and monitoring**

### **Project and program identification and formulation**

Under the decentralized programme, the District Council (LC5) is responsible for interfacing with central government, especially the Ministry of Finance, Planning and Economic Development, with selected donor agencies concerning the identification, design, finance appraisal, etc. of project and institution building components of the development budget. Second, the District Council is responsible for finalizing the inter-sectoral allocation of part of the District's recurrent budget, which is non-conditional and not earmarked, and part of the recurrent budget funded by Graduated Tax. Third, the District Council is responsible for approving and monitoring both the inter-sub-county allocation of public sector resources, and procedures for allocating those resources between communities within parishes.

### **Project and program monitoring**

Government has instituted comprehensive mechanisms and system for monitoring of physical and financial projects, particularly under the decentralized Poverty Action Fund (PAF). The roles of different institutions in the PAF Monitoring and accountability is set out below:

- i) Local Governments: Monitor PAF activities being implemented within the districts, prepare and submit quarterly progress reports, and prepare annual and quarterly work plans.
- ii) Line Ministries: analyse district reports, carry out periodic monitoring visits to all districts to look at progress and value for money of activities in decentralized PAF programmes, focusing more on technical and quality aspects.
- iii) Treasury Inspectorate, MFPED: Performs periodic monitoring visits to all districts to look at progress and value for money of decentralized PAF programmes, focusing more on financial aspects, and liaisons with District Public Accounts Committees.
- iv) Inspectorate Department, Ministry of Local Government: Carries out general monitoring and evaluation of PAF programmes at districts.

- v) Auditor General: Carries out or commissions monthly value for money audits on the progress of all PAF programmes in the districts.
- vi) Inspectorate of Government (IGG): Follows up on issues raised by the institutions involved in the monitoring of PAF activities, and the publishing of PAF programmes.
- vii) Public Accounts Committee (PAC): Is responsible for sensitizing the District PACs, and follow up of issues raised by institutions involved in monitoring.

### **Project and programme evaluation**

The monitoring and evaluation process of Local Government activities is well established and clearly defined. The process involves most of the key district leadership including the Council, the Technical staff at district level and field staff. Monitoring and evaluation activities mainly focus on preparation of work plans and budgets, preparation of reports, follow up of activity implementation in the field, problem identification and soliciting for solutions, financial monitoring, quantitative and qualitative research undertakings, progress review workshops involving the beneficiaries. While adequate funds are available for this purpose, many Locals fail to utilize this money effectively because of poor staffing (lack of trained personnel to undertake these tasks). Most Local Governments have problems in attracting well trained personnel to work in remote and difficult areas.

## **3. Budget process**

### **3.1 Overview**

#### **Legislative framework**

The national budget has a constitutional basis and is further supported by the Public Finance Act Cap 149 and the Contingencies Fund Act Cap 150. The 1995 Constitution (Article 15, section 1) stipulates that the President, as the head of the executive branch of Government will cause the budgetary estimates for each financial year to be prepared and presented to the Parliament (not later than 15 days to commencement of the new financial year). The Parliament, therefore, has a constitutional mandate with regard to the budget process. After the budget estimates have been presented to the Parliament, an appropriate committee of Parliament may discuss and review the

estimates and make appropriate recommendations to Parliament.<sup>13</sup> While the committee discussion is going on, the house in plenary undertake to pass votes on accounts to ensure continuity of Government programs during the consideration stage. The select committee then submits reports to the ‘House’, which does debate and adopts the reports with/without amendments.

Parliament proceeds with the (budget) debate for not more than 15 days as required by Constitution. The House passes the Finance Bill that authorizes the Government to collect revenue to meet the year’s expenditure. This is accompanied by passing of the Appropriation Bill that is concerned with the Consolidated Fund (i.e. sums necessary to meet expenditure not charged on Consolidated Funds as provided for in Article 156, section 1 of the Constitution). In addition, the Supplementary Appropriation Bill is debated and passed to approve the supplementary expenditure of the previous year (as required by Article 156, section 2 of the Constitution). Article 157 of the Constitution empowers the Parliament to make laws to regulate a Contingencies Fund.

The Public Finance Act Cap 149 requires the Minister responsible for finance to supervise the finances of Uganda and to ensure that a full account thereof is made to Parliament.<sup>14</sup> Law empowers the Auditor General (on behalf of the Parliament) to examine, inquire into and audit the accounts of all accounting officers and receivers of revenue and public monies and those of statutory bodies where the law so requires. The minister responsible for finance (MFPED) then present the audit report (from the office of the Auditor General) to the Parliament.<sup>15</sup>

The Contingencies Fund Act Cap 150 provides for the establishment and administration of a Contingencies Fund and for related purposes. Section 3 (2) vests in the Secretary to the Treasury the powers to administer the Fund.<sup>16</sup> The proposed Budget Bill, 2000 aims at strengthening the powers of Parliament to monitor the enforcement and control of the national budget and expenditure estimates. The Bill sets clear guidelines and a timetable that enables the Parliament to effectively participate in the budget process and to pass practical revenue and expenditure laws within the

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<sup>13</sup> Article 155 (5) of the Constitution of Uganda

<sup>14</sup> The Public Finance Act Cap 149, Section 3

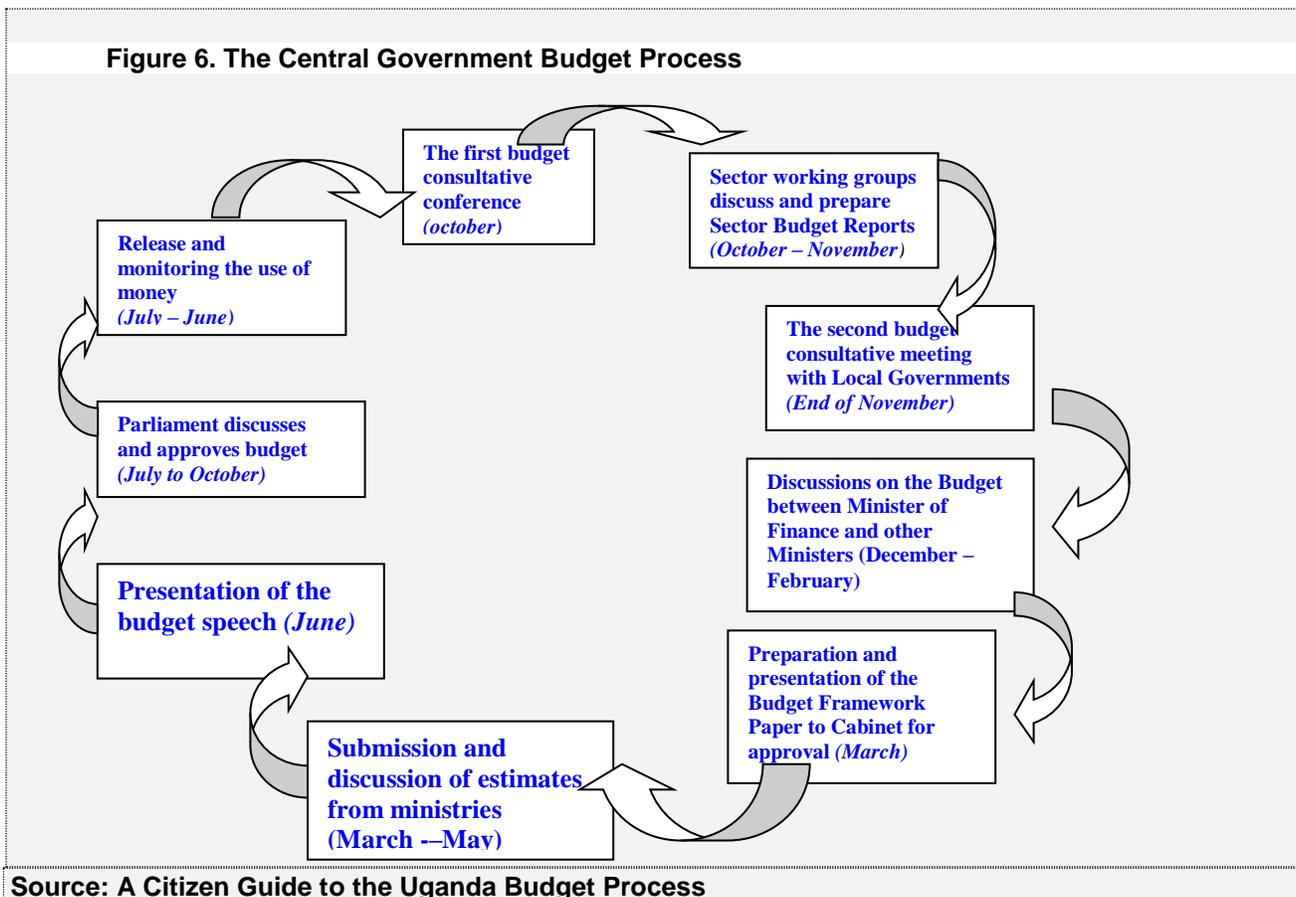
<sup>15</sup> Section 24, 28 & 29, the Public Finance Act Cap 149

<sup>16</sup> Uganda Parliamentary Research Centre

specified period. The Bill established a Parliament Budget Office that is to provide Parliament with timely and apolitical technical advice.<sup>17</sup>

### Budget calendar and process

The preparation of the of the budget starts around October with budget consultative conference and ends with the approval by Parliament in October of the following year as summarized Figure 6 and Table 3.



<sup>17</sup> Uganda Parliamentary Research Centre

**Table 1. Budget calendar and process**

	<b>Activity or process</b>	<b>Approximate Timing</b>	<b>Comments</b>
			<i>The budget process for this financial year has been expanded to enhance the impact of the workshops for all line ministries that have been held since 1997. A retreat for all Sector Working Groups has been added to the programme to deal with the development performance indicators suitable for each sector for inclusion in BFP, intended to facilitate a more focused process of monitoring and evaluation.</i>
1	Prepare for 1st Budget Workshop	Mid September to Mid October	<i>In addition to these activities, the Medium Term Budget Framework that determines the resource envelope and the Medium Term Expenditure Framework that identifies sector ceilings are both under constant review to accommodate changing circumstances.</i>
2	1st Budget Workshop	Late October (1 day)	
3	Meetings with MPs (New)	Forum and timing to be agreed	
4	Sector Working Group Retreat (New)	Early November (3 days)	
5	Sector Working Group meetings (New) <sup>18</sup>	Late October to March/April	
6	2nd Budget Workshop	Late November (2 days)	
7	Consultative Group Meeting (CG) <sup>19</sup>	December (ideally) this year March	
8	Ministerial Consultations	February / March	
9	Train trainers for LGBFP <sup>20</sup>	November	
10	Prepare / circulate Budget Call Circular	January / February	
11	Final Draft BFP	March	
12	1st LGBFP Workshops	January (2 days each region)	
13	2nd LGBFP Workshops	February (2 days each region)	
14	Development Budget meetings	April and May	
15	Recurrent Budget meetings	April and May	
16	Finalize BFP for Cabinet	April	
17	Revise BFP	Late April and Early May	
18	Review meeting with donors	May	
19	Prepare Budget Speech tables	May / June	
20	Budget Speech preparation	May / June	
21	LGBFP follow up	May	<i>The above consultations result in addition to production of the BFP for Local Governments and the Budget Speech. These include the Background to the Budget, the Draft and approved budget estimates and the Public Investment Programme</i>

### **Nature of formal constraints on budget process**

Most Local Governments have had problems in utilizing the resources transferred from the central Government (i.e. Conditional Grants) due to the conditionalities attached to these grants. Second, the resources transferred from the Central Government are inadequate (particularly in respect of some programmes). For instance, the Poverty Action Fund budgetary ceiling provision for 2000/2001 can only increase district safe water coverage by 2.5% implying more 20 years are required to achieve 100% safe water coverage. In the case of agriculture, it is only the newly recruited graduates who benefit from the grant, leaving other staff very poorly facilitated. The allocated fund further is mainly injected in recurrent expenditures, which in the long run is likely to hamper the realization of tangible results within the sector.

<sup>18</sup> A sector working group comprises different stakeholders including representatives from local and central government, trade organisations, donors and NGOs.

<sup>19</sup> A high level exchange of views between GOU and the donor community

### **Accountability problem**

All Local Governments have had a problem regarding timely preparation of monthly financial statements. In order to access funds, Local Governments will have to pay particular attention to the need for getting all accountability reports prepared on a monthly basis. Without doing this, Local Government has no chance to access funds on a quarterly basis from the Central Government and is unable to meet the targets set for development activities. While considerable improvements have been made in the preparation of accountability reports, there is need to ensure that all Local Governments meet the requirements for sending accountability reports timely for the continuous and smooth flow of funds from the Central Government.

Government recognizes the importance of accountability in improving service delivery and effectiveness of public expenditure. Government is therefore in the process of forming an Accountability Sector with the aim to reducing corruption, improve auditing and streamline financial management systems. Expenditure in the accountability sector is projected to increase by 28% next financial year and by 79% over the medium term. In an attempt to improve monitoring and accountability of PAF programme, a new District Monitoring and Accountability grant, totaling Uganda shillings 1.66 billion (approx. US \$ 1million), will be introduced next financial year and a total of shillings 1.66 billion will be allocated to monitoring activities within line ministries.

### **Problems in budget process**

Local Governments recognize the need for technical support to draw up the LGBFP. One such aspect is the integration of actual expenditure figures on respective achievements per programme for better monitoring. This has been difficult for the Local Governments. In addition, there is need to aid sub-counties in the planning and budgeting process to facilitate realistic district budget preparation at that level. There have been problems in the flow of information regarding project implementation, use of financial resources, the outputs and outcomes within the district at all levels and between districts and the Centre. This is an aspect that has to be addressed urgently if better monitoring and evaluation of all activities and better efficiency in district administration is to be achieved.

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<sup>20</sup> LGBGP stands for: Local Government Budget Framework Paper

## Reform initiatives

Government has introduced a number of initiatives, which has worked to reform the budget process. These include the introduction of the Output Oriented Budgeting, Sector Working Group (SWGs), integration of recurrent and development budgets, decentralization of the budget, consultative process, and mechanism to ensure transparency of the budget and the budget process. The budget process is tending towards output based budgeting, in which sector ministries are challenged to set out objectives and defend their budget priorities in terms of their contribution to achieving the agreed objectives. Output Oriented budgeting aims to provide clear links between objectives, inputs, outputs, and outcomes.<sup>21</sup> At the districts, the introduction of the Local Government Framework Paper has enabled the district budgets to be resource sensitive unlike in the past. Local Government budgets in the past were characterized by unrealistic revenue estimates. This led to unsustainable expenditure estimates being factored into the budget. The expectations of the people, therefore, could not be met. Since LGBFP came into effect, all Local Governments have been projecting budget estimates based on outturns instead, which has proved helpful in making for workable LG budgets.

### 3.3 Budget information and coverage

#### District transfers

Table 4 and 5 provide the trends in total grants (Unconditional, Conditional and Equalization Grants) over the medium term, and district transfers in key PEAP sectors. As the tables show, district transfers are expected to increase substantially both in nominal terms and as a proportion of the Government expenditure over the medium term.

**Table 4. Summary of District Transfers**

Grant	1999/2000	2000/2001	2001/02	2002/03
Unconditional Grant	66.8	66.94	75.24	81.95
Conditional Grant (wage)	165.67	193.38	213.2	223.86
Conditional Grant (non-wage)	97.51	114.19	119.9	125.9
Equalization Grant	2	4	4.4	4.99
<b>Total</b>	<b>332.98</b>	<b>381.51</b>	<b>412.74</b>	<b>436.7</b>

Source: Ministry of Finance, Planning and Economic Development

<sup>21</sup> Background to the Budget 1999/2000

In total, district transfers are expected to increase by 33.1% next FY with percentage increase in Government expenditure allocated to districts from 28.2% to 33.1%. As proportion of recurrent expenditure, district transfers will be higher at 37%

Table 5 indicates that, in the key PEAP sectors, significant increases in district transfers are projected over the medium term.

**Table 5. Trends in Conditional Grants for Key PEAP Sectors**

<b>Sector</b>	<b>1999/2000</b>	<b>2000/2001</b>	<b>2001/2002</b>	<b>2002/2003</b>
<b>Education</b>				
Total district transfers	227.61	270.41	308.54	347.47
Growth rate		18.80	14.10	12.60
as % of sector expenditure	66.70	71.30	73.00	71.90
<b>Health</b>				
Total district transfers	44.15	61.98	79.42	98.97
Growth rate		40.40	28.10	24.60
as % of sector expenditure	53.20	61.30	63.90	65.70
<b>Water</b>				
Total district transfers	4.10	19.19	27.07	30.47
Growth rate		368.00	41.40	12.60
as % of sector expenditure	22.80	59.90	64.80	64.70
<b>Total district programs</b>	<b>361.94</b>	<b>475.36</b>	<b>550.33</b>	<b>620.65</b>
Growth rate		31.30	15.80	12.80
as % of total GoU expenditure	28.20	33.10	34.00	34.70

Source: Ministry of Finance, Planning and Economic Development

### 3.4 Budget formulation

#### Sector allocation

Table 2 shows the allocation of Government expenditure by sector in absolute terms for the fiscal years 1999/2000 – 2002/2003. It indicates the share of total Government expenditure by sector, and the share of the expenditure by sector allocated to poverty focused areas, as defined under PAF. The role of the PAF as noted earlier, is to focus available resources (Government and donor resources) to the priority sectors identified in the PEAP. The PAF as an entity tries to consolidate these priorities, and ensures that greater proportion of the Government spending is going to these areas.

**Table 2. Trends in Sector Allocations over the Medium Term (GoU Expenditure including PAF)**

Sector	1999/2000		2000/2001		2001/2002		2002/2003	
	Total provision	o/w PAF (%)	Total provision	o/w PAF (%)	Total provision	o/w PAF (%)	Total provision	o/w PAF (%)
Security % share	193.86 (15.30)	0.00	208.62 (14.8)	0.00	231.90 (14.7)	0.00	257.90 (14.8)	0.00
Roads and Works % share	105.15 (8.30)	23.20	135.71 (9.6)	21.60	146.30 (9.3)	23.00	157.5 (9.1)	24.20
Agriculture % share	18.37 (1.4)	33.30	17.92 (1.3)	34.00	19.70 (1.2)	35.60	21.6 (1.2)	36.70
Education % share	341.47 (26.9)	65.20	379.01 (26.9)	69.60	422.90 (26.8)	70.40	483.6 (27.8)	71.60
Health % share	82.91 (6.5)	34.20	101.10 (7.2)	49.40	124.30 (7.9)	55.10	150.6 (8.7)	59.00
Law and Order % share	87.23 (6.9)	0.90	88.92 (6.3)	1.10	96.30 (6.1)	1.20	106.4 (6.1)	1.20
Econ. functions & SS % share	98.14 (7.7)	22.50	113.61 (8.0)	41.80	129.80 (8.2)	45.60	142.3 (8.2)	46.70
<i>of which Water &amp; sanitat.</i> % share	18.01 (1.4)	97.00	32.02 (2.3)	97.50	41.73 (2.6)	98.00	47.06 (2.7)	98.10
Public Administration % share	252.93 (19.9)	11.40	261.78 (18.5)	8.20	296.10 (18.7)	8.50	299.9 (17.3)	9.80

Source: Ministry of Finance, Planning and Economic Development

**Notes:** Total provision represents total expenditure by sector, in billions of nominal shillings

- Figures in parenthesis represent percentage share of Government expenditure by sector
- Column: O/w PAF, represents the percentage share of Poverty Action funds in each sector

Table 2 demonstrates Government commitment to channeling resources to poverty focused areas. The education sector is currently receiving the largest share of Government expenditure (26.9%). This figure is projected to increase to 27.8% over the medium term. Expenditure on health (as % of the total Gov't spending) is also projected to increase from 6.5% in 1999/2000 to 8.7%, while commitment in the Road sector will increase from 8.3% to 9.1%. Meanwhile, the share of expenditure going to security and public administration is expected to fall next financial year and to stagnate at the next year level for the next two years.

Table 3 illustrates that the highest growth rates over the medium term continue to be received by the key PEAP sectors. For instance, the expenditure in the water and sanitation sub-sector is projected to increase by 161.4% over the medium term, health by 82.7% and roads and works by 49.1%.

**Table 3. Growth Rates by Sector over the Medium Term**

<b>Sector</b>	<b>Annual % increase (1999/00-00/001)</b>	<b>Annual % increase (00/01-01/02)</b>	<b>Annual % increase (01/02-02/03)</b>	<b>Annual % increase (99/00-02/03)</b>
Security	23.0	11.0	11.0	33.0
Roads and Works	29.0	8.0	8.0	49.1
Agricultural extension	4.0	15.0	13.0	36.0
Education	11.0	12.0	14.0	41.7
Health	23.0	23.0	21.0	82.7
Law and Order	2.0	8.0	11.0	22.0
Economic Functions and SS	14.0	14.0	10.0	42.3
<i>off which: Water &amp; Sanitation</i>	<i>78.0</i>	<i>30.0</i>	<i>13.0</i>	<i>161.4</i>
Public Administration	4.0	13.0	1.0	19.3

Source: Ministry of Finance, Planning and Economic Development

Growth in agricultural extension remains low next financial year since the recently completed Plan for the Modernization of Agriculture (PMA) is yet to be costed. However, it is expected to pick up over the medium term as the PMA is implemented.

## **4 Budget execution, control and monitoring**

### **4.1 Overview**

#### **Current systems**

Ministries may make commitments up to the limit of the quarterly expenditure plans they have submitted. UCS keeps records of these final expenditure plans detailed by budget line item for each ministry, and ensures that cheques are only issued within these limits. Central payment system prevents accounting officers exceeding vote allocation, provides accurate and timely data on level of payments.

Ministries submit quarterly expenditure projections and monthly cash requirements to MFPED. Includes information at detailed line item level on: approval and revised budget, commitments, balance in annual budget; quarterly expenditure limits, payments made, commitments entered into, available quarterly expenditure limit balance; cumulative cash releases, payments made, cash balance (which must exceed the total of unpaid bills). MFPED adjusts expenditure projections. Each

ministry is notified of firm quarterly expenditure limits on non-wage recurrent expenditure, after MFPED ensures non-discretionary items are provided for.

For district releases, MFPED releases funds based on advice from Line Ministry, who may reduce release if plans are unrealistic or district performance on utilization and reporting is weak. For instances, 15 districts do not receive full education facilities grants because of this. Funds released are banked at district level. Late reporting districts receive funds at start of following quarter. Funds are released monthly for the first 4months (July-October) and there after, quarterly.

### **Utilization of local revenue**

The importance of various revenues that accrue to the district by source is clearly demonstrated by the way it is used at different levels of administrative units. All the local revenue that is raised in the district is lumped together and 35% deducted and retained at the district for both recurrent and development expenditure. The funds are specifically directed to the programmes of Management Support Services; Finance and Planning; Production and Marketing; Works and Technical Services; Education and Sports; Health, Water and Environmental Sanitation; Gender and Community Services; Council; Committee and Boards. The 65% that remains is assumed to be 100% and re-allocated to lower level administrative units for specific purposes as follows:

<b>Administrative Unit</b>	<b>Allocation % share</b>	<b>Purpose</b>
County/L.C. IV	5	Recurrent expenditure
Sub-county/L.C.III	65	Recurrent and development expenditure
Parish / L.C. II	5	Recurrent expenditure
Village / L.C. I	25	Recurrent and development expenditure

### **Utilization of Unconditional Grants**

The Unconditional Grants remain a vital financial resource injection to districts. However, most Local Governments have not been able to utilize these grants for any purpose other than meeting the salary bill. In many cases local revenues too have to be used to top up the requirement of Local Governments to fully meet the wage and salary bill. The issue of computation of conditional grants has been a matter of debate among Local Governments officials.

## **Utilization of Conditional Grants**

The Conditional Grants have in general assisted the districts in combating poverty, and has remained important in spearheading development through support to rural roads, agriculture extension services, primary health care, water development and primary education.

## **Measures to improve accountability**

Government has instituted measures to improve the accountability of public expenditures. A study carried out in 1996 found that 30% of the funds allocated for non-wage spending in education were actually reaching the schools. Accountability is now the central concern of several agencies including the newly established Ministry of Ethics and Integrity, the Auditor-General's Office, and the Inspector-General of Government, as well as Internal Auditing departments in ministries and Local Governments, the Public Accounts Committee in Parliament, the Director of Public Prosecution and the CID. These bodies are complemented by the work of the press and of civil society organizations.

Major reforms included establishment of the Ministry of Ethics and Integrity, plan to establish an autonomous National Procurement and Policy Unit (NPPU), the Ministerial Contract Committees, and enacting of a Procurement Law based on the UNCITRAL model-law, and the new procurement regulations. Inclusion of funds for accountability in the Poverty Action Fund and establishment of the five regional offices of the IGG were part of the reform. The lower-level mismanagement has been tackled by a number of initiatives. The findings of a tracking study of expenditure in health and education, where it was found that most of the non-wage expenditure on education was not reaching schools, were used to develop a mechanism where non-wage funds are transferred direct to the accounts of schools, and the timing of transfers for teachers' wages is publicly announced. Early this year, districts' performance in the use of the conditional grant for primary classroom construction was published by advertisement in the newspapers. These mechanisms are designed to give ordinary people the ability to monitor the uses of funds. The use of *qui tam* legislation, under which private individuals can prosecute corrupt officials and share the gains with the state, has been suggested.<sup>22</sup>

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<sup>22</sup> Poverty Eradication Action Plan

### **4.3 Procurement and payment process**

#### **Methods of procurement**

The Public Finance (Procurement) Regulations 2000 (part of which, already in force) defines two main procurement methods to be followed: tendering (competitive bidding) and direct procurement.<sup>23</sup> Other option that is currently in use is local shopping. Local shopping is permitted when quantities of goods is small and simple. Direct procurement or contracting is permitted when the goods, works or services can be supplied or provided only by one prospective tenderer for technical reasons. It also happens when there is an urgent need for the goods, works, or services such that other method of procurement would be impractical. Third, it used in case of additional delivery of goods by the original supplier, which are intended either as parts replacement for existing supplies, services or installation.

Fourth, it is applied when additional works, which were not included in the initial contract have, through unforeseeable circumstances, become necessary since the separation of the additional works from the initial contract would be difficult for technical or economic reasons. Fifth, direct procurement is used for new works consisting of the repetition of similar works, which conform to a basic project for which an initial contract was awarded. Sixth, it is permitted for continuation of services where the original contract has been satisfactorily performed and the continuation is likely to lead to gains in economy and efficiency. Seventh, it is used where commodities to be purchased are perishable e.g. fresh fruit, vegetables, etc. Eighth, it is applied for purchase of goods made under exceptionally advantageous conditions, which only arise, in the very short term.<sup>24</sup>

Competitive bidding / tendering is a more formal method of procurement requiring the bidder to have some degree of institutional and financial support, and knowledge of commercial bidding. Experience has shown that, this possesses a barrier to the participation of smaller organizations or individuals with weaker administrative and financial capabilities. The tender may be 'open tendering' or restricted tendering depending on the circumstances, but the Procurement regulations emphasize open tendering as the preferred procedure of procurement.

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<sup>23</sup> Regulations 20, 22, 25-37, 38 The Public Finance (Procurement) Regulations, 2000

### **Agency procurement and payment process**

Before placing an order or issuing Local Purchase Order (LPO) for goods and services, the authorizing officer sends a commitment requisition to accounts section. Accounting Officer checks the approved budget and available balance for the line item in the Vote Book. If funds are available, he will sign a commitment requisition and enters and signs in the Vote Book. This ensures no commitment unless funds are available. Authorizing officer may then procure the goods/services, in compliance with Government procurement regulations. When invoice is payable (within 30 days), it is forwarded to accounts section for payment, accompanied by a copy of the commitment requisition. The accounting officer ensures that the commitment has been authorized and recorded in the Vote Book, and issues a payment voucher to Uganda Computer Services (UCS), who print the cheque. Payment details are recorded in the vote book.

### **Measures taken to ensure market consultation**

The procurement mechanisms provided under the Public Finance Regulations, 2000 include restricted tendering, and open tendering procedure, request for quotations, requests for proposals, open international tendering, and administrative review. A part from exceptional cases (like the ones described below), open tendering is the preferred procedure of procurement, specified by law.

Restricted tendering is allowed in situation where the goods, works or services, by reason of the highly complex or specialized nature, are available only from a limited number of suppliers. It is also applicable when the time and cost required to examine and evaluate a large number of tenders would be disproportionate to the time available in an emergency situation or to the value of the goods, works or service to be procured. Restricted tendering is permitted when the estimated value of the contract does not exceed an amount established by the Central Tender Board.

### **Request for quotations**

Under the new procurement regulations, a procuring entity may engage in procurement by means of request for quotations for the purchase of readily available goods or for procurement of works or services. The condition is that the estimated value of the contract does not exceed an amount established by the Central Tender Board. The regulation requires a procuring entity to request for quotations from as many prospective suppliers as practicable, but in any case not less than three. The

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<sup>24</sup> The Public Finance (Procurement) Regulations, 2000: 22(2)

quotation must specify the quality, quantity, terms and time of delivery of goods or services and other special requirements. The bidder who satisfies the procurement requirements and who quotes the lowest price is issued a purchase order.

### **Open international tendering**

Under provision 12 of the Public Finance (Procurement) Regulations 2000, tendering does not discriminate against nationality, race or any criterion not having to do with participant's qualification. Provision 42 of the Regulations subscribes to participation of foreign bidders in the open tendering process. Open international tendering is required by law to respect all provisions of Open Tendering as well as the following provisions: all the tender documents including invitation to tender must be in a language generally used in international trade. Second, the invitation to tender must be put in a newspaper using the same language as the invitation, and widely circulated to attract foreign competition. Third, sufficient time shall be given for submission of tenders for invitation to reach a prospective tenderer and for ample time to prepare tenders as required. Fourth, technical specifications must be based on international standards or standards widely used in international trade, but compatible with national requirements. Fifth, bidding and security documents to be accompanied by it should be in respective home currencies or a currency widely used in international trade and stated in tender documents.

### **Tender Process**

The Central Tender Board (CTB) developed a schedule of standard prices for the completion of various types of contracts. In the case of rural road project, the CTB would offer the contractor a set amount per kilometer length of road, for a housing project, so much per house, and for supply of stationery a set amount is offered for different types of item and grades, and so on.

Tender is completed through 4 main steps:

#### *Advertisement of tender:*

The new procurement policy requires that an invitation to tender be advertised in at least two newspapers of wide circulation. The advert specifies the name and address of the procuring entity; goods, works or services to be obtained, including the desired time limit for delivery or completion.

It also specifies the means and conditions for obtaining tender documents; the place and deadline for submission of tenders; and place and time of opening the tenders.<sup>25</sup>

*Submission and receipt of tender:*

After preparing the tender documents, the tender is submitted in writing, signed in a sealed envelope, to the place and before the deadline stated in the invitation to tender. The procuring entity issues a receipt showing the date and time when the tender was received.

*Opening of tender:*

Tender is opened in accordance with the set time in the tender documents, and is witnessed by the tenderers or their authorized representatives, and the general public.

*Notification of award and signing of contract:*

A procuring entity notifies the successful tenderer prior to the expiry of the period of tender validity, that its tender has been accepted. This constitutes the formation of a contract between the parties, and existence of a contract is confirmed by the provision of the relevant guarantees and the signature of a contract document incorporating all agreements between the parties.

**Packaging of contracts**

Procurement policy requires that, wherever possible, contracts must be packaged together to encourage competitive procurement. It is therefore common to find a rural maternity unit contraction project packaged together to attract larger and experienced contractor. Packaging into larger value contracts always exclude small firms and local artisans. Other consequences of packaging were noted in the PAPSCA projects.

In PAPSCA, the requirement for packaging resulted in even nails being procured through competitive bidding. This affected community morale and participation in project activities because such procurement of material took approximately eighteen to twenty four months. Once the nails were procured, project coordinators discovered that community enthusiasm for the project had waned considerably, thereby impeding implementation of various components of the project.

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<sup>25</sup> Provision 25 & 26, The Public Finance (Procurement) Regulations, 2000

Utilizing small contractors is always the reason given for the increase in the number of contracts, thus burdening the project implementing agency's management capacity. Payment of small sums of money to numerous contractors is seen to be tedious and leads to delays in the flow of funds.

### Accountability problem

There is inadequate guidance on incorporating measures for accountability and transparency in the use of funds. Agencies/task managers are not always familiar with effective mechanism and rarely find adequate support. The Government is yet to develop standards and formats for supervision, monitoring and evaluation of projects sensitive to public procurements and disbursements.

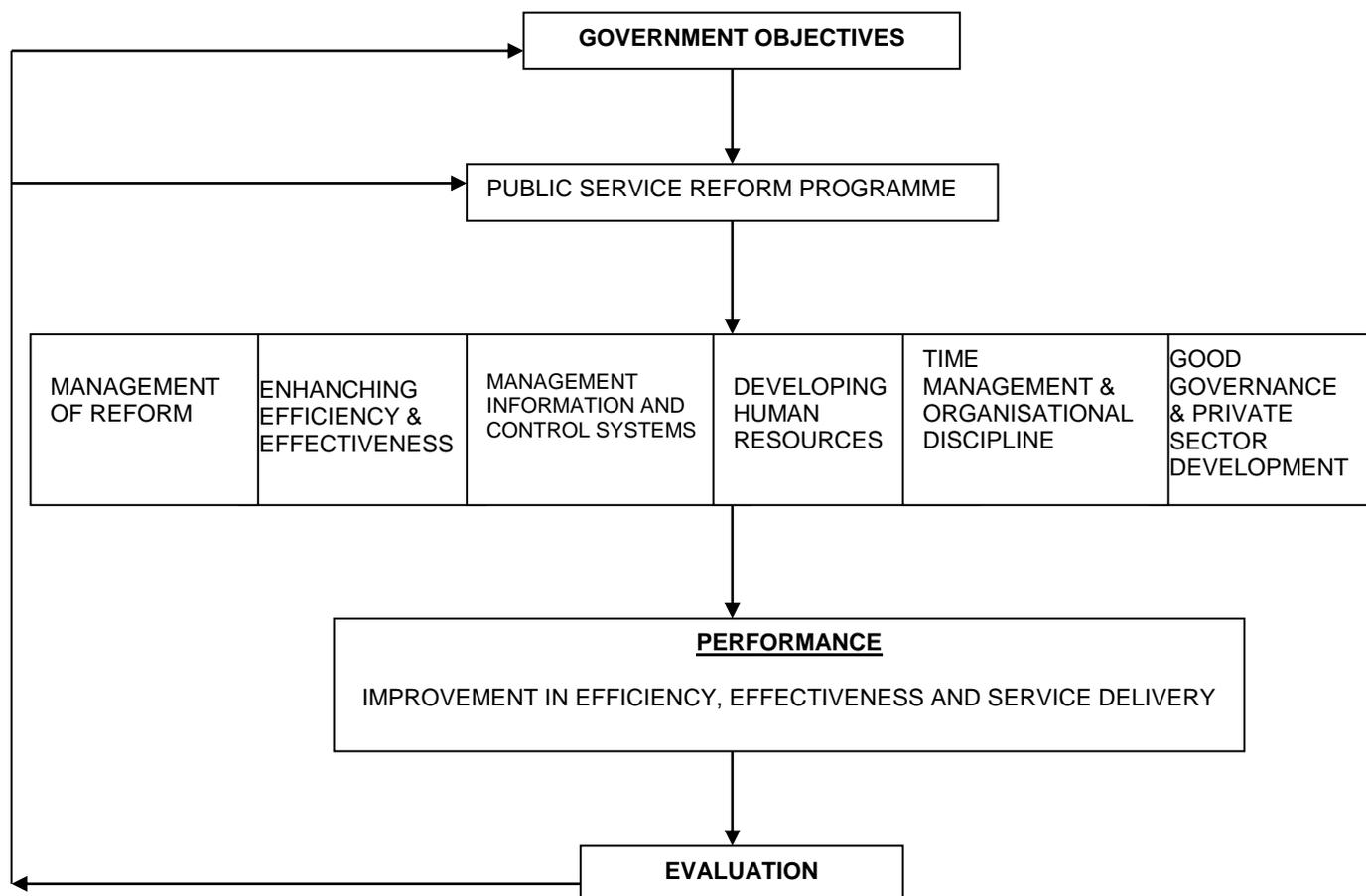
	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00
						Revised
<b>Ush billion</b>						
Revenue & Grants	770	897	1065	1197	1394	1734
Of which:						
URA collection						
Budgeted	490	616	766	829	924	1100
Actual outturn	499	608	735	797	924	959
Non - URA revenue	9	12	12	2	7	23
Grants (outturn)	262	275	317	398	445	612
Total Expenditures	918	997	1117	1220	1467	1803
As percentage of GDP						
Revenue & grants	15.6	16.1	17.7	16.9	17.7	18.7
URA collections (outturn)	10.1	10.9	12.2	11.2	11.9	11.2
Non-URA revenues	0.2	0.2	0.2	0	0.1	0.3
Grants	5.3	4.9	5.3	5.6	5.6	7.1
Total Expenditures	18.2	17.2	18.5	17.2	18.6	21
Memorandum Item:						
GDP at factor cost (Ush billion)	4922	5565	6023	7104	7887	8589

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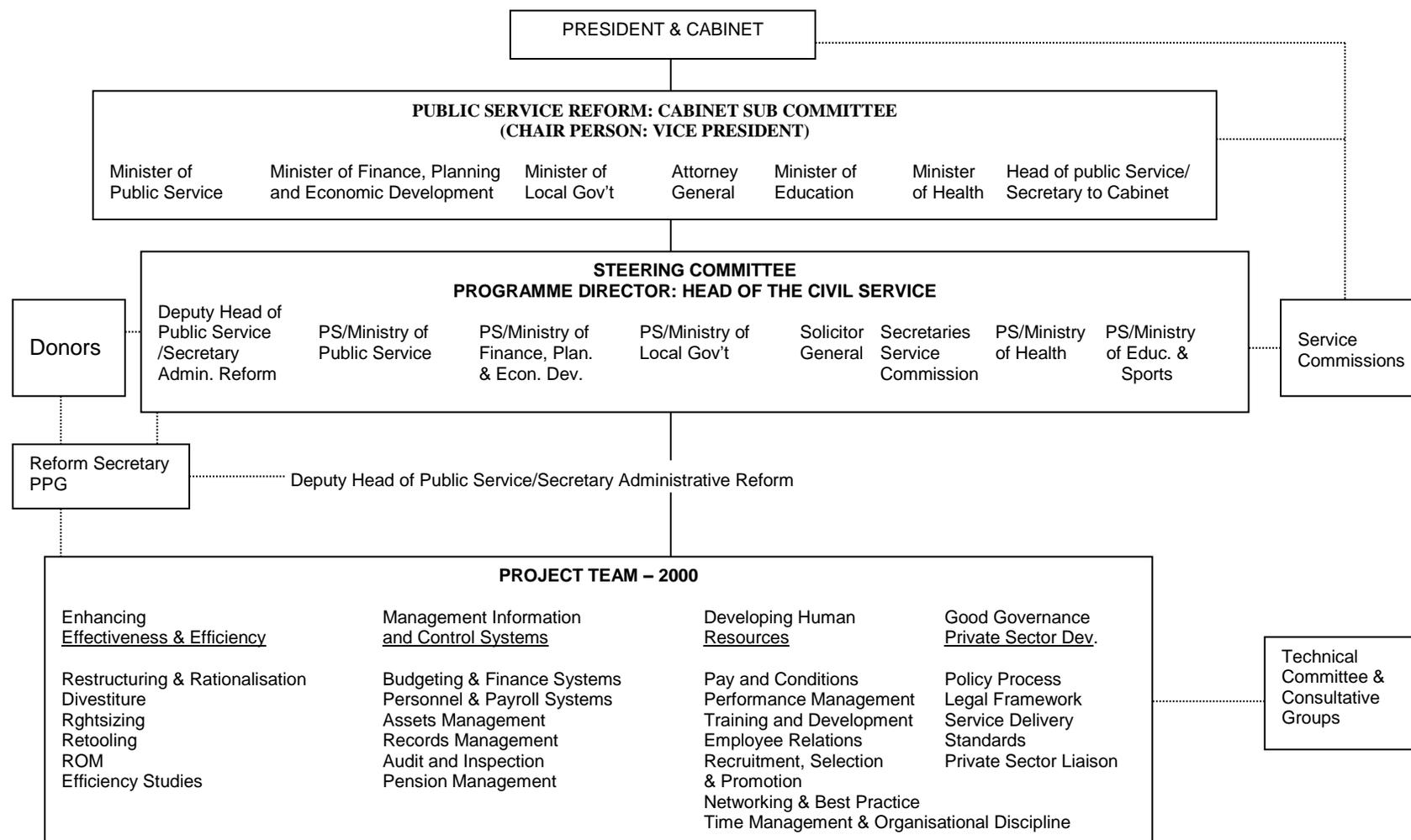
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- Professor J. Bibangambah, Uganda Debt Network (Title of paper: Measures to increase the incomes of the poor)

SCOPE OF THE PUBLIC SERVICE REFORM PROGRAMME<sup>26</sup>

<sup>26</sup> Source: Administrative Reform Secretariat, Ministry of Public Service

PUBLIC SERVICE REFORM PROGRAMME MANAGEMENT OVERVIEW<sup>27</sup>

<sup>27</sup> Source: Administrative Reform Secretariat, Ministry of Public Service

## **ANNEX C**

### **• Ministry of Finance Planning and Economic Development**

#### **Function/role of the minister & executives**

The Minister of Finance is required by the Finance Act to supervise the finances of the country to ensure that full account is made to Parliament and that its financial control is maintained. The Minister exercises a supervisory function overall Ministers and is authorised to make other regulations and to issue instructions and directives for the proper carrying out of the intent of the Law. His work is complemented by the work of the Auditor-General who is responsible for the auditing of all public financial transactions and accounts and also for safeguarding the receipts, custody, issues and proper use of Governmental property, stores and securities. The Minister is currently assisted by two State Ministers. The Minister is further assisted by the Permanent Secretary/Secretary to the Treasury, who is responsible for the general administrative and technical functions of the ministry. He is also its accounting officer and is responsible to the Minister. The Permanent Secretary/Secretary to the Treasury is assisted by the Deputy Secretary to the Treasury and the Heads of Department who directly report to him on their respective specialized fields (Figure 1).

#### **Semi autonomous bodies**

The Ministry is also responsible for the following semi autonomous bodies:-

The Uganda Bureau of Statistics (UBS), Uganda Revenue Authority, Central Tender Board, Government Central Purchasing Corporation, Departed Asian Property Custodian Board, Uganda Insurance Commission, Capital Market Authority, Privatisation Unit, Parastatal Monitoring Unit, Uganda Investment Authority, the Population Secretariat, Uganda Computer Services, National Council of Science and Technology, Tax Appeals Tribunal and the Non Performing Assets Recovery Trust.

#### **Short and medium term goals**

The Ministry has the following short and medium term goals aimed at implementing its mandate:

- Maintaining macroeconomic stability by promoting rapid and equitable economic growth and development;
- Integrating recurrent and development expenditures (both for Government and donor funding) including the decentralisation of the development budget;
- Improving the efficiency and effectiveness of all government spending
- Preparation and sourcing funding for the Poverty Eradication Action Plan (PEAP);
- Implementing budget reforms such as Output Oriented Budgeting (OOB) and the introduction of new Government Fiscal management systems;
- Rationalizing and improving the Tax system;
- Developing with line ministries and donors, of recurrent budget consistent with medium; sector expenditure and investment plans;
- Promoting private sector development;
- Safeguarding Government assets by improving the registration and monitoring of the assets;
- Creating the National Planning Authority.

#### **Management Structure**

The top management structure of the ministry consists of the following positions:-

- Permanent Secretary/Secretary to the Treasury
- Deputy Secretary to the Treasury
- Director Economic Affairs

- (iv) Commissioner, Macroeconomic Policy Department
- (v) Commissioner, Taxation
- (vi) Commissioner, Economic Development Policy and Research

- **Director Budget**

- (v) Commissioner, Budget Policy and Evaluation Department
- (vi) Commissioner, Infrastructure and Social Services
- (vii) Commissioner, Public Administration Department
- (viii) Commissioner, Aid Liaison Department.

- **Director Accounts**

- (iv) Commissioner, Internal Audit Department
- (v) Commissioner, Treasury Office of Accounts
- (vi) Commissioner, Treasury Inspectorate

- Under Secretary, Finance and Administration (reporting directly to the Deputy Secretary to the Treasury)

The following units and at section level are part of the structure:

- Systems and Service Unit (attached to the office of the Deputy Secretary to the Treasury)
- Privatisation/Parastatal Monitoring Unit

#### **The 13 main Departments in the Ministry**

1	Office of the Minister	8	Macroeconomic Policy
2	Public Administration	9	Economic Development & Research
3	Tax Policy	10	Internal Audit
4	Aid Liaison	11	Budget Policy & Evaluation
5	Treasury office of Accounts	12	Infrastructure and Social Services
6	Central Tender Board	13	Treasury Inspectorate
7	Uganda Computer Services		

## **Annex D**

## Uganda Budget Process from a Poverty Perspective<sup>28</sup>

<b>Budget Process from a Poverty Perspective</b>			
<p><b>Goal:</b> To give poverty budget priority</p> <p><b>Objective:</b> To ensure budget reflects poverty priorities HIPC allocated to Poverty Action Fund Advanced HIPC for water, classrooms, teacher salaries To protect expenditure programs important to the poor from budget cuts</p> <p><b>Actors:</b> MFPED (Poverty Working Groups comprises the Government, civil society, donor representatives). Cabinet decides and parliament approves.</p> <p><b>Comments:</b></p> <p>1) Budget allocations have strongly reflected priorities of the PEAP, and priorities expressed by the poor in the Participatory Poverty Assessment Process namely, water, feeder roads, primary education and security.</p> <p>2) Conditional grants are allocated between districts on a need basis. Recent study shows expenditure per capita favors the poorest districts, and equalization grant pilot to be used for priority program areas will further favor poor districts.</p> <p>3) Poverty working group chaired by PS MFPED, Poverty monitoring and analysis unit in MFPED all ensure that poverty issues remain at the centre of the budget process.</p> <p>Re-allocations across line ministries are limited to maximum 3% of total budget. Priority program areas (and since 1998, the Poverty Action Fund, PAF) defines expenditure programs important to the poor, and protects them from cuts: 95-100% of budget disbursed, compared to 75-80% of some none protected areas.</p>			
<b>The Budget Process</b>			
<b>1. Budget Planning and approval</b>			
Activity	Time / period	Who is responsible	Comments
Macro resource forecasting to generate 3 year resource envelope	September / October but continuous updating	MFPED Directorate of Economic Affairs	Main IMF discussion of budget takes place in May meeting, late in budget year. MFPED staff have suggested it would fit budget calendar better if August mission had formal brief to discuss budget numbers with Government and donors, further discussion of BFP in February MTR, leaving May mission to cover necessary adjustments.
Prepare MTEF ceilings for each sector and spending department	September-October		Incremental budget process, but shifts reflect PEAP priorities
Budget Framework Paper workshop	October	MFPED (with secretaries and Accounting Officers from Line Ministries plus donors, NGOs, civil society representatives, Chairs of Sector Committee of parliament	Presents the MTEF ceilings, initiates sector working groups and explains or agrees with their terms of reference.  Within line ministries, accounting officers are responsible for recurrent budget, Planning Departments for development budget, accounting officers tend to be invited to sector meetings, can lead to lack of co-ordination between plans and budget, and between investment and recurrent costs. Sector programs are improving on this
Preparation of Sector Budget Framework Papers	October - November	Line Ministry, supported by SW Group <sup>29</sup> , sector program planning and reviews should feed in to this process.	Reviews budget priorities, this year also identified objectives and indicators. Constant need to ensure sector programs fully consistent with MTEF, e.g. health adopted 5 year planning frame inconsistent with MTEF and district planning.
Budget workshop including district planning and accounting personnel as well as line ministry, donors, NGOs, each district given MTEF ceiling each grant.	November	MFPED	Presentations of sector reports, opportunity for districts to react. Opportunities for districts to comment on priorities and procedures, e.g. districts were concerned about the conditional grant guidelines.

<sup>28</sup> Source: Mick Foster and Felix Naschold, 'Fiscal Frameworks and the Uganda Poverty Reduction Strategy, ODI supplemented with interview of key MFPED official.

<sup>29</sup> Sector Working Group comprises line ministry, donor representatives, selected NGOs, and technical advisors

Minister of Finance consults line ministries to reach consensus on key issues, identify issues for Cabinet decision.	November - April	MFPEP (Ministers and senior officials of spending departments).	
Discuss with MPs and Standing Parliamentary Committee on the National Economy consulted			
Other interest groups make representations		MFPEP, lobby groups	Though formally represented within MFPEP, groups representing the poor are not active in political lobbying. Uganda Debt Network is organizing formal budget advocacy group to better represent the poor.
MFPEP aggregates BFP submissions, reconciles with resource envelope, then submits BFP to president and Cabinet for approval of resource envelope assumptions and spending priorities, policy decisions on issues identified in the BFP. The BFP includes the MTEF budget ceilings, with any amendments agreed in course of discussion, any changes consequent on revised resource envelope	March, but the process sometimes is delayed up to April	Minister of Finance, Planning and Economic Development (Cabinet)	
Budget call circular is issued, calling for detailed budget submissions to be prepared by each spending department or autonomous body		MFPEP	If submission to Cabinet is delayed, this may happen before the BFP ceilings have been approved by Cabinet, ceilings on which detailed budgets are prepared may be subject to subsequent change.
Consultative group meeting	Timing varies (Dec-March)	Sector ministries	CG provides opportunity for government to explain their policies, donors to raise concerns, and make pledges of support. Pledges can be obscurely expressed, discussion too formal for a clear picture of financing needs and resources to evolve.
Donor meeting on MTEF, setting out details of expenditure plans, seeking new pledges, confirmation of earlier budget support indications.	May, after the cabinet has approved BFP	MFPEP (Line ministries, donors, media and NGOs also invited to participate).	Better donor reporting, predictable timing to match budget cycle, longer commitment would assist planning. Weak information on donor project flows makes planning difficult. Budget support pledges short term (annual usually).
Finalization of the detailed budget	April - June	MFPEP, consulting with IMF on any revisions to the macro framework.	Revision may be made right up to the deadline for presenting the budget in Parliament, degree of consultation with those affected by changes is variable, timing constraints and need to keep within macro framework prevent consultation on all changes.
Budget speech (budget presented in parliament)	About June 15th	MFPEP	
Parliament approves release of first quarters budget within 15 days of speech, subsequent release depends on passing Finance Bill.	End of June	Parliament	Parliament often delays passing the budget to end of October.
<b>3. Budget Execution</b>			
Ministries submit quarterly expenditure projections and monthly cash requirements to MFPEP. Includes information at detailed line item level on: approval and revised budget, commitments, balance in annual budget; quarterly expenditure limits, payments made, commitments entered into, available quarterly expenditure limit balance; cumulative cash releases, payments made, cash balance (which must exceed the total of unpaid bills).	Not later than 15 <sup>th</sup> of the month proceeding the Quarter		Supplementaries are approved by MFPEP and reported to parliament within 4 months.
MFPEP adjusts expenditure projections. Each ministry is notified of firm quarterly expenditure limits on non-wage recurrent expenditure, after MFPEP ensures non-discretionary items are provided for.			
Ministries submit detailed expenditure limits from MFPEP, ensuring that fixed expenditures are provided e.g. rent and utilities	By 25 <sup>th</sup> of proceeding month		
Cash releases to line ministries	1 <sup>st</sup> week of month	MFPEP, Bank of Uganda, Uganda	

		Commercial Bank	
Ministries may make commitments up to the limit of the quarterly expenditure plans they have submitted. UCS keeps records of these final expenditure plans detailed by budget line item for each ministry, and ensures that cheques are only issued within these limits.			Central payment system prevents accounting officers exceeding vote allocation, provides accurate and timely data on level of payments.

## **ANNEX E**

### **Offices consulted**

- **Ministry of Public Service:** Director, Administrative Reform
- **Ministry of Local Government:** Chief of Division, Investment and Development Planning, Decentralization Planning
- Ministry of Finance, Planning and Economic Development: Assistant Commissioner (Local Government)
- **The Uganda Parliament**